

Transformation Agenda Communication #1

January 7, 2008

To: All Partners

From: Howard Schultz

Twenty-five years ago, I walked into Starbucks first store in Seattle's Pike Place Market, and from that day forward we have taken the road less traveled. Working with an exceptional group of people and summoning all the courage we could muster, we created a new kind of place, one that served the kind of coffee that most people had never tasted, an environment that didn't look like any other store, and hiring people who were fanatically passionate about coffee and celebrated their interaction with customers. To do this, we focused every ounce of our beings on creativity and innovation.

Over the years, together we have built one of the most recognized and respected brands in the world. When we went public in June 1992, we had 119 stores. We now have more than 15,000 stores and a significant and growing presence in 43 countries, serving 50 million customers a week. These customers have placed their trust in us, and for them and for each other we need to ensure that our future is as exciting as our past.

If we take an honest look at Starbucks today, then we know that we are emerging from a period in which we invested in infrastructure ahead of the growth curve. Although necessary, it led to bureaucracy. We will now shift our emphasis back onto customer-facing initiatives, better aligning our back-end costs with our business model. We are fortunate, though, that the challenge we face is one of our own making. Because of this, we know what needs to be done to ensure our long-term future success around the world.

Transforming the Starbucks Experience

The Board decided that I should lead this transformation. Given this, effective immediately, in addition to my existing role as chairman, I have returned as chief executive officer for the long-term. Jim Donald is leaving the Company. I want to pay tribute to Jim's leadership. He was a passionate and tireless advocate for Starbucks, and his contribution to our company cannot be overstated.

Looking ahead, the reality we face is both challenging and exciting. It's challenging because there are no overnight fixes. Rather, our success will come in the rigorous execution of several new strategic initiatives - that capitalize on our heritage to drive our successful future. And our reality is exciting because there is so much opportunity ahead for Starbucks.

Our new transformation agenda includes:

- Improving the current state of the U.S. business: by giving our store partners better training and tools, launching new products - some of which will have an impact as significant as Frappuccino® products and the Starbucks Card - and introducing new concepts in store design, among other enhancements to the Starbucks Experience. At the same time, we will slow the pace of our U.S. store openings and close a number of underperforming locations, so we can renew our attention on store-level unit economics and be laser-focused on flawless execution.

- Re-igniting our emotional attachment with our customers by restoring the connection our customers have with you, our coffee, our brand, and our stores. Unlike many other places that sell coffee, Starbucks built the equity of our brand through the Starbucks Experience. It comes to life every day in the relationship our people have with our customers. By focusing again on the Starbucks Experience, we will create a renewed level of meaningful differentiation and separation in the market between us and others who are attempting to sell coffee.
- Building for the long term, which has two distinct pieces: re-aligning Starbucks organization and streamlining the management of the organization to better support customer-focused initiatives by ensuring our support and planning functions -- from back-end IT systems to store operations -- are most effectively dedicated to the customer experience. This will help us to make smarter decisions about new products and initiatives and bring them to market more quickly than ever in our past.
- Expanding our presence around the world, by building a profitable business outside the U.S., and capitalizing on the enormous, untapped potential for our brand. We will redeploy a portion of the capital originally earmarked for U.S. store growth to the international business. Though we have 5,000 international stores today, we are just at the beginning. Taken together, these initiatives will help drive our enduring success. And they will come with changes in our organization- some big and some small. I will be decisive in making them. Right now, I can tell you they will include a realignment of our leadership structure, as well as a series of actions to reduce costs and reallocate resources to customer-focused initiatives.

But even as we execute this transformation, there are certain integral aspects of our company that will not change at all. These include our commitment to treating each other with respect and dignity, providing health care and Bean Stock for all of our eligible full- and part-time partners, and our commitment to our community efforts, our ethical sourcing practices and encouraging our coffee suppliers to participate in our CAFE practices program in our origin countries.

Stay Tuned

I know that you may have a number of questions. And you have my commitment that there will be more information to come over the next few weeks and I will keep you informed. Specifically, I will be meeting with the leadership of the Company in the near future to discuss our transformation agenda, and in the coming weeks we will communicate these details with you, including your role in it.

In the meantime, I want to thank you for your dedication to Starbucks and for your commitment to earning the trust of our customers every day. Our success is up to us. We know what we need to do to win, and we will do it.

Onward,

Howard Schultz