

Starbucks analysis essay sample

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Starbucks Corporation: A Business Analysis

Introduction

Starbucks has built its reputation to be considered as an innovative connoisseur of gourmet beverages. Starbucks strives to provide a genuine, artistry atmosphere to communities seeking to indulge in high quality gourmet products ranging from coffee, tea and pastries. Starbucks mission statement “ seeks to inspire and nurture the human spirit-one person, one cup and one neighborhood at a time.” (“ Mission Statement | Starbucks Coffee Company”)

There are six principles Starbucks lives by: coffee, partners, customers, stores, neighborhood and shareholders. These principles are the hub and driving force for the strategic operation and innovation Starbucks enhances on a daily basis. Their main motto is quality, passion, human connection, responsibility and accountability.

“ As of September 30, 2012, the company operated 9, 405 company-operated stores and 8, 661 licensed stores.” (“ SBUX Profile | Starbucks Corporation Stock - Yahoo! Finance”) Company operated stores are operated directly by a company in order to sell their own products at a retail location.

“ A licensed store allows a company to rent a space within an establishment such as a grocery store, college or bookstore.” (“ Ideas in Action Blog”)

Starbucks has created a perfect convenience mechanism to their customers by strategically placing their stores within businesses that makes it easier for the customer to purchase their products while on the go.

Starbucks not only generates revenue from their coffees, teas and pastries but also the selling of the Starbucks brands itself. “ Starbucks has branded their products to The North American Coffee Partnership with the Pepsi-Cola Company, as well as licenses its trademarks through licensed stores, grocery, and national foodservice accounts.” (“ SBUX Profile | Starbucks Corporation Stock – Yahoo! Finance”) As well as working on some new creations with Danone products in order to create dairy based products.

Financial Statement Review and Ratio Analysis

Cash flow was up \$56, 400 (to \$40, 500) compared to a negative cash flow of \$15, 900 in 2011. Dividends paid increased by 1. 32%.

Revenue growth within the last five years is 7. 16%

Cash flow growth rate of 11. 26%

Earnings per share from operations in FY 2012 are \$1. 77 which is an increase compared to FY 2011, \$1. 53. Dividend shares increased by 124 million shares to 544 (up from 420). Gross profit increased by 10% in 2012 compared to 2011.

Key Performance Indicators

The following charts represent the Return on Asset and Return on Equity, Solvency and Liquidity ratio amounts for Starbucks Corporation:

“ The return on assets formula can be used by an investor or by a company internally to evaluate if the company is turning a profit relative to their assets.” (“ Return on Assets (ROA)”) Starbucks is doing an efficient job of turning their assets and investments into profits. ” The ROA figure gives investors an idea of how effectively the company is converting the money it

has to invest into net income.” (“ Return On Assets (ROA) Definition | Investopedia”) The increase in percentage from year to year shows that Starbucks is making great allocation of resources in their investments to turn a net income.

Next, is the return on equity or ROE? “ ROE relates net income to the average investment by shareholders as measured by total stockholders’ equity from the balance sheet.” (Easton et al. 4-4) There was a slight decrease in the ROE for the year 2012, which could indicate downsizing in stock investment, but further research would need to be conducted in order to prove this theory. The ROE is high in percentage which can be a good thing, but management needs to keep an eye out on their assets and how they are effectively using them for in order to make a profit. “ If the ROA is low or the company is carrying a lot of debt, a high ROE can give investors a false impression about the company’s fortunes.” (“ ROA And ROE Give Clear Picture Of Corporate Health”)

The three ratios listed in the chart allow a glance at the liquidity of the company and how feasible it is for them to pay their debts.

First we will look at the current ratio. “ Current ratio is the assets of a company that expects to convert them into cash within the next operating cycle, which is typically a year.” (Easton et al. 4-26) According to the text, any company having a ratio higher than 1 is in great shape and are able to liquidate their assets in order to pay off any liabilities, therefore resulting in a positive working capital. The current ratio is one of the most dependable ratios companies use in order to analyze liquidity.

