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A Cooperative Business Analysis of Starbucks Corporation & Reflection by Principal Financial Investigator

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**A Cooperative Business Analysis of Starbucks Corporation
& Reflection by Principal Financial Investigator**

By

Abigail George

Finance

Submitted in Partial Fulfillment of the
Requirements for the Degree of Bachelor of Science
In the HTC Honors College at
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Executive Summary

Starbucks Corporation is a multinational chain of coffeehouses founded in 1971 in Seattle, Washington. A young man by the name of Howard Schultz from New York entered this coffee shop and fell in love with their brew. The company now operates over 31,000 stores worldwide and is considered one of the largest coffee houses in the world.

At the end of the fiscal year 2022 Starbucks dominated the coffee market and had a market share of 37%. The company's largest rivals in the US specifically include Dunkin Donuts, McDonald's, Tim Hortons. Folger's and Maxwell House also rival Starbucks in the at home coffee market.

Starbucks strengths include extreme brand loyalty, strong market position, high quality products, and premium service. The Company's weaknesses include expensive raw material and product costs, overcrowding in the US, and overdependence in the US market. If Starbucks positions themselves correctly, they have an opportunity to expand into new markets and establish brand loyalty across the globe, with expansion comes diversifying products which would expand their product mix and make them more attractive to new markets.

For Starbucks to maintain their market share and continue to grow and dominate their industry they need to aggressively innovate. Product development would be a great way for the company to innovate and move into new markets, especially in a new geographical area, while changing products they can also adjust pricing based on the economy to better fit their consumer base. Capitalizing off their mobile app and focusing on convenience will also be helpful to Starbucks. Using influencer marketing to reach the younger generations on social media will expand their brand name which will develop brand loyalty.

Starbucks Mission

Starbucks opened its first store in 1971 in Seattle, Washington. Ten years down the road a man by the name of Howard Shultz would enter this location and fall in love with his first sip of Starbucks coffee. Shultz would soon join the company and travel to Milan and experience an Italian coffee house. Howard brought back some of the concepts he found in that Italian coffee house and amped up Starbucks into what we now know as the most popular coffee shop in America. Starbucks now holds its mission high, which is “To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.” Starbucks can follow through with its mission by providing high-quality coffee and beverages with a welcoming atmosphere to every customer.



Our mission:

To inspire and nurture the human spirit – one person, one cup and one neighborhood at a time.

Starbucks External Analysis

PESTLE Analysis of Starbucks

Political factors - Starbucks currently operates more than 32,000 stores in 80 countries. With operating in so many countries Starbucks could run into problems with the change of trade policies. Since Starbucks relies heavily on importation of their coffee beans, the changes of trade policies could result in higher costs and lost quality of the beans. This could cause Starbucks to lose customers. Another political external factor that could halt the operation of Starbucks is governmental regulations. Some examples of governmental regulations include health and safety regulations, labor regulations, and environmental regulations. Starbucks must comply in all these sectors to ensure that these political factors will not halt the operations and profitability of the company.

Economic factors - As any company can experience, Starbucks can be subject to decreased revenue due to decreased exchange rates, economic recessions, and inflation.



As seen in the chart above Starbucks experienced a great hit with the 2008 recession. During this time Starbucks had to shut down a total of 900 stores because the company was failing

to generate revenue to keep these stores open. (Silva, 2020) The buying power of the consumers plays a huge role in what keeps companies afloat. During times of decreased exchange rates where the dollar loses its value on top of economic inflation, Starbucks could negatively be impacted.

Sociocultural factors - There are many aspects that revolve around the sociocultural factors of a company. Some of these include social trends, customer preference, and demographic shifts. An example for the social trend aspect includes, in 2020 Starbucks received a ton of backlash for not letting their employees wear “Black Lives Matter” paraphernalia such as t-shirts or pins. Starbucks quickly reversed its rule and came out and wrote “It’s critical to support the ‘Black Lives Matter’ movement as its founders intended and will continue to work closely with community leaders, civil rights leaders, organizations, and our partners to understand the role that Starbucks can play, and to show up in a positive way for our communities.” (Valinsky, 2020) By Starbucks quickly realizing the urgency of reversing its rule it was able to keep consumers happy and continue to bring in revenue. It is important for Starbucks to stay on top and educate themselves on social trends, customer preferences, and demographic shifts to ensure they can continue to market themselves to the correct demographics and bring on new ideas to keep profits rolling in.

