

Accounting paper



**ASSIGN
BUSTER**

The company I selected is Starbucks Café. I choose this company because Starbucks Café is a great example of the American Dream. Its founders took the simple concept of a coffeehouse and turned it into an international phenomenon. I like what Starbucks stands for as far as its sense of corporate responsibility. The coffee the company serves is sourced utilizing fair trade coffee practices. Fair trade coffee is an international standard that ensures that poor farmers in developing countries receive a minimum of \$1.26 per pound of coffee (Globoexchange, 2007). This rate is twice the market value for a pound of coffee. Under this arrangement buyers such as Starbucks also provide technology transfer, technical assistance, and monetary loans to finance the agricultural operation. Starbucks Café is helping raise the standard of living of the agricultural workers.

Starbucks Café opened up its first store in 1971 in Seattle's Pike Place Market (Starbucks, 2009). The company expanded rapidly and by the end of the decade the firm had 84 establishments. Once the company became a publicly traded firm in 1992 its CEO implemented an organic growth model. The results were amazing. By the turn of the century the corporation had over 3,500 stores. Today Starbucks Café operates over 7,000 stores worldwide. The financial results of the company for fiscal year 2008 are discussed in the paragraph below.

During 2008 the company achieved global revenues of \$10,383 million. The net income of the company was \$315.5 million. The net margin of the corporation was 3.03%. The earnings per share of Starbucks Café was \$0.43. At the end of 2008 the company had \$5,672.6 million in total assets. The total liabilities of the corporation were \$3,181.7 million. The total equity of the corporation was \$2,490.9 million. The debt to equity ratio of the

company was 1.28. The metric is a little high since a healthy debt to equity ratio should be 1.0 or below.

The fiscal year of the company started on October 1, 2007 and ended September 30, 2008. The management discussion and analysis section of the annual report discussed the sales activity of the company in 2008. The US marketplace generated 76% of the company's revenues. During 2008 the sales of individual US stores declined due to lower customer traffic. The stores in Canada and the United Kingdom behaved in a similar manner. The sales declined at these stores by about 5%. The global economic recession was one of the primary reasons for the lower revenue results. The independent auditors report for fiscal year 2008 was performed by Deloitte & Touche LLP. According to the auditor's report the consolidated financial statements present fairly, in all material respects, the financial position of Starbucks Café and its subsidiaries (Annual Report: Starbucks, 2008).

Based on the results of the company in 2008, the current market conditions, and the business life cycle of the business I would not recommend the common stock of Starbucks Cafe as a buy alternative. The company profitability in 2008 was much lower than in 2007. Its net margin decreased by 4.11%. The managers admitted the global recession was affecting the company and the recession is still not over. The reason the recession affected the company so much is because the hot drink products the company sells fall in the category of luxury items since a cup of coffee at Starbucks costs three times more than a comparable coffee in another establishment. Another reason I would not buy is that Starbucks has reached the maturity stage of its business life cycle. The growth the company achieved during the last decade is not going to occur in the next decade.

References

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