

# Starbucks corporation and tully's coffee corporation

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Starbucks Corporation & Tully's Coffee Corporation MBA 522: Financial Management December 9, 2008 Tully's Coffee Corporation Established in 1992, Tully's Coffee Corporation is a Seattle based coffee retailer and wholesaler. The main products offered by the company are baked food items, coffee products and pastries. Additionally, their coffee beans have exceptional sales in regional supermarket and grocery stores.

The company currently operates over 100 stores in the western region of the United States and they have embarked upon a business venture in Japan where Tully's is creating quite a coffee presence, they are also investigating expansions into other foreign markets. The Corporation started generating profits in the year 2006 (About Tully's, 2007). Starbucks Corporation Seattle-based Starbucks Corporation is the leading coffeehouse chain in the world. The company currently has operations in more than 44 countries.

The main products offered by Starbucks include a wide variety of beverages, coffee beans and brewing equipment, and a wide assortment of snacks and sandwiches. The company also branched into marketing music and books (The Company, 2008). Ratio Analysis Ratios Starbucks Tully's Coffee Current Ratio 0.790.51 Quick Ratio 0.300.30 Debt Equity Ratio 1.345.22 Proprietary Ratio 0.430.24 Solvency Ratio 0.571.24 Inventory Turnover Ratio 12.1311.27 Gross Profit Ratio (%) 23.3444.96 Net Profit Ratio 7.1515.76 Return on Proprietors' Funds 29.45- Earning Per Share 0.910.004

Current Ratio Current ratio may be defined as the relationship between current assets and current liabilities. It is also known as the working capital ratio (2: 1 ratio). It is calculated by dividing current assets by current

liabilities. Current assets of a firm represent those assets which can be, in the ordinary course of business, converted into cash within a period not exceeding one year. Current liabilities are those obligations which are to be paid within a period of one year of current assets or by creation of current liabilities (Van Horne, Wachowicz & Bhaduri, 2005).

Current ratio of the Starbucks Corporation and Tully's Coffee Corporation is .79 and .51 respectively, during the year 2007. There is a difference in the current ratio of both companies, reflecting the weak liquidity position of both companies - and it illustrates that neither company has short term solvency. Liquidity position can be improved to some extent and can be made equivalent to industry average. The industry average of current ratio is .90: 1. The current ratio of Tully's is unsatisfactory and reflects weak position of the company. Quick Ratio

This ratio is also helpful in analyzing the short term financial position of a business. Quick ratio is the measure of the instant debt paying ability of the business enterprise, hence, it is called quick ratio (Van Horne, Wachowicz & Bhaduri, 2005). A quick ratio of 1: 1 is considered as an ideal ratio. If the liquid ratio is more than 1: 1, the financial position of the firm is deemed to be sound. On the other hand, if the ratio is less than 1: 1 the financial position of the firm is unsound. Quick ratio of Starbucks is .30: 1 and Tully's ratio is .30: 1. There is no difference between the quick ratios of Starbucks & Tully's Coffee.

Overall, the short term liquidity position of both firms is quite poor because the ratios are less than the desired norm. For instance, current ratio should

be 2: 1 whereas, it is less than 1: 1. Similarly, the liquidity ratio is much less than 1 as compared to ideal standard of 1: 1. Therefore, the companies will face difficulties in paying current obligations on maturity. Debt Equity Ratio This ratio indicates the relative proportion of debt and equity in financing the assets of a firm. Debt Equity ratio reflects the relative claims of creditors and shareholders against the assets of a firm.

The industry average of ratio is . 42: 1. Debt equity ratio of Tully's is 5. 22: 1. This figure is not at all satisfactory; the ratio of 1: 1 is considered within norms and reasonable. The Starbucks ratio is 1. 34: 1, which is quite reasonable. A high debt equity ratio has serious implications from the firm's point of view. A high proportion of debt in the capital structure leads to the inflexibility in operations of the firm as creditors would exercise pressure and interfere in management. Tully's has high debt-equity ratio which is unfavorable for the company. Proprietary Ratio

Proprietary ratio establishes a relationship between proprietors or shareholder's funds and total assets of the business. This ratio highlights the general financial strength of the firm. It is of great importance to creditors since it enables them to find out the proportion of shareholder's funds in the total assets used in the business. The ratio of Starbucks is . 43: 1 and for Tully's it is . 24: 1. The proprietary ratio is low for both companies. Although there is little difference in performance of both corporations, it is Starbucks that is in better position.

Solvency Ratio This ratio measures the long term solvency of the business. It reveals the relationship between total assets and total external liabilities.