Technological factors - Starbucks has done a great job with keeping up with evolving technology over the course of its life span. Starbucks has implemented a “Reinvention Plan” that uses technology to make the customer experience more personalized and effortless. “These advancements will include dedicated mobile order-online pickup lanes; a more personalized drive-thru experience that recognizes Starbucks Rewards customers and offers recommendations based on order histories; improved timing algorithms to create more accurate wait times on mobile orders; and effortless payment options where customers won’t have to pull out their credit card or

even the Starbucks app.” (Starbucks, 2023) If Starbucks failed to constantly upgrade their technological systems it could result in lost profits and increased competitiveness among other coffee corporations.

Environmental factors - Environmental factors can play a huge part on the well-being of Starbucks. One environmental factor that could drastically affect Starbucks is natural disaster. Flooding, drought, and tornadoes can all disrupt Starbucks supply chain and halt operations. Another factor that is increasingly becoming more published is sustainability/climate change. Recently, Starbucks has set targets to achieve by the year 2030. Some of these pledges include cutting carbon emissions down by 50 percent, 50 percent reduction in water used in operations, and 50 percent waste reduction sent to landfills. Starbucks is also beginning to focus on making their menu more plant based, shifting to reusable plastics instead of 1 time use, and investing in reforestation. By Starbucks shifting its focus to improving these examples, all can aid in helping reduce the risk of environmental factors that could hurt them in the future.

Legal Factors - Starbucks operates in the food and beverage industry, which is a highly regulated field. Starbucks must comply with all FDA food handling, food storage, and safety laws in order to avoid any legal liability. Another legal factor Starbucks must worry about is the labor laws. Some aspects that are included in labor laws are, minimum wage, employee benefits, and time restrictions. If Starbucks fails to please all these aspects, it could result in legal penalties.

Starbucks External Analysis Continued

Porter's Five Forces analysis of Starbucks

Bargaining power of suppliers - The analysis of bargaining power of suppliers is rated high. Starbucks is supplied coffee beans from multiple suppliers all over the world. Starbucks' website states that "The Coffee Belt is divided into three main growing regions: Latin America, Africa and Asia / Pacific. We responsibly source, roast and blend coffees from each of these three regions to bring you unique coffees." If the supply of these coffee beans becomes scarce it is possible that the prices that Starbucks must pay will rise. This can negatively affect Starbucks profitability.

Bargaining power of buyers - The analysis of bargaining power of buyers is rated moderate. Starbucks has ruled the industry for a long time and has a huge customer base. That does not mean it is not threatened with competitors. Starbucks' main competitors include Dunkin Donuts, McDonalds, and Tim Hortons. Since Starbucks coffee and beverages are little more on the expensive side customers may choose a cheaper alternative during tough times. Buyers can easily switch any of Starbucks' leading competitors or make their caffeinated beverages at home. This can limit Starbucks' bargaining power.

Threat of new entrants - The analysis of the threat of new entrants is rated low. There are low barriers entering the coffee industry, but it would take a lot of work, time, and money to create a coffee company big enough to reach the Starbucks level. Starbucks has ruled the coffee industry since 1996 and has created its brand with a loyal customer base. This makes it hard for new entrants to compete.

Threat of substitutes - The analysis for threat of substitutes it rated moderate. As previously stated, Starbucks has competitions like Dunkin Donuts, McDonalds, and Tim Horton

making it easy for customers to switch up and try a competitor's brand. Starbucks has a huge loyal customer following so this does help Starbucks alleviate some of the threat of substitutes.

Competitive rivalry - The analysis for competitive rivalry is rated highly. With leading competitors and even local coffee chains the coffee industry is booming with rivals. Starbucks is faced with daily rivalry with the top dogs and smaller shops. Pricing, new products, and advertising are all ways these businesses could affect Starbucks market share.

Threats and Opportunities of Starbucks

Threats - There are multiple threats that Starbucks could face. These can include high competition, economic factors, and customer preferences.

As previously stated, Starbucks' leading competitors are Dunkin Donuts, McDonalds, and Tim Hortons. Starbucks remains the top dog in the coffee industry. “Despite being founded 20 years after Dunkin' Donuts, Starbucks grew aggressively and is a substantially larger company. Starbucks generated over \$23.5 billion in 2020, while Dunkin' Brands' 2019 annual revenues were \$1.3 billion” Though Starbucks remains in the lead, that does not mean they shouldn't worry about their competitors taking the lead. They should remain up to date on innovation and marketing to ensure they keep their customer base.