Second is the analysis of the quick ratio. “ The quick ratio focuses on the quick assets likely to be converted to cash within a relatively short period of time.” (Easton et al. 4-27) The quick ratio in 2012 only saw a slight decrease which is a minimal issue for the company. If there was a dramatic decrease in the ratio, then the number would need to be monitored. But so far the company is doing excellent in its ability to keep up with their current liabilities.

Third is the solvency analysis. “ Solvency refers to a company’s ability to meet its debt obligations, including both periodic interest payments and the repayment of the principal amount borrowed.” (Easton et al. 4-27) There are two types of solvency for liquidity analysis: liabilities to equity ratio and times interest earned. The liabilities to equity ratio allow a deeper look at how much the company is financially leveraged by debt. The main idea behind this ratio is to determine if the company would be able to meet its financial obligations. Over the years the ratio is dropping which signifies that the company is working towards becoming less financially leveraged. “ Times interest earned assess how much operating profit is available to cover debt obligations.” (Easton et al. 4-28) Banks and bondholders specifically want to pay attention to this portion of an analysis. It allows them to determine if the company can pay them back especially concerning interest expense. The higher the number the less risk of default on the company. Specific amounts related to the charts above are listed here in more detail

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Industry Competition

A focus point that Starbucks likes to initiate within their organization is the strong value and practice of good ethics. They have created a program in order to “ support the Starbucks mission and helps protect their culture and their reputation by providing resources that help partners make ethical decisions at work.” (“ Business Source: Starbucks Corporation SWOT Analysis.”) The program helps distribute resources to employees so they are aware of their rights and how to properly deal with internal conflicts amongst fellow employees. “ The standards of business conduct booklet are a brief statement of some of the company’s expectations of how employees are all to conduct Starbucks business, consistent with the mission and the core values of the company.” (“ Business Source: Starbucks Corporation SWOT Analysis.”)

Starbucks is consistently looking for different variety of flavors to market to their customers ranging from coffee, teas and now fruit spritzers. One of the biggest marketing strategies the company likes to promote is the different special blends of coffee during the holiday season. For example, during the thanksgiving holiday they like to serve their pumpkin flavored coffees and teas and for Christmas the heavy favorite Peppermint mocha. Providing these little perks to their customers is always a way to draw them back in with changing of the products and services that the company provides.

Starbucks like to keep up with innovations in technology when serving their customers. “ Starbucks offers free, instant and unlimited Wi-Fi connectivity

at all its company-owned stores across the US and Canada.” (“ Business Source: Starbucks Corporation SWOT Analysis.”) One of the most recent endeavors that Starbucks has brought to their customers is their Starbucks Card mobile app for the smartphone. The app displays a barcode in order to pay for your purchase through your phone. “ This app links your phone to your Starbucks Card, so the customer can scan to pay for their purchase while earning Stars toward My Starbucks Rewards.” (“ Mobile Applications | Starbucks Coffee Company”) In a world where everything is technological and people handle almost all daily tasks through their phones this seems to be an efficient tool of technology to bring to the table. Starbucks is once again providing a convenience mechanism for their customers in order to make their purchases easier on them by a simple scan of their phone.

“ Since the launch of the app in January 2011, more than 3 million customers have used Starbucks mobile payment application.” (“ Business Source: Starbucks Corporation SWOT Analysis.”) Bargaining power of buyers The bargaining power of the buyers is strong within the company. In today’s economy people want quality but at a decent price, while Starbucks has the quality their prices can hurt the pocketbook at times. More people are turning towards the competitors such as McDonalds and their new McCafe menus where they are still getting a quality coffee at half the cost. The loss in revenues for Starbucks has forced them to close many of their company owned stores. “ During the FY 2010 and 2011, the company had to close 70 and 51 company-operated stores, respectively in the U. S.” (“ Business Source: Starbucks Corporation SWOT Analysis.”)

