

Does This Latte Have a Funny Mainstream Taste to You?

Jeff Leeds



A Starbucks shop in Seattle displayed coffee beans and a Paul McCartney CD. Some insiders saw a stress purely on marketing.

In 2005, Starbucks looked like it was going to do for undiscovered music what it had done for the nonfat latte. The company decided to stock "Careless Love," a CD of sophisticated pop-jazz songs by Madeleine Peyroux, who had attracted only a modest following in this country, plying her craft in small bars. Ms. Peyroux soon found herself at No. 81 on the Billboard chart, and has become a mainstay of jazz.

Starbucks was betting that its eclectic taste played to the upscale atmosphere of its coffee shops, where it enticed customers to pay \$4 for their daily caffeine fix. And record companies saw Starbucks at the vanguard of a new class of unconventional sales outlets that could keep the CD alive in an age of digital downloads.

But the ardor for Starbucks has gone the way of yesterday morning's grounds. Critics in the music industry say the company squandered its cachet by mismanaging the effort to broaden its music mix. The choices that reflect its early taste for the offbeat — like an album from Lizz Wright, a torchy pop singer — are now squeezed in with offerings not unlike those at Wal-Mart, including the latest releases from Alicia Keys and James Blunt. The shift has not been lost on some customers.

The music offering "is more popular now," said Hazel Delgado, 33, a social worker and Starbucks regular from San Bernardino, Calif., who attended a recent concert presented in front of one of its coffee shops by another act on the company's label, the singer Sia. "I want to come in and be surprised," she said. "If they do get more mainstream, why bother?"

Along the way, Starbucks has alienated business partners who contend that it has demanded too big a cut of music revenue. The company's shift in direction has also prompted upheaval within — including the departures of half a dozen senior executives from its entertainment unit.

Starbucks, of Seattle, said its music sales are healthy: it reports selling 4.4 million CDs in North America last year, up some 22 percent from the year before. Still, it opened hundreds of shops in the same period, increasing stores in the United States by 18 percent.

Despite adopting a broader musical approach, Starbucks on average sells only two CDs a store each day at company-owned shops, according to people briefed on its business. Starbucks disputed that figure but declined to provide a different one.

Its sliding reputation in the music business represents a setback in its efforts to build cultural credibility, which have also included promotion of a handful of films like "Akeelah and the Bee," books like Mitch Albom's "For One More Day" and an in-house magazine called Joe.

For music fans, Starbucks initially conveyed "a promise that 'we're going to be bringing you something special, unique,'" said David Sonenberg, a talent manager who has guided the careers of acts including the Fugees and John Legend, who had a CD carried by Starbucks.

"I don't have the sense that there is any longer a culture and purpose to their musical endeavors," said Mr. Sonenberg, who has had a dispute with the company over its handling of a new band, Low Stars. "It's lost its sense of purpose."

The coffee chain began its musical offerings with a 1994 album by the saxophonist Kenny G, an early investor who now records on the company's own label, Hear Music. But it cultivated a more discerning musical reputation with releases like a collection from the Blue Note jazz label.

In the late 1990s, as Starbucks grew exponentially, its chairman, Howard D. Schultz, decided to buy Hear Music, then a small chain of music stores based in the San Francisco Bay area and run by Don MacKinnon, a music entrepreneur who had started by creating a mail-order catalog. Soon, Starbucks customers were finding Hear Music's custom-made compilations of jazz artists and little-known singer-songwriters on the sales counters.

But in 2004, after Mr. MacKinnon's team struck a deal to help produce and distribute what would become the Ray Charles album "Genius Loves Company," Mr. Schultz decided to hire someone with a more general business résumé to oversee the company's expansive entertainment projects, and picked Ken Lombard, formerly president of a company overseeing retail development projects for Magic Johnson, to be its entertainment chief.

Mr. Lombard said his charge was to expand and diversify Starbucks's music selection, which he said was never intended to exclude mainstream hits.

"We're trying to make music selections that fit a customer demographic that's broad and, with that, we've tried to provide great music," he said.

In a business where CD sales are in free fall, many executives remain thankful for exposure in Starbucks's 6,800 company-owned shops, including Tom Corson, executive vice president at the RCA Music Group, which released the current album by Ms. Keys. It has sold more than 120,000 copies at Starbucks.

"There's a disenfranchised consumer right now," he said. "I think that's where businesses like Starbucks play a really vital role. They're good for getting to people who don't really know where to find CDs anymore, especially the right ones."

Others suggest that Starbucks has expanded and altered its mix of music too quickly under Mr. Lombard. Before he took charge, the stores offered 5 to 20 CDs over the course of a year, according to the company. Now, Starbucks displays as many as 20 CDs at a time, adding six to eight new ones each month or so.

"They've lost that 'event' thing," a senior executive at one of the industry's biggest labels said, requesting anonymity because the label continues to market music there. "It would be like Oprah's Book Club having 15 books a week."

Starbucks says it still has the power to move record sales, including for its own label, which released Paul McCartney's "Memory Almost Full" last year. Though it shifts titles regularly, its sales of a CD over, say, six weeks typically accounts for 5 to 10 percent of the album's overall sales, according to music executives who do business with the company.

Mr. Lombard said that since taking a broader approach in the shops, "we have done nothing but continue to add value to the credibility that we've been able to build around the Starbucks

voice." Behind the scenes, however, his changes in the Starbucks music strategy touched off an internal clash that led to an exodus of executives from the division, including Mr. MacKinnon early in 2006.

Mr. MacKinnon declined to comment for this article, but others briefed on the conflict say that morale in the unit has been shaken by a belief that Mr. Lombard was focused on increasing sales volume without a particular creative vision. Some of the departures came after those executives expressed frustration with Mr. Lombard's management style, which they viewed as brusque, these people said.

Mr. Lombard, for his part, played down suggestions of continuing dissent, and added, "At no point in time was there anyone who was pressured to leave."

Outside the company, Mr. Lombard has not been shy about throwing Starbucks' weight around. For a time, the company offered music labels on favorable terms — it did not, for example, return unsold CDs as most music shops do — and in exchange the labels offered their CDs at discounted prices.

But last year, Starbucks began pushing for another discount on its purchase of new releases, lowering its price to \$8 from \$8.25, even while seeking the right to return up to 20 percent of its orders, according to people briefed on the company's negotiations. Those terms can equate to \$2 or \$3 a CD less than the price paid by other retailers, these people said.

And for emerging talent, it has raised the price of entry. When Starbucks merely stocks an album by an emerging artist on an outside label, it routinely seeks up to 50 percent of the total profit, including sales at retailers.

"What they were asking was not commensurate with what they were giving," said Gary Borman, the longtime talent manager behind acts like Faith Hill and Keith Urban, who has discussed deals with the chain. "We just walked away," Mr. Borman said.

Such talk from artists' managers suggests that others who once viewed Starbucks as a pivotal player in music might not lag too far behind. "To this day, I see it as a great way of reaching a certain customer," Mr. Borman said, "but not the panacea that a lot of people considered it to be."

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