

# Changes in Starbucks Business Model Based on 2008 and 2020

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**Abstract.** This paper mainly analyzed the business model and strategy transformation made by Starbucks in two key years, namely the financial crisis in 2008 and the sudden outbreak of the epidemic in 2020. The main objective of this paper was to understand and analyze the decisions made by Starbucks in terms of financial performance, strategy and business model during these two special years, to bring better inspiration and corresponding strategies to other multinational enterprises. This paper first investigated and analyzed past articles in related fields, and then conducted a financial ratio analysis on their financial statements between 2007 and 2021. Finally, it concluded that based on the analysis of Starbucks, other multinational enterprises should learn from its strengths and avoid risks. First of all, other multinational companies could actively expand their market shares, but not blindly. Secondly, relative services should be provided according to the demands of customer groups. Thirdly, we should analyze the current economic development in time to choose between long-term and short-term debt. In addition, employee benefits and incentives were also one key factor for Starbucks to become a successful multinational enterprise.

**Keywords:** Business model, Economic downturn, Financial ratio, Inspirations.

## 1. Introduction

### 1.1 Background

Starbucks was founded in 1971 by Jerry Baldwin, Gordon Bowker and Zev Siegl in Seattle, Washington, USA. It is currently the largest coffee chain in the world. But Starbucks does not only offer a wide range of coffee, it also sells sandwiches and cakes, as well as mugs with the brand's identity. For people, especially students and office workers, Starbucks is a great place to work and study. To this day, Starbucks can also be found everywhere in various shopping malls. This shows that Starbucks is loved by people for its unique brand culture concept. During the economic depression, Starbucks also faced unprecedented difficulties, but with experienced management and correct strategic decisions, it successfully turned the situation around and achieved sustainable economic growth. During the financial crisis and pandemic, the company's operating performance and sales after a brief decline, after corresponding adjustments, gradually recovered, showing a trend in the upper body.

### 1.2 Related research

Wang and Qiu analyzed the business model of Starbucks from the aspects of corporate management and industry development research. The author pointed out that the core of Starbucks was customer-oriented, and they provided flexible strategies for different consumer groups with different demands. The store environment, service experience and exquisite products left a good impression of high quality on customers. In addition, Starbucks had also entered customers' daily lives through fidelity cards, social media and mobile apps [1]. Although it was a successful business model, some risks still existed. Since Starbucks' prices were much higher than those of its competitors, and it also had tax evasion in the U.K. in the early years that push the stock of the company to collapse [1]. Thus, the author suggested that Starbucks should have an evaluation and estimation of risks in advance. Lee indicated that Starbucks had a successful digital transformation process. Starbucks created value for customers and enterprise management through the application of big data,

personalized service, omnichannel marketing, mobile payment commercialization and other technologies. The author suggested that companies must cultivate a digital mindset and learn how to align digital technologies with the core values of the enterprise to achieve sustainable business goals[2].

Yue et al. took McDonald's and Starbucks as cases and compared their 4Ps model and corporate financial data to study the impact of the corporate operation model and franchise model on enterprises. Starbucks' control over franchisees extends to the entire business model, where the company helps franchisees with design, menus, equipment, training, and store location[3]. Ultimately, the author concluded that for Starbucks' expansion strategy in different market segments, as well as the marketing mix and target audience of the two companies, franchising was more conducive to the pursuit of expansion speed and cost reduction. Liu et al. used the collected secondary data and literature analysis to study the "Third Space" marketing strategy of Starbucks. This unique marketing approach, such as visual experience, emotional experience and olfactory experience, gave customers a sense of superiority and belonging when they bought coffee and enjoyed services. Customers promoted the emotional experience to their friends, which also reduced the cost of advertising[4]. In addition, a high-quality service experience can increase customer loyalty. Therefore, the author points out that the "Third Space" marketing of Starbucks has greatly enhanced the customers' awareness and influence of the brand.

Hidayah et al. explored how Starbucks kept improving to ensure its brand's competitive edge. The findings underscored Starbucks' focus on selling coffee beans and using high-quality equipment. Customers were impressed by the equipment and the sophisticated methods used to make coffee[5]. In addition, Starbucks dominated the coffee market by designing a culture of warmth and belonging. Therefore, Starbucks had a strong position in the global coffee market. Lombardia et al. adopted a review method to analyze the strategic marketing of Starbucks during the epidemic. The authors suggested that Starbucks Coffee shall increase product distribution, expand pickup and delivery services, and utilize its wide range of promotional media to optimize brand positioning in the context of the pandemic [6]. Voigt et al. explored the business model of Starbucks through the selection of case studies, and the analysis of competitors and the industry. The company managed to dramatically expand its customer base from its initial niche of coffee connoisseurs and transform ordinary people into coffee lovers, which were willing to pay above-average prices[7]. The authors emphasized that Starbucks' massive expansion was a shift toward serving the mass market.

Munifa used qualitative research methods and data collection techniques to explore the relationship between Starbucks and customers under the epidemic situation through interviews and literature research. Starbucks had successfully attracted the attention of Starbucks card users by offering rewards and coupons through social media such as Line and Instagram [8]. In addition, the design of Starbucks cards was constantly updated as the season's changed. Thus, Starbucks successfully implemented the customer relationship management strategy to maintain customer loyalty. Chua and Banerjee use both case study and netnography to analyze Starbucks' customer knowledge management and the conclusion is Starbucks which depends on a traditional bricks-and-mortar business model utilizes the rise of social media to combine CKM with it, which improves Starbucks' business model of the physical store and attract more customers to enhance company performance [9]. Paul et al. focus on Starbucks' rapid expansion in Australia and the rapid shut in 2008. They analyze several reasons for this phenomenon, such as the decline in services level and the competitive market of the coffee supply chain, which can be summarized as Starbucks' business model is unsustainable at that time. They suggest Starbucks should set a sustainable business model by establishing differential advantages or other ways [10].

### 1.3 Objective

This article will evaluate Starbucks' changes in its business model. After reviewing and summarizing the previous essays and research findings, the development of Starbucks will be first analyzed to offer a timeline of Starbucks and shows the key point of times when Starbucks decided

to change the business. Then, based on these key years' analysis of the financial statement, Starbucