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Market^Watch

10 things Starbucks won't tell you

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Chip Wass

1. Many coffee lovers don't love our coffee

With more than 20,000 stores spread across 65 countries, Starbucks has all but redefined coffee and the coffeehouse experience. The company, which started in Seattle in 1971, is known for bringing high-end java to the masses—as in coffee that's a cut above what you might find in your neighborhood diner.

Starbucks has also helped to train a generation of coffee-drinkers who don't blink at paying, say, \$2 or more instead of 99 cents for a cup of joe. That's due in part to their success in establishing Starbucks as a comfortable respite from home or the office (its stores have been dubbed a “third place”) and in emphasizing a socially conscious corporate philosophy (where even part-time employees can receive benefits).

It's a formula that's clearly worked, even in today's increasingly competitive coffee market: Starbucks Corp. racked up

nearly \$15 billion in revenue in fiscal year 2013, a 12% increase over the prior year. And the company's stock [SBUX](#), -0.13% has risen by more than 700% since early 2009.

But for all the company's success, Starbucks still has plenty of naysayers, especially when it comes to its core product: coffee. The company has long been dogged by complaints that some of its java offerings have a harsh, over-roasted quality—[earning the moniker “Charbucks.”](#) And some of its offerings haven't fared well in taste tests, including studies by Consumer Reports. In a 2013 blind taste test, The Bold Italic, an online magazine based in San Francisco, found that [Starbucks' Medium Roast House Blend finished the worst of six packaged coffees.](#) (Even supermarket mainstay Folgers ranked higher.) To quote one tester's opinion of Starbucks: “Gross, dark, yuck!”

As might be expected, Starbucks takes a different view. A spokeswoman makes the point that “some like a lighter coffee and some prefer dark”; and to that end, Starbucks says it's been working to accommodate a wider range of tastes. In 2012, the company introduced its line of Blonde Roast coffees, which were billed as “subtle, mellow, lighter-bodied.” And that same year, Starbucks began promoting what it calls its “[Roast Spectrum](#)” -- essentially, that means patrons who visits its stores are sure to be offered dark, medium and “Blonde” options.



Getty Images

To some critics, a Pumpkin Spice Latte is equally scary.

2. Our Pumpkin Spice Latte comes with chemicals (and no pumpkin)

If there's a single drink that's come to define Starbucks, it's the Pumpkin Spice Latte—a fall favorite, introduced in 2003, that's become a runaway seller ([more than 200 million sold to date](#), according to the company). Indeed, the drink is so popular, it's often referred to by just its initials: PSL.

But some nutrition-minded writers and health professionals have complained that the PSL and other Starbucks drinks feature one too many ingredients they consider unnatural or

even harmful. Food blogger Vani Hari ([aka the Food Babe](#)), has taken [a particularly harsh view of the PSL](#), pointing to the fact it contains Caramel Color Class IV—one of whose byproducts, [a compound called 4-MEI](#), has been identified [by the International Agency for Research on Cancer](#) as “possibly carcinogenic to humans.” Hari also takes PSL to task for having artificial flavors, a “huge dose” of sugar and “no real pumpkin.”

Dr. Mark Smith, a chiropractor in Osceola, Ind., who runs the Good Living Warehouse online store, which sells nutritional supplements and other items, [has also publicly faulted the chain](#) for relying heavily on nonorganic coffee that could come from farms that spray with pesticides. “No amount of pesticides are safe,” he writes.

For its part, Starbucks stands by what it packages and brews, saying there's no cause for safety concerns. The spokeswoman says that the company is “actively looking at phasing out caramel coloring,” but meanwhile, the level of such coloring used in Starbucks beverages is “safe to consume.” (While the company doesn't make mention of it, it's worth noting that [Hari's research has come under fire](#) in other contexts.) As for the pumpkin matter, the spokeswoman says the Pumpkin Spice Latte “features the unmistakable pumpkin pie spices of fall...but not actual pumpkin.”

3. We've got a secret menu



Getty Images

It's true: You can turn an iced-coffee drink into a really strange iced-coffee drink.

Starbucks gives its customers plenty of drink menu options, from brewed coffees to espresso drinks to frozen favorites (Cinnamon Dolce Frappuccino, anyone?). But apparently, that's not enough. A cult of sorts has emerged around the chain's "secret menu"—drinks that Starbucks doesn't publicize but that baristas can create using the ingredients they have on hand at any given moment. For example, there's the "Fruity Pebbles Frappuccino" that mimics the taste of the cereal—it's a mix of the Strawberries and Crème Frappuccino (a standard menu item) and vanilla and raspberry syrups, among other ingredients.