Economic factors are also a threat for Starbucks since they cannot be controlled. Inflation, customer spending habits, and recession can all negatively affect Starbucks profits. Starbucks should always be prepared for these instances to happen.

Customer preferences are another threat that Starbucks could face. There has been a rise in consumers becoming more health conscious along with the increased recognition to become

stainable. If Starbucks fails to update their morals and products to meet the change in customer preference it could result in a decrease in their customer base.

Opportunities - Starbucks opportunities are endless with the size of the company. A few opportunities Starbucks could invest in include innovation of products, expansion into adjacent markets, and focus on sustainability and ethical sourcing.

Starbucks can continue introducing new products to their menu and continue making their customers excited to try their new items. By constantly introducing new items Starbucks can strengthen their loyalty with customers or bring in new target markets.

Another opportunity that Starbucks could consider is entering adjacent markets. Starbucks currently does make some coffee beverages that are pre-packaged and sold at grocery stores and gas stations, but they can package up more of their menu and put it into stores. For example, their popular teas and refreshers could be packaged and sold to consumers. This would give them the opportunity to increase their sales and capture even more market share.

Finally, Starbucks can continue their journey of becoming more sustainable and finding sources that are more ethically sound. Starbucks has a plan to become more sustainable by 2030, parts of this plan include reducing waste, reducing water, and reforestation. If Starbucks released information on how their plan is coming along this could result in a happier customer base or even pull in more customers that are centered on being sustainable.

Internal Analysis

Starbucks' internal analysis gives a bit more insight into how the company does what they do. By starting with a SWOT analysis, we will be able to see the types of pros and cons related to Starbucks and their business model. The company's #1 strength has always been in their strong brand reputation and market position in coffeehouses. There was a thing on the internet a while back that poked fun at the utterly fierce loyalty that Starbucks goers have for their own individual iced lattes. The certain demographic that Starbucks tends to draw in has allowed them to establish on the internet as one of the top brand reputations in the industry. Not only their customer loyalty, but their constant commitment to serving only the highest quality products is what consistently puts Starbucks ahead of the pack. People feel as though they are receiving more value in a place like Starbucks compared to say "Dunkin".

On the other side of their greatest strengths lies Starbucks' greatest weakness. The cost of raw materials for Starbucks is well and far above the industry standard. They have always maintained a commitment to quality, but in the end, it has hurt the pockets of the consumer more than it has raised profits for the company. As Starbucks pays more and more in an inflamed market for raw materials, consumers are digging deeper and deeper in their own pockets to cover costs. Along with this, due to the style of Starbucks' coffee bars and lack of product diversity, the company has a huge dependence on US markets in terms of profit. While they do have a small presence in Europe and Asia, they have only scratched the surface in terms of potential market coverage. Only having profitable markets in the US is killing what could be huge profits.

While there are weaknesses right now, the lack of foreign presence for Starbucks could be a huge opportunity. The company does have locations in Asia as well as Europe, however in many instances, those locations are hardly profitable. This is, in part, because Starbucks has

standardized their menu meaning that for international locations, local ingredients and flavors aren't an option. Starbucks, within the last few years, has done a better job of locally sourcing coffee beans and raw materials from their international locations. But, for one, the raw materials overseas are often pricier than their local partners here in the US. Secondly though, even when local goods are sought out by the company, there is still no local flavor regarding the menu. There is no Asian flare or European drink on any Starbucks menu (except for a few idea testing locations). So, their weaknesses span from not having enough presence in foreign regions, to a simple lack of specific product diversity in those specific locations.

Lastly, Starbucks threats are closing in every day. Without a doubt, the biggest threat to Starbucks (and really any company in the Coffeehouse industry) is the immense and cutthroat competition upheld throughout the industry every day. Dunkin, McDonalds, your local mom and pop coffee brewery, or even places like hotels are all fierce competitors of Starbucks. There are so many different areas to compete within the industry (convenience, quality, taste, location) that companies must focus on doing one thing in the industry well. For Starbucks, this has always been a differentiation strategy with their high quality and premium products. However, only focusing on one way to serve the market first limits your ability to make profit, but also encourages other organizations to come in and steal that market share. This "opening of the door" that Starbucks creates by only serving the premium section of the market leaves them vulnerable to potential stolen market shares in other categories. Along with this, Starbucks is already taking huge losses on expensive raw materials while now moving into a volatile market like today's. Starbucks must be very careful to manage price extremes when it comes to global coffee markets in order to stay in favor with the public who are already upset about the price they currently (and loyalty) pay for their coffee products.

