

# Starbucks finance report assignment



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BUSTER**

STARBUCKS Starbucks Coffee Company is the leading retailer, roaster, and brand of specialty coffee in the world, with more than 7, 500 retail locations in North America, Latin America, Europe, the Middle East, and the Pacific Rim. It has long prided itself on offering an enriched customer experience as much as on great-tasting, high quality coffees. I chose to do my report on Starbucks because besides being a Starbucks addict, like many others I know, I am also interested in how the company might be able to maximize the value of its shares but first let me briefly explain how the business world works.

Today's business world shows a huge diversification in the shareholders of one company. In most countries, each investor only holds a very small fraction of issued shares by one corporation. This includes also the senior management. Determining the objectives of the firm is not necessarily a straightforward task because the typical firm will have many types of participants. Among these participants are shareholders, creditors, managers, employees, customers, suppliers, governments and a variety of special interest groups. The objectives of these different types of participants are likely to be in conflict.

But the main focus and objective of every firm and its members should be maximizing value, being the shareholders' value. The main conflict comes when other members of the firm or other stakeholders try to maximize their own expected wealth. That objective could not be aligned with the main objective of the firm. Shareholders and the board of directors (designated by shareholders) appoint the management team that will be in charge of

managing the firm in the most efficient way and meeting with shareholder expectations and interests.

From the perspective of shareholders, the managerial function is simply to maximize shareholder wealth, thus they are expected to act on behalf of the interests of shareholders. The value addition the company has created to the shareholder can be analyzed based on the company's growth, profitability, risk and its capital market conditions. I looked over Starbucks' fiscal first quarter of 2011 to see how the company is doing. The following is an excerpt of the Form 10-Q for STARBUCKS CORP, the quarterly report. Starbucks results for the fiscal first quarter of 2011 demonstrate the ongoing success of our efforts over the last two years to improve the health of our core business and to position the Company for sustained, profitable growth into the future. Strong global comparable stores sales growth of 7% for the fiscal first quarter (US 8% and International 5%), combined with a more disciplined and efficient operating structure, drove increased sales leverage and resulted in higher operating margins and net earnings.

Significantly higher coffee costs, which typically approximate 7% of consolidated revenues, were the largest factor pressuring results for the quarter and we expect these higher coffee costs to have a continued impact on our business. In our US business we continued to refine our store efficiency efforts, including the final rollout of our new point-of-sale and inventory management systems in our company-operated stores, while maintaining strong levels of customer satisfaction.

The profitability of our international business continues to improve, reaching record levels in the first quarter of fiscal 2011 for revenues, operating income and operating margin. We continue to leverage the valuable lessons learned from the turnaround of our US business, and continue to make progress on scaling the infrastructure of this segment. We are aggressively pursuing the profitable expansion opportunities that exist outside the US, including disciplined growth and scale in our more mature markets, and faster expansion in key emerging markets like China and Brazil.

Our global consumer products group (“CPG”) represents another important profitable growth opportunity for us as we accelerate both product innovation and distribution, and we transition our packaged coffee and tea businesses to an in-house model and away from the current licensing agreement. We are aggressively pursuing the opportunities beyond our more traditional store experience to offer consumers new coffee and other products in multiple forms, across new categories, and through diverse channels, leveraging our strong brand and established retail store base.

Examples include the ongoing global expansion of our successful Starbucks VIA? Ready Brew product and the introduction of new products such as Starbucks? Natural Fusions line of premium flavored coffee. ” Just as explained above in the excerpt from the first quarterly report of 2011, Starbucks’ sales have grown approximately by 7%. The higher coffee costs that took effect in 2010 have resulted in a growth in revenues as well, which also resulted in higher market share value. In September of 2010, Starbucks Corp. said it will raise prices on some of its drinks. The price of green Arabica coffee, which was close to a 13-year high, and price volatility for other raw

materials it uses, such as dairy products sugar and cocoa, forced Starbucks to respond with increases in coffee prices. The chain boosted prices of larger size and hard-to-make drinks, while maintaining or lowering the price of some of its most popular beverages, including certain espresso beverages; and, in most markets, its \$1.50 12-ounce brewed coffee.

Arabica coffee beans, a high-quality variety grown mostly in Colombia and Central America, have faced two seasons of poor harvest, resulting in a smaller supply. The tight market, and speculative investors, caused the price to go up. Now going back to this year's first quarterly report, here are some of the financial highlights: \* Total net revenues increased 8% to \$3.0 billion. \* Comparable store sales increased 7%, driven by a 5% increase in traffic and a 2% increase in average ticket \* U.

S. comparable store sales increased 8%, driven by a 6% increase in traffic and a 2% increase in average ticket. \* Cash flow from operations was \$674 million compared to \$769 million in the prior year. The following is the company outlook for the fiscal year 2011 from the quarterly report: " For fiscal year 2011, we expect revenues to grow in the mid-to-high single digits based on a 52-week comparable year, driven by low to mid-single-digit comparable store sales growth.

We plan to open approximately 500 net new stores globally in fiscal 2011: approximately 100 in the U. S. and approximately 400 internationally, the majority of which are expected to be licensed stores. We expect continued improvement in our consolidated operating margin in fiscal 2011 compared to the prior year, given our current revenue expectations and sales leverage,

and the absence of restructuring charges in fiscal 2011, offset in part by higher coffee costs. In order to mitigate the risk of higher coffee prices on our results or fiscal 2011 we have essentially locked in all of our coffee costs for the remainder of the year with fixed-price purchase commitments. ” “ We expect capital expenditures to be approximately \$550 million to \$600 million for the full year. ” As of now, Starbucks has a total debt of about 549. 40M, but compared to the 1. 93B in total cash it is not bad at all, it is actually usually a good thing when a company has some kind of debt and not all equity. When this assignment was given, I started to think of a new product or maybe a new service that I would personally enjoy if Starbucks offered.

The one thing that I came up with that will maybe help Starbucks increase their share's values along with their total revenues and net income would be to add computerized coffee machines inside gas stations, stores, movies, etc...something similar to redbox, those kiosks are everywhere. Customers can have their coffee or preference of drink custom made the way they like it by this machine. This would result in more revenue for the company, and not requiring much more overhead, shareholders value will go up. I hope you can agree with my proposition, and hopefully one day Starbucks will come up with something similar to this.