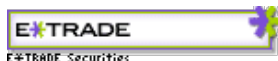


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Starbucks Replaces CEO With Chairman

Tuesday January 8, 12:21 am ET
By Elizabeth M. Gillespie, AP Business Writer

Starbucks Replaces CEO Jim Donald With Chairman Howard Schultz, Plans to Close US Stores

SEATTLE (AP) -- Starbucks Corp. Chairman Howard Schultz is reclaiming the chief executive's chair as part of a major restructuring initiative to slow the company's U.S. growth and improve offerings for its customers.



AP Photo: Starbucks Corp. chairman Howard Schultz, right, gives a pat to president and CEO Jim Donald as Donald is introduced before addressing the annual shareholders meeting in Seattle in this March 21, 2007 file photo.

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The ouster of CEO Jim Donald, coupled with plans to close some U.S. stores and slow down opening new ones, comes as the world's largest chain of coffee houses has seen its stock plummet 50 percent over the last year amid declining traffic in its domestic stores.

Starbucks wouldn't say how many stores would close and declined to detail its revised growth plans until it reports fiscal first-quarter earnings on Jan. 30.

The company's announcement after regular markets closed Monday sent its shares up \$1.65, or 9 percent, in after-hours trading. The shares had gained 27 cents to \$18.38 in the regular session.

Starbucks said the leadership shuffle is part of a series of other initiatives include closing U.S. stores that aren't performing well, introducing new products and store designs, and improving training for baristas.

The company said it plans to take some of the capital originally intended for U.S. store growth and use it to accelerate its international expansion.

Schultz, who served as CEO from 1987 to 2000, said he will plans to remain the company's top executive "for the long term" and that his agenda will also include streamlining the company's management.

Donald had been CEO since March 2005, when he was promoted from president of the company's North American division to replace Orin Smith, who retired.

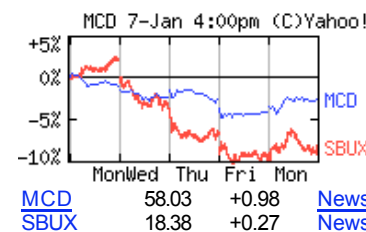
Starbucks has struggled in recent months as consumers have cut back on spending amid declining home values and higher fuel prices. Meanwhile, competitors like Dunkin' Donuts and McDonald's Corp. have cut into Starbucks' customer base by launching their own lines of gourmet coffee.

The Wall Street Journal, citing internal McDonald's documents, reported Monday that the world's biggest fast food chain plans to add coffee bars with baristas serving cappuccinos and iced coffees at its nearly 14,000 locations.

Schultz acknowledged the competition has gotten fierce and said the company will focus on making changes that will differentiate Starbucks from its growing field of rivals. But he argued competition, rising dairy prices and a faltering economy aren't the company's main problems.

He told The Associated Press that Starbucks has spent the last several years "trying to invest ahead

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of the growth curve -- in people, process, infrastructure, roasting plants, coffee buying," and that focusing so heavily on that has taken attention away from the experience customers are having in its stores.

"This is a problem that I think we've created, and as a result of that, that we can fix," Schultz said.

Some analysts have questioned whether the company has saturated certain markets as it opens an average of six stores a day. Schultz brushed that theory aside, even while conceding it has grown too aggressively.

"I think perhaps we stretched the real estate too far during this economic time, and we're going to dial it back. But we're not going to dial it back with the purpose of changing the growth trajectory of the company," Schultz said.

In an infamous leaked memo last year, Schultz lamented that the company's aggressive growth had led to "a watering down of the Starbucks experience."

Yet Starbucks has stuck to its ambitious long-term goal of having 40,000 stores worldwide. Late last year, however it announced a slight scaling back of U.S. store openings, among other moves aimed at improving operations.

The company, which has more than 15,000 stores worldwide, said in November that it plans to open 2,500 stores this fiscal year, 1,600 of them in the United States. That's about 100 fewer U.S. stores than it originally planned.

Without providing details, Schultz said the number of store closures will be "significantly lower" than the slowdown in U.S. store openings, and that Starbucks has no plans to pull out of entire markets.

Robert Toomey, an analyst with E.K. Riley Investments, said Schultz has his work cut out for him.

"The growth potential is less and the cache has changed to some extent -- it's more of a chain than sort of a cozy coffeehouse," Toomey said. "I think Schultz is the right person to do the job, but I think it's going to be a tough job."

Before coming to Starbucks, Donald, 54, was chairman, president and CEO for Pathmark Stores Inc., a supermarket chain based in New Jersey. He has worked at other retailers, including Wal-Mart Stores Inc.

A Starbucks spokeswoman said Donald was not available for comment Monday.

Schultz, 54, joined Starbucks in 1982 as director of retail operations and marketing, then left three years later to start his own company, Il Giornale, hoping to take the Italian espresso bar mainstream in the U.S.

Il Giornale acquired Starbucks in 1987, ending the year with 17 stores. The company went public in 1992 and had nearly 300 stores by the end of the following year.

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