Strategic Choices

As stated earlier, Starbucks' business strategy is to operate on differentiation. While places like McDonald's and Dunkin market things convenience and promos, Starbucks has consistently strived to serve the highest quality product in the market. They do so because they believe that customers will be willing to pay comparatively higher prices for a premium and quality product. One pro to this strategy is that customers are almost always satisfied with quality, fresh, premium products when they leave the store. This keeps customers smiling and holds brand reputation to a high expectation. A con of this strategy is that costs for raw materials are comparatively higher than most of the industry, this makes profit margins hard to control if the market ever gets out of balance.

Starbucks corporate strategy as of late has been to diversify profitable markets. In the SWOT analysis I noted that one of Starbucks' biggest opportunities to grow was to penetrate foreign markets like Europe and Asia. Their corporate strategy has been to close the gap between US profits and international profits. The upside to this is that while gaining new market share, profit levels are sure to rise. However, the con of this strategy is that it is extremely challenging and expensive to try and diversify already existing profitable markets. Also, international locations (in Asia) require the "help" of a local business partner, this eats even further into profits making it that much more difficult to have a successful international campaign.

My recommendation is that instead of just partnering with local stores, Starbucks should kill two birds with one stone by entering joint ventures with international partners. This way, their costs for raw materials and infrastructure are lowered, plus this will give them the ability to add a little of the local flavor into the menu. Local partners know the styles and themes the people are

looking for. With Starbucks' model and that type of insight, the company could solve the US dependency problem and broaden their international portfolio in one move.

Strategy Implementation

Starbucks is a global retailer of specialty coffee and espresso. Its goal is to create a distinctive coffeehouse experience that combines delicious food and premium coffee with a cozy and welcoming ambiance. In this section, we will review Starbucks' current organizational structure, control systems, and strategic leadership teams. After the analysis of their strategy implementation, we will go over recommendations that would help the company implement them more successfully.

Existing Organizational Structure

When compared to similar sized organizations, Starbucks has a sizable senior leadership team. For 23 years, Howard Schultz was their CEO. In December 2016 it was announced that he was stepping down, and in April 2017, it was revealed that he had personally chosen Johnson to succeed him. Johnson, who is still president of Starbucks, was named the fourth CEO of the company on April 3, 2017. On March 16, 2022, however, Starbucks revealed that CEO Kevin Johnson would be stepping down and that Howard Schultz would serve as acting CEO until Laxman Narasimhan took over in April 2023. Schultz made his early resignation from the position official on March 20, 2023.

Starbucks uses a matrix organizational structure, which combines several functional and product-based divisions, as can be seen when looking at their organizational chart. This indicates

that the overall organization has numerous overlapping divisions and reporting structures, which is understandable given its enormous size and global presence.

One of the three main components that makes up Starbucks' overall structure is the overarching functional hierarchy, which oversees the company. The other two are geographical divisions and divisions based on products.

Starbucks implements a functional hierarchy, which groups departments based on the functions that they perform for the company. Business operations, marketing, and product development are a few examples of these functions. Most of the day-to-day decision-making at Starbucks is centralized in this functional hierarchy, which is headed by the CEO and includes the heads of the organization's functional departments, product-based divisions, and geographic divisions. These leaders exercise top-down control over the departments and people below them. This structure works well for a company with a significant retail presence, like Starbucks. On the downside, however, this type of organizational structure can limit communication and decision-making between various levels of the organization.

The geographic and product divisions of Starbucks are also given a lot of consideration. In addition to purchasing ingredients and baked goods, Starbucks has numerous product-based divisions. Additionally, they have divisions for the non-Starbucks brands that are part of the Starbucks family, like Teavana and Evolution Fresh. They are present in eighty-eight countries when we consider their geographic distribution. For a large company like Starbucks, it is critical to optimize its organizational design in order to consider the various geographies in which it operates.

Control Systems

To ensure that its operations are in line with its strategies, Starbucks has established several control systems. One of their control systems is their employee training program. The length of Starbucks barista training can vary depending on the trainee's location and the training program, but it usually lasts two to three weeks. In this time, trainees learn about the company's beverages, customer service, and operating procedures through both classroom instruction and practical training at a Starbucks location. The first week of training is usually devoted to learning about coffee and tea, including how to make popular Starbucks drinks and how to properly brew various kinds of coffee and tea. Customer service, food preparation, and store operations, including cash handling, inventory control, and cleaning procedures, are typically the main topics of training in the second and third weeks. Following the initial training, brand-new Starbucks baristas continue to receive guidance and training from their managers and coworkers to advance their professional development within the company.

Another control system Starbucks implements are regular quality control checks. Starbucks Corporation had previously faced scrutiny for selling subpar products. Not only in stores in the United States, but also in those abroad. Customers are supposed to experience the company's exclusive premium products that Starbucks has to offer at every store they visit. As a result, the company began using a three-tiered strategy to guarantee the highest quality of its products in 2022. To meet quality standards, every store must submit quality reports. Customers can taste it and believe the barista when they do.

The new procedure, also referred to as the "Starbucks Method," starts with roasting the beans. Using a unique filter, the beans are then ground and brewed. Following a four-minute steeping period, the coffee is then prepared for serving. The Starbucks Method is intended to

guarantee that the coffee is brewed uniformly and that the flavor is not diminished. Along with the new brewing method, Starbucks has also implemented a new quality control system that includes routine testing of the coffee throughout the entire production process. Starbucks is confident that it can preserve the quality of its coffee and continue to offer its customers a superior product with the new brewing method and quality control procedures in place.

Strategic Leadership Teams

On December 1, 2016, Starbucks Announced a new leadership structure to drive global growth as a direct result of the success they witnessed after they opened the development of the Starbucks Roastery and Reserve brand. Their Seattle Roastery, which opened in 2014, quickly gained a reputation as the most immersive coffee-focused retail experience in the entire world. Executives from renowned international retailers like Apple, Nike, and Zara have expressed their opinion that the Roastery offers the best retail experience they have ever had, whether they are shopping for coffee or not. Customers and tourists alike were drawn to Seattle by The Roastery, which also cast a bright halo over the entire Starbucks global brand and ecosystem.

They added a level of premiumization to coffee that had not yet been attained with the Roastery. Its success has been unparalleled; in its second year, it increased comp sales by 24% and provided customers with tickets that were four times as expensive as those found in the average Starbucks location. The Roastery evolved into a testbed for ground-breaking innovation and experiential design and a marker for Starbucks' upcoming period of rapid global expansion and change.

During the shift, their goal was to reaffirm their leadership in all thing's coffee, enhance the partner experience and exceed the expectations of their customers and shareholders. As a

leadership team, they prioritized initiatives, allocated resources, and aligned talent that enabled them to execute their new strategic plan.

More recently, Starbucks announced a new leadership transition in March of 2022. The company's then president and CEO, Kevin Johnson, announced his retirement after serving for 13 years, the last five of which he spent in that capacity. While Johnson left his position as of April 4, 2022, he remained a partner of Starbucks and a special consultant to the organization and Board of Directors until September 2022. The Board appointed Howard Schultz as interim chief executive officer, with effect from April 4, 2022, to ensure smooth business management until the permanent successor was named. Additionally, Schultz will reappear on the company's board of directors. As the Starbucks interim CEO, Schultz concentrated on creating an innovation framework while also mentoring and bringing on Laxman Narasimhan as the company's new permanent CEO.

On September 1, 2022, Howard Schultz, the company's founder, and current CEO, was succeeded by Narasimhan. He brought almost 30 years of experience managing multinational consumer goods businesses and providing business advice to retailers, grocers, restaurants, and online retailers. In addition to collaborating with partners in more than 30 stores, manufacturing facilities, and support centers while shadowing Schultz, he also completed a unique immersion experience and obtained his barista certification. He became deeply involved in the company's plans for reinvention under Schultz, who was appointed interim CEO again on April 4, 2022.

Improvements for More Effective Strategy Implementation

The first recommendation for a more effective strategy implementation is to work on more collaboration throughout all its stores. Communication and collaboration between various

organizational levels may be limited by Starbucks' hierarchical structure. The business can make sure that its strategies are effectively implemented across all its stores by encouraging more collaboration and communication. My second recommendation would be to give their partners more empowerment no matter what level they are at within the company. Increasing decision-making authority at the store level would empower the company's staff. As a result, the customer experience may be enhanced, and the business may be able to respond to customer preference changes more quickly. My final recommendation is to work on more innovations for Starbucks. To find new chances for expansion and differentiation, the business needs to foster an environment that is open to experimentation and innovation. To investigate novel goods, services, and store layouts, cross-functional teams should be formed.