The key, according to the [Starbucks Secret Menu website](#) (which, it almost goes without saying, is not an official Starbucks site), is for customers to know the drink's recipe, since "not all baristas are familiar" with each and every secret drink. (Oh, and "be prepared for extra costs"—beverage add-ins equal price add-ons.)

Another "secret" option: Ordering drinks in a "short" (or 8-ounce) size. (And, yes, a short is cheaper than a tall—or 12-ounce—drink, the smallest option on the normal menu.)

Starbucks CEO Howard Schultz has acknowledged the existence of the "secret menu," saying he's "amazed at the concoctions that people order." Indeed, the Starbucks spokeswoman says "there are more than 170,000 ways" beverages can be customized at Starbucks by mixing and matching coffee and espresso options, syrups, toppings and other ingredients.



Starbucks

Acquiring a bigger presence at the breakfast table.

4. We're thinking big (maybe too big)

Starbucks gets 26% of its revenue from products other than beverages. And even in the beverage department, a substantial chunk of sales comes from drinks other than coffee. The chain dropped the word "coffee" from its logo in 2011, and its acquisitions since that year include tea maker [Teavana](#), juice company Evolution Fresh and the La Boulange Cafe & Bakery brand. And that's on top of forays over the years into everything from [music](#) to [soda](#).

Certainly, Starbucks isn't the first company to step outside its comfort zone. But some investment and retail analysts have expressed concern about the expansion, noting problems in

Starbucks stores that can potentially result, including longer lines and frustrated employees.

For its part, Starbucks has seemed comfortable with its think-outside-the-coffee-tin strategy. "Sustainable growth requires that we preserve the integrity of our core business as we carefully expand our products and expertise into new channels, brands and markets," Schultz wrote in the most recent Starbucks annual report. And the spokeswoman notes that Starbucks' approach to business has paid off, as evidenced by its 18 consecutive quarters of same-store

sales gains of 5% or more.



Getty Images
Remember the Chantico?

5. We've had our share of failures

Starbucks has had plenty of breakthrough beverages like the Pumpkin Spice Latte. But it's also had its drink duds. Among those that didn't quite work out: the Mazagran, a bottled coffee-cola hybrid that, in Schultz's words, was "a niche product"; the Chantico, a chocolate "drinkable dessert" that was said to be similar to the hot chocolate found in Europe; and the Sorbetto, a cold concoction that tapped into the tangy yogurt craze.

Of course, product failures may not mean much to average customers, unless they have a particular yen for an item for an item that's discontinued. But they can have an impact on a company's bottom line.

Starbucks characterizes its failures as signs that the company is always looking ahead to the next big thing. "We test and bring new products to the marketplace all the time and we will continue to listen to what our customers are looking from us," the spokeswoman says.



Getty Images
They're compensated well by industry standards, but baristas still have some beefs with Starbucks.

6. Our 'partners' have had some rocky times with us

Starbucks is routinely lauded for its workplace practices and remains a fixture on Fortune magazine's annual "100 best companies to work for" list (in 2013, it ranked 94th). But its relationships with its employees (or as Starbucks calls them, "partners") have hit some bumpy patches over the years.

In 2013, the company settled a class-action lawsuit for \$3 million that stemmed from workers saying the company prevented them from taking breaks they were owed during shifts. (The spokeswoman says Starbucks' "employment practices have been in compliance with all applicable laws"

and that the "parties reached a settlement to avoid the risks and uncertainties of litigation.") More recently, the company has come under fire for not giving employees enough advance notice of their schedules, making it difficult for employees to plan for child care, school schedules or other employment.

Starbucks says that it truly considers its employees to be "partners," noting that the chain offers a comprehensive benefits package—including affordable health care, company stock and eligibility for merit increases every six months—that "many other companies do not." As for the scheduling issue, the company has announced it's making changes to its procedures and that work hours will be set at least one week in advance.

7. We've got more competition these days



Bloomberg

Chicago's Intelligentsia is one of the newer 'third-wave' competitors.

In many ways, Starbucks is like a McDonald's without a Burger King—that is, the chain doesn't have an archrival when it comes to high-end java. But that could be changing. In recent years, a “third wave” of artisan-minded coffee houses has opened up, emphasizing everything from single-origin beans (“harvested like wine grapes,” according to one report) to refined roasting techniques. Players in this market include Intelligentsia Coffee (based in Chicago), Stumptown Coffee Roasters (Portland, Ore.) and Blue Bottle Coffee (Oakland, Calif.).

“What we're seeing is a maturation of the coffee segment.

There's room for different tiers of quality,” says Andrew Hetzel, a coffee industry expert, based in Hawaii, who serves as a consultant to many stores.

To some extent, Starbucks is joining this bandwagon in that it plans to open at least 100 “reserve” stores, emphasizing even higher-end java, over the next five years. The chain is also testing an “express” store concept, which seems to be tied to the competitive threat from fast-food chains—like McDonald's—that have moved increasingly into coffee.

For now, Starbucks may have one advantage over its third-wave competitors: it generally charges less—in some cases, easily 25% less—for a cup of drip coffee. (In New York, a 12-ounce “tall” Starbucks serving runs around \$2.) And that's despite the fact that Starbucks has itself been faulted for high prices, leading some critics to dub the chain “Fourbucks.”



Getty Images

It's like a Big Mac, with more caffeine.

8. Our calorie counts can be ‘venti’

Many Frappuccinos have more than 400 calories in a 20-ounce “venti” serving; the Double Chocolatey Chip Frappuccino even hits the 500-calorie mark. Add a slice of Iced Lemon Pound Cake (470 calories) and a coffee-break drink and snack could be close to 1,000 calories.

To put that in perspective: A Big Mac and large Coca-Cola at McDonald's clock in at 810 calories. (Keep in mind the Agriculture Department says an adult between the ages of 31 and 50 should typically need between 1,800 and 2,200

calories a day.

Starbucks' spokeswoman says the company is committed to “providing full ingredient transparency to our customers.” The chain lists calorie counts for menu items on its website and has a section devoted to “Delicious Drinks Under 200 Calories.”

9. We're winning the caffeine arms race



Getty Images

Fuel for an early-morning liftoff.

Many coffee drinkers rely on the beverage for the caffeine jolt it provides. And in the case of some Starbucks drinks, they're getting more than an everyday wake-up call.

In 2012, the Center for Science in the Public Interest, an advocacy group focusing on nutrition, examined caffeine levels in medium-size cups of coffee from various chains and found that Starbucks—specifically, a grande (16-ounce) serving of the company's popular Pike Place roast—had the most, with 330 milligrams per cup. By contrast, java from Dunkin' Donuts had 178 milligrams of caffeine (unless, of course, you added a “turbo shot”) and McDonald's 133 milligrams.

So, what's the problem, some java junkies might ask? Well, as the center noted at the time, caffeine intake has been linked to sleeplessness, problems with calcium metabolism and other health issues. That said, there's no clear medical consensus on how much caffeine is too much (and it's generally agreed that the ceiling is far higher than 330 milligrams).

As with calories, Starbucks lists the caffeine content of its drinks on its website.



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You actually can try this at home.

10. You can do just as well making your own java

Is Starbucks giving you something you can't make yourself at home, for less? Unless you crave complicated espresso drinks, probably not. “I make great coffee every day,” says David Rosengarten, a cookbook author and former Food Network host who now runs his own mail-order gourmet business.

Just keep a few rules in mind, Rosengarten and other experts say: Pick beans that have been roasted within the few past days--and don't buy too much, either. (“Roasted beans start to go downhill after eight days,” says Rosengarten.) Grind the beans at home with a burr grinder. (Blade grinders just don't, um, cut it, coffee geeks insist.) Use a brewer that can get the water up to a very high temperature (around 200 degrees Fahrenheit)—the Techniworm is a popular manufacturer of such machines--so that the brewer can extract the flavor out of the ground beans. (Or boil water in a kettle and use the pour-over method.)

And the cost? If you drink 2 cups a day, you'll spend no more than \$5 a week (or \$260 annually) for quality coffee (priced, say, at \$10-15 per pound). (A one-pound bag yields more than 60 cups, according to Starbucks' measures.) Buying a top-rated burr grinders and coffee brewer will set you back around \$650—but of course, that gear should last for many years. Add milk and filters and the first-year costs of home-barista status come to about \$1,000. □ (Of course, if you opt for a cheaper grinder and coffee maker, you can easily shave a few hundreds from the tab.)

By contrast, that first year's tally at Starbucks, based on two \$2 cups a day, will run more than \$1,400—and that's not

including gas to and from the store or all those muffins and scones you're likely to buy, too.

(The rules are a little different when it comes to espresso. A top-level machine, easily costing \$5,000, is needed to replicate coffeehouse quality, some experts say.)

Of course, Starbucks can still do business with those who prefer their coffee at home. After all, the company also sells packaged coffee and brewing equipment.



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