Starbucks and foreign exchange rate risk

14 December 2008 Starbucks and Foreign Exchange Rate Risk Starbucks Corporation is a specialty coffee retailer famous globally because of its unique business model anchored in the provision of a third place for customers aside from home and workplace. Its phenomenal success in the United States in its early years has been well documented and has been duplicated in other nations through expansion strategies. This paper will focus on its operation in an Asian country Philippines which have seen huge improvement in its currency in the recent years.

The pricing of Starbucks in the Philippines is much like in the United States where a cup of coffee starts at $3. During its first years in the Philippines, one dollar is equivalent to fifty pesos. Thus, a cup of coffee has priced at around Php150. This pricing has barely changed through the years. Starbucks have continuously opened stores in the country especially when the business processing industry boomed making specialty coffee shops really popular. Though the Philippine operation is just small in comparison to the whole system of Starbucks in the world, it does contribute to the company's sales and profits. Since prices are denominated in Philippine pesos, the end of year revenues is converted into US dollar at the prevailing exchange rate which has important implications for the company.

During 2005, the Philippine peso has steadily depreciated reaching Php55/US$1 (BSP 2008). So, for instance, if Starbucks revenue is Ps5. 5 million, it can be converted into $100, 000 during the period. However, recently the currency has been strengthened through the continuous inflow of remittances from Filipinos working abroad who are supporting their families in the Philippines. Thus, the exchange rate appreciated to Php45/US$1 (BSP 2008). In this situation, the Php5. 5 million income can now be converted into US$122, 222 higher than when the peso is weaker.

This illustration just summarizes the exchange rate risks faced by a multinational business organization in operating in other countries especially where fluctuations are expected. Depreciation of the local currency is always detrimental to the parent company while appreciation improves total revenue as well as net income.

Works Cited

Bangko Sentral ng Pilipinas, 2008, Retrieved 14 December 2008, from http://www. bsp. gov. ph