Recommendations

Starbucks has dominated the coffee industry for a long time due to their diversified product line and the experience they offer their customers. One way that Starbucks could improve their market share and generate competitive advantage is to aggressively innovate. Innovation is something that Starbucks can do to stay ahead of its rivals. By expanding into new markets Starbucks could develop new products to fit the cultural demographic of that certain location, they could also change prices to adjust to the economic factors surrounding the locations and create competitive advantage.

Another way that Starbucks can continue to grow is by keeping up with technology on their mobile order app. The Mobile app offers their consumers convenience, and it is a time saver for many, which is helpful when you're trying to get your morning cup of coffee on the way to work or school. Being able to order your coffee at home and have it ready for you by the time you get

to your nearest Starbucks is why the company has such high brand loyalty. By keeping up with technology and the needs of society, Starbucks can assure their customers that convenience is valuable to them which would entice more consumers to go to Starbucks.

When Starbucks was first becoming popular, they valued pristine customer service, they trained their employees to always have a smile on their face and to make the customer experience feel like a small hometown coffee shop. Howard Schultz fell in love with the aesthetic of the Italian coffee shop, people would sit and lounge around with their friends as if they were home with family, Schultz later tried to bring that feel to Starbucks shops everywhere. The company has done a great job integrating a homey feeling into their stores which is why you see so many people doing work or meeting with friends inside of a Starbucks. The idea that you can go into a Starbucks feeling comfortable enough to sit and do work or engage with friends creates a competitive advantage for the company over their competitors. In today's world where everyone is always moving and looking for convenience and fast food, Starbucks can keep up with technology in order to provide convenience but also ensure their customers a comfortable coffee shop where they can go to relax. If the company wants to continue to dominate the market they will encourage and continue to teach excellent customer service, a comfortable ambiance for customers while also offering convenience.

The last recommendation for Starbucks would be to continue a heavy marketing strategy while integrating in the use of influencer marketing. Since the coffee market is heavily saturated, marketing is important to try and develop brand awareness. Starbucks main consumer base include millennial women who have grown to love Starbucks unique brew over the years. By dialing into influencer marketing, Starbucks can reach a new generation of young adults using social media.

The average teenager spends almost 4 hours a day on social media, if Starbucks marketed heavily over multiple social media platforms, I believe they will attract the very influenceable gen z.