This ratio measures the proportion of total assets provided by the creditors of the firm, i. e. what part of assets is being financed from loans (Van Horne, Wachowicz & Bhaduri, 2005). The total assets of Starbucks are more than their total liabilities, which indicates that the company is solvent. Tully's liabilities are more than their total assets, reflecting that the firm is not solvent.

In this instance the higher the ratio, the greater the amount of creditors that are being used to generate profit for the owners of the firm. The difference in both the companies' ratio is very high, although Starbucks has better performance than Tully's in terms of solvency. Inventory Turnover Ratio The ratio indicates the number of times inventory is replaced during the year. It measures the relationship between the cost of goods sold and the inventory level. The inventory turnover ratio measures how quickly inventory is sold (Van Horne, Wachowicz & Bhaduri, 2005).

The inventory turnover ratio of Starbucks is 12 times while Tully's ratio is 11 times. Starbucks and Tully's both have similar ratios, below that of the industry average. Thus, both corporations have inefficient inventory management. Generally speaking, a high inventory turnover ratio is better than a low ratio. A high ratio implies good inventory management. A very low level of inventory has serious implications, as it adversely affects the ability to meet customer demand. Gross Profit Ratio The ratio expresses the relationship of gross profit on sales to net sales in terms of percentage (Van Horne, Wachowicz & Bhaduri, 2005).

Gross profit is the result of the relationship between prices, sales volume and costs. Gross profit margin of Starbucks Corporation is 23%, whereas the ratio for Tully's is 45%. Tully's ratio is high as compared to Starbucks, which is a sign of good management. It implies that the cost of production for the firm is relatively low. Tully's has reasonable gross margin which ensures adequate coverage for operating expenses and sufficient return to the owners of the business, which is reflected in the net profit margin. Net profit Ratio

This measures the relationship between net profits and sales of a firm. The net profit margin is indicative of management's ability to operate the business with sufficient success not only to recover revenues of the period, the cost of merchandise or services, the expenses of operating the business and the cost of the borrowed funds, but also leave a margin of reasonable compensation to the owners for providing their capital at risk (Van Horne, Wachowicz & Bhaduri, 2005). Net profit ratio of Tully's Coffee and Starbucks is -15.67% and 7.15%, respectively.

Starbucks Corporation is generating adequate returns for its owners. On the other hand, Tully's net profit margin is negative. The company is suffering from huge losses and has incurred net losses in the year 2007. Overall efficiency and profitability of Starbucks is higher than Tully's Coffee. Return on Proprietary Funds The ratio expresses the percentage relationship between net profit and proprietors funds or shareholder's investment (Van Horne, Wachowicz & Bhaduri, 2005). It is used to ascertain the earning power of shareholders investment.

Return on proprietors' fund for Starbucks is 29.5%. The ratio could not be calculated for Tully's Coffee as net profit and shareholder's funds, both are negative. Starbucks has better performance and a higher return than Tully's Coffee. Earning Per Share The rate of dividend on shares depends upon the amount of profits earned by the firm. Whatever profit remains, after meeting all expenses and paying preference share dividend, belongs to equity shareholders (Van Horne, Wachowicz & Bhaduri, 2005). These are the profits earned on equity share capital.

The earning per share is calculated by dividing the profit available to equity shareholders by the number of shares issued. This is a popular ratio as it measures the profitability of a firm from the owner's standpoint. Starbucks EPS is higher than Tully's, which shows that the market price of the firm would be greater. Earning per share of Tully's Coffee has no value, it is almost negligible. Higher EPS helps the company to raise additional capital without difficulty. This ratio plays an important role in comparison of the two companies from an investment point of view.

Investment Decision It would be my choice to invest in Starbucks Corporation, as the overall performance and productivity is higher. The liquidity analysis performed through current ratio and quick ratio reveals that the Starbucks is positioned better in terms of liquidity; the company also has superior position in term of long-term solvency. Though gross profit ratio of Tully's Coffee is high, overall Starbucks has a favorable financial position in that they would be able to quickly convert various assets into cash.

Starbucks Corporation is generating adequate returns and reasonable profits which are sufficient for effectively running their operations. The corporation is generating higher returns for their shareholders, illustrating that the resources are effectively utilized. EPS is very high at Starbucks, which is necessary for the investment. Thus, I feel that an investment in Starbucks Corporation is a better choice, as it would yield higher returns for this investor. References About Tully's. (2007). Retrieved November 21, 2008, from [http://www.tullys.com/company/Starbucks Corp: Financial Statement](http://www.tullys.com/company/StarbucksCorp:FinancialStatement). (2008).

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