

To: All Starbucks vice presidents and above; All SCI managing directors and JV leaders

Date: February 17, 2011

Re: Single-Serve: Another Opportunity for Starbucks Innovation

Dear Partners,

For 40 years, Starbucks has been the world's leading purveyor of premium coffee and premium coffee innovation. But at no point in our history has our innovation pipeline produced and introduced more successful, break-through products for multiple coffee occasions and in multiple form factors than it has during the past few years. Today, Starbucks provides the world's finest coffee in virtually every format, including single-serve, to more than 50 million visitors to our stores and to millions more through nearly every retail and consumer channel in 54 countries around the world—every week.

On Tuesday we announced that starting this fall we will also be bringing premium Starbucks Coffee offerings in a single-portion format to guests in 500,000 luxury and premium hotel rooms across the U.S. as part of a new partnership with Courtesy Products, the acknowledged leader in hotel room amenities.

But because of the speculation swirling in the marketplace around Starbucks larger plans for single-serve in the U.S. and internationally, I wanted to take a moment to let you know what our intentions for single-serve are... because they are very bold.

At the outset, let me share that while it is currently a \$4 billion segment growing faster than any other segment of the global coffee industry, the single-serve coffee category in the U.S., and in much of the world for that matter, is in its very early stages of development. And at this nascent stage there are numerous contenders but no demonstrated, long-term winners related to any format, geography or machine. Let me give you a few examples to illustrate this point: In Germany, where single-serve coffee has been around for some time and almost 40% of households own a single-serve brewer (compared to only 6% in the U.S.) the long-time industry leader is an open system (meaning any coffee roaster can have access to the platform) that has virtually zero presence in the U.S., the largest consumer market in the world. On the other hand, the U.S. industry leader, the Keurig K-cup, is a closed system with U.S. patents set to expire next year—and virtually no presence anywhere in the world outside of the U.S. and Canada. This global market dynamic will change.

Now consider that approximately 80% of Starbucks customers do not yet own a single-serve coffee machine in their homes. This fact alone suggests that we are, again, at the very early stage of adoption and that Starbucks has a fantastic opportunity to introduce and deliver new single-serve coffee innovations to our customers.

We began our journey into the single-serve market with Starbucks VIA[®], introducing consumers to a delicious cup of coffee in an instant, soluble format. With Starbucks VIA[®], we also introduced them to a brand platform designed and built to facilitate an ever-evolving pipeline of new products. And Starbucks VIA's success is undeniable: more than \$180 million in system-wide sales in its first year.

This remarkable achievement for a new product was due not just to the premium quality and taste of Starbucks VIA[®]. It was also due to the successful implementation of a new business model where we bring the assets of the Starbucks brand—our coffee knowledge, our broad retail footprint, the passion of our store partners and our ability to reach and personally connect with millions of people—to create trial, sampling and awareness on a scale that very few, if any, retail companies can accomplish. With Starbucks VIA[®], we showed how we can now migrate products through our growing presence in grocery, drug, mass, club and online channels to drive the expansion and globalization of the single-serve segment of the coffee industry.

There are many single-serve systems and solutions and even more in late-stage development. We are committed to supporting and participating in those that enable us to better and more conveniently serve our global customers, wherever they are and however and whenever they want our coffee.

Finally, let me touch on a subject we are increasingly asked about: Green Mountain Coffee's Keurig K-cup system. With specialty distribution arrangements and some aspects of its cartridge technology protected by patents for the next 18 months or so, Green Mountain has done a very fine job introducing single-serve brewer technology to the U.S. market. And as a result it has emerged as an early leader. But as I have said, these are very early days, and history has demonstrated time and again that patents alone do not determine market winners—deep customer engagement, best-in-class experiences and quality do.

The single-serve segment of the coffee industry is poised for a sea change of innovation. We will win by delivering quality in the cup, every time, and by capturing the hearts and minds of millions of loyal customers, in the U.S. and throughout the world.

Thank you for defining and delivering our Starbucks Experience to our customers, every day. I have no doubt that we will continue to reinvent this category and provide customers with yet another premium coffee experience.

Onward,

Howard