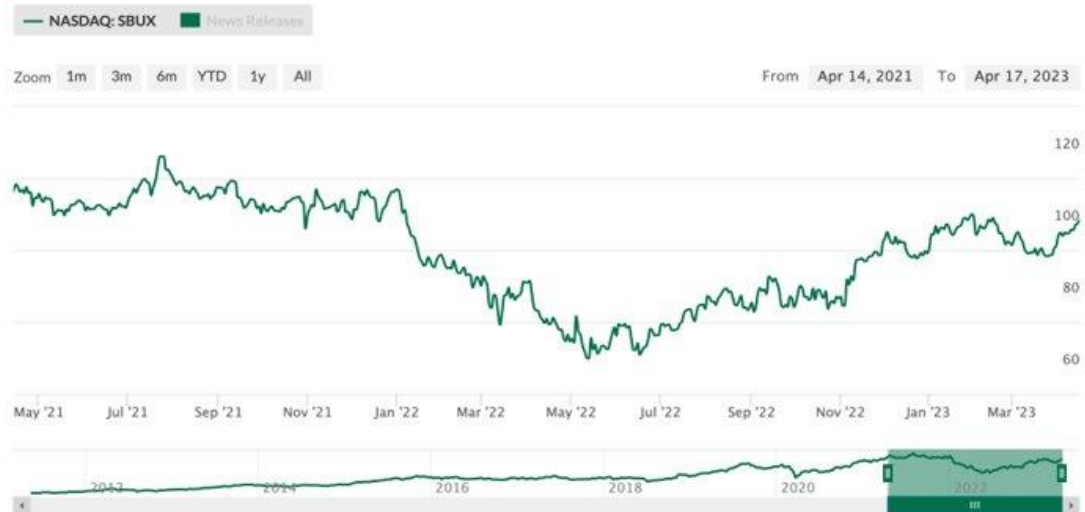
Financial Highlights

Starbucks recorded net revenues of 26.58 billion TTM (trailing 12-month) at the end of 2022. With a profit margin of 10.09% TTM, Starbucks exceeds the sector average of 8% which shows their revenue from sales exceeds their cost of doing business. The operating margin of 14.26% TTM exceeds the sector average of 10.1% and a decent score usually sits around 15%. This shows that Starbucks has a very good return on sales and can operate efficiently within their sector. The company's Return on Investment (ROI) is 13.23% TTM which is much lower than the sector average of 18.38%, this shows that Starbucks is behind in their returns compared to competitors in the market. Starbucks Weighted Average Cost of Capital is 8.27% compared to the sector average of 6.68%, even though the WACC (Weighted Average Cost of Capital) percentage is higher than the sector average. This is not a good thing for the company. When a company's WACC is higher than the industry average, this often shows that a business is on the riskier side of an investment which could turn away investors.

As of 4/17/2023 Starbucks stock price according to NASDAQ was \$108.31. Due to issues with union workers, greenwashing, and issues with expansion in China it has driven down Starbucks stock price and investment demand. From October 2021 through March 2022, we saw a decrease in the company's stock price of \$22.78. Although the company has decreased its stock price over the last year, its 5-year period looks very promising with an increase of \$41.77. The increase in the 5-year performance can be attributed to the major hit that the market took due to COVID-19. Reference chart 1-A to see more information on Starbucks stock performance.

Chart 1-A

Stock Chart



Conclusion

Starbucks is a driven business that will continue to do well in the years to come. Their mission statement reflects their focus on creating a positive impact on the communities they serve and promoting human connection through coffee. Their vision reflects their commitment to quality and ethical sourcing and their goal to expand their global reach.

Starbucks has a competitive market in the coffee industry, but they have a strong brand reputation and loyal customer base. They face both challenges and opportunities, but their focus on customer experience and responsible business practices positions them in hopes of continued success. They have a highly trained workforce and invest heavily in employee development and benefits. They have a diverse product line that helps to drive revenue growth and customer loyalty,

but there are areas for improvement. Overall, Starbucks has strong strengths and opportunities, as well as potential areas for growth and optimization.

Starbucks' strategic choices include delivering a premium customer experience, expanding their global presence, and promoting ethical and sustainable practices. They have invested in technology and innovation to enhance convenience and loyalty and diversified their product offerings to appeal to a wider customer base. They have also demonstrated a commitment to responsible sourcing and environmental sustainability.

Starbucks experienced steady revenue and earnings growth prior to the COVID-19 pandemic, but the pandemic had a significant impact on their financial performance. To adapt, Starbucks has implemented strategies such as expanding delivery services and introducing new product lines. However, we strongly believe that if Starbucks were to consider our recommendations, then they would do better than they currently predict in the years to come.

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Reflection of Abigail George, Principal Investigator for Finance

The analysis of Starbucks was one of the most interesting projects that I have completed in my four years as a business student, although I have completed case studies before, none have ever been this in depth. I decided to study Starbucks as a corporation because of their unique market placement and immense market domination over the years. Globally, Starbucks has managed to stay one of the most competitive companies in the industry for almost 30 years.

Starbucks was founded in 1971 but first went public on June 26, 1992. The IPO was priced at \$17 per share with 2.1 million shares of common stock offered to the public. At the time that they went public, Starbucks had 140 operating stores throughout the United States, today they have over 31,000 locations in 82 countries. The immense growth that Starbucks has had throughout the years is what made the company so attractive to study. With growth often comes some failure, especially in business which was interesting to analyze over this project.

My contribution to this project involved writing the executive summary, coming up with recommendations on how and where Starbucks could continue to dominate or expand and start dominating a new market, and analyzing the financial data that Starbucks has compared to their competitors. My contribution with the executive summary was mainly to summarize what the project was about, the main and most intriguing parts of the project to show readers what research or conclusions my group and I came up with.

The recommendations part of my research was the most intriguing part because it was during this research that I realized just how much of the coffee market Starbucks dominates. The recommendations were not about how to combat competitors or beat other companies, they were simply on how Starbucks can maintain their already great market strategies and continue to expand into new countries effectively. The three main recommendations that I produced for Starbucks are

to aggressively innovate, continue to expand globally while focusing on customer service, and lastly to market effectively while adding influencer marketing through social media. Aggressive innovation for Starbucks means continuing their product development to cater to the changing needs of society, through different brews, different beans from different countries, and changing the types of coffee/ tea/ food that they serve in different countries. While developing various kinds of beans through local farming the company also can develop new pricing strategies depending on the economic standing of the country, they are operating in. By continuing to develop their product and pricing strategy this will continue to grow Starbucks' competitive advantage against other coffee shops.

