



ARCHIVE

Profile

Starbucks CEO Howard Schultz brings a powerful brand to his new venture firm.

July 1, 1999

Since its founding in 1971, Starbucks (Nasdaq: SBUX) has become a \$5.1 billion conglomerate. Howard Schultz, Starbucks' CEO and founder, took the Seattle-based chain of coffee shops from 10 to 29,000 employees and has made its name one of the most powerful brands in corporate America.

Now he is bringing his brand-building expertise to the Web. Last year Mr. Schultz and Dan Levitan, a former investment banker with Schroder Wertheim, formed Maveron, a venture capital firm with a \$75 million fund that they are investing in businesses like specialty retailing, electronic commerce, and consumer products and services.

Mr. Schultz and Mr. Levitan did not intend to focus heavily on Internet-related ventures, but Maveron's first and only investments -- eBay (Nasdaq: EBAY) and Drugstore.com -- are two of the biggest names in e-commerce. eBay, in which Maveron first invested in 1998, went public in September and now has a \$20.8 billion valuation; Drugstore.com, in which Maveron first invested in November, has raised approximately \$63 million from Amazon.com (Nasdaq: AMZN), Kleiner Perkins Caufield & Byers, Maveron, and individuals.

BRANDING OVATION

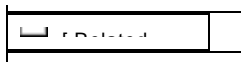
Bob Kagle, a venture capitalist with Benchmark Capital and a member of eBay's board of directors, says that as a fellow board member, Mr. Schultz has been "a tremendous brand steward" in addressing the trust issues that eBay faces (like fraud among sellers) and ethics and safety issues (like sales of guns or pornography). As for Drugstore.com, Mr. Schultz says he will play a major role in helping it roll out a line of drugs that will carry the company's brand name.

Some venture investors complain that Maveron has been invited into deals on extremely favorable terms so that startups can tell Wall Street analysts that their marketing is overseen by the founder of Starbucks. Mr. Schultz responds that marketing savvy can be critical to a business's success. "Never before in the history of our country has there been a lower level of trust in public institutions and corporations," he says. Given consumers' disenchantment, he thinks that brands that inspire trust are more valuable than ever.

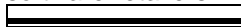
Although Mr. Schultz has made his name in the traditional retail world, he says that the Web is now the best venue in which to build such brands. "There is more trust of the Internet than there is of brick-and-mortar stores," Mr. Schultz says, "because service at conventional stores is mediocre at best. Above all else, the Internet puts the consumer in charge."

IN NET WE TRUST

In addition to providing good customer service, Mr. Schultz says, companies also need to be "relevant to all aspects of a customer's life." Because Web businesses can send and receive information so quickly, he thinks they are in a unique position to influence consumer behavior. "You know you've cracked the code when instead of reading an article in the business section talking about eBay's stock going up 200 percent,



- eBay got over-the-top bidding in its first day as a publicly traded company.
- Internet pure-plays like Drugstore.com threaten traditional consumer health companies.
- Brand is all-important for online software retailers.



- ADVERTISEMENT -



you see a story in the living section about kids who are trading baseball cards on eBay," he says.

Mr. Schultz predicts that the next wave of Internet startups will partner with traditional retail stores and that both will benefit: Web companies will receive much-needed access to products and distribution, and retail stores will gain a front end on the Internet. About his own plans for the Net, Mr. Schultz will divulge only that in the next six months Starbucks will radically redesign its Web site to serve as a "physical portal" to the Web.

His company is in a unique position, according to Mr. Schultz. "The community that we talk about on the Net is alive and well at Starbucks," he says. "And as far as I know, Bill Gates has not figured out a way to make a latte."

Admittedly not technically inclined, Mr. Schultz sometimes lapses into the vague homilies of a motivational speaker. (At one point he says, "The whole world is one giant commercial, and no one believes in the message.") Despite his skills at brand building, Mr. Schultz is nevertheless an unknown quantity in the rigorously analytical and technical world of venture finance. He even eschews the term *venture capitalist* because "we don't view ourselves as trying to maximize the dollars under management." Still, with eBay and Drugstore.com under his belt, Mr. Schultz has already built a brand for himself in the venture business.

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