But one of the ways Starbucks continues to fight for their customers is through the communities. “ Starbucks community service projects focus on the individual needs of neighborhoods in the location of the stores and where employees (partners) live and work.” (“ Responsibly Grown and Fair Trade Coffee | Starbucks Coffee Company”) Starbucks values the communities of where their employees and stores are located throughout the world and have set up programs in order to give back to the community and customers for their continued loyalty. Bargaining power of suppliers.

Starbucks seems to have the upper hand in the bargaining power of suppliers due to the different community projects the company has set up with the farming communities in different regions throughout the world. “ Starbucks invests in programs designed to strengthen local economic and social development.” (“ Responsibly Grown and Fair Trade Coffee | Starbucks Coffee Company”) The company has set up a program for each produce.

Starbucks is a strong advocate for fair trade, going green and equal rights amongst the different countries where they grow their products. “

Starbucks likes to honor this commitment through responsible coffee purchasing practices, farmer support centers, loan program, and forest conservation efforts.” (“ Responsibly Grown and Fair Trade Coffee | Starbucks Coffee Company”) Starbucks has created a program known as Coffee and Farmer Equity (C. A. F. E), this allows farmers monetary incentives for turning out the best crop of coffee beans within their region that they farm. Most of the communities where these crops are grown are very remote and any type of incentive provided to these farmers are very

beneficial to not only their families but to the planet. “ The C. A. F. E is a coffee buying program that ensures coffee quality while promoting social, economic, and environmental standards.” (“ Responsibly Grown and Fair Trade Coffee | Starbucks Coffee Company”)

In the end with all the help Starbucks is providing to the farmers in these remote locations, the bargaining power of the suppliers remains low.

Threat of Substitution

As stated above, the economy has had devastating effects on profits for many businesses throughout the world. Starbucks provides a great, high quality gourmet coffee but at prices that not everyone can easily afford except the mere splurge here and there. One of the biggest threats Starbucks faces is the fact that any type of mild climate change can have devastating effects on their products and the quality that they strive for. If Starbucks was not able to produce the gourmet coffee that has been its backbone since its inception, then they are no different than coffee at a gas station. Their brand is what makes them superior to the rest and the marketing strategies to introduce new flavors have helped carry them over their competitors.

But now more businesses are beginning to add value menus, creating a product decently priced for everyone. McDonalds has introduced their McCafe menu specializing in many gourmet flavored coffees at reasonable prices and also promoting a happy hour for these products as well. Due to the economic incentive Starbucks provides to the farmers to create that gourmet flavor, there is simply no substitution for their products. The threat

of substitution is already happening and now it is up to Starbucks to create new marketable strategies in order to keep their customers coming back for more. Threat of Entry

The threat of entry is very easily to get into the business of restaurants. Starbucks will have to compete with the ma and pop stores wanting to begin a new venture. Today some customers want a taste of home place rather than a franchise. Once again there are many different coffee ventures that can take profit away from Starbucks. The threat of entry will always be constant for Starbucks due to the low barriers of entry to enter into their market.

Conclusion

Starbucks is effectively doing everything to manage their assets in order to keep profits coming in. Customers and their change in tastes or attitudes has laid a foundation for innovation in Starbucks so they can keep up with the pace of the world. Starbucks has strong ties to interacting with the communities they are involved in and to enhance the lives of people on a daily basis. But they want to influence the lives of not only their customers but the suppliers that help them achieve the top notch quality that the customers have come to know as the Starbucks brand.

Competitors will constantly be in the market, but if Starbucks keeps advancing with technology in payment methods and a matter of convenience, they will tend to have their loyal customers keep coming back to them. Customers tend to like what's familiar to them and if that's what they are used to then the customer will always come back.

In the end, Starbucks growth rate in sales and the increase in stock allows us to forecast that investors will keep investing into this company because of the positive returns the stockholders are getting back. Starbucks are not only setting the market for competitors but laying a foundation for themselves to remain the top competitor in the coffee business and their other ventures.