Although Starbucks is in 82 countries, there is always room for expansion, this would also grow the company's competitive advantage and brand loyalty globally. Focusing on consistency and excellent customer service will be the reasons that Starbucks is so successful in all its locations. The development of the Starbucks mobile app is also one thing that will be able to help the convenience and efficiency for consumers, especially in large cities. Lastly, the effect that social media has in society today is almost immeasurable, for businesses it is such a powerful tool to influence mass amounts of people daily. Influencer marketing is up and coming for large businesses, this is where you pay a person with a large following on social media to promote your brand and hopefully create brand loyalty. For gen z, young females from the ages of 13-21, Starbucks can target these beautiful young influencers to promote their brand which almost guarantees that their fan base will receive and duplicate what they are seeing. The power that influencer marketing and social media marketing has for business, especially for large businesses like Starbucks, offers a huge opportunity to create brand awareness and loyalty to so many people within minutes. Combining aggressive innovation, global expansion, and effective marketing I

believe that Starbucks can continue to dominate globally while expanding to new markets and developing new strategies to increase profits around the world.

My financial analysis of Starbucks was short but highly informative, based off industry averages and financial data from its main competitors, I was able to gain insight on how Starbucks competed financially compared to their peers. Starbucks recorded net revenues of 26.58 billion TTM (trailing 12-month) at the end of 2022. With a profit margin of 10.09% TTM, Starbucks exceeds the sector average of 8% which shows their revenue from sales exceeds their cost of doing business. The operating margin of 14.26% TTM exceeds the sector average of 10.1% and a decent score usually sits around 15%. This shows that Starbucks has a very good return on sales and can operate efficiently within their sector. The company's Return on Investment (ROI) is 13.23% TTM which is much lower than the sector average of 18.38%, this shows that Starbucks is behind on their returns compared to competitors in the market. Starbucks Weighted Average Cost of Capital is 8.27% compared to the sector average of 6.68%, even though the WACC percentage is higher than the sector average this is not a good thing for the company. When a company's WACC is higher than the industry average, this often shows that a business is on the riskier side of an investment which could turn away investors. Starbucks experienced a severe loss in 2020 due to the covid-19 pandemic which led to a huge downfall in their stock price from March of 2020 through mid-summer of 2020. (*Refer to chart 1-A*). Their stock price has risen and stayed consistent in the last few months, as of April 30, 2023, Starbucks stock price was \$104.00.

Throughout conducting this case study, I have learned so much about how large businesses conduct themselves and how this affects the financial standing of the business. Howard Schultz was the man who started Starbucks, he fell in love with the feel of the Italian coffee shop and decided to bring his ideas home and was able to build a billion-dollar business. The most

interesting and most profound thing that I have learned throughout this experience was the importance of customer service. The importance of customer service and making customers feel comfortable inside a business is what creates brand loyalty for years to come. Starbucks has prided itself on excellent training of their employees and creating an environment where people feel comfortable enough to enjoy time with friends, to work, or even have a cup of coffee and relax in their seating areas.

I have also learned how societal and socioeconomic issues can affect a business financially. Starbucks has faced multiple scandals over its lifetime but some of the most popular include greenwashing accusations a racial bias controversy in 2018. Two African American men were arrested in a Starbucks while waiting for a friend, which led to accusations of racial profiling and mistreatment of customers. The company closed all US stores for a day to include racial bias training while also facing a 3% stock decrease within hours of the incident. Accusations by consumers of greenwashing has pushed Starbucks to making all its cups reusable by 2025 and has committed to outsourcing all its resources to become ethical and sustainably acceptable. The pressure of corporate social responsibility by consumers has grown in the last few decades, the climate crisis has become more prominent and has enacted more people to pressure the business they buy from to include some sort of sustainability in their practices. I have learned that in the modern climate of owning a business you must listen and respond to your consumers' needs in order to operate successfully.

If I had to do this project differently, I would choose a much smaller business to study. Although Starbucks has been around for a long time and has an immense amount of data surrounding it, sometimes trying to pinpoint the interworking of such a large business can be difficult. The global footprint that Starbucks has is so prominent but with that comes a different

structure in every country, one could perform an analysis on just one country or even one single location and have enough information to study. I believe that studying a much smaller business would give me the opportunity to examine why and how a business can succeed, specifically financially, and the steps that a company must take in order to create a consumer base large enough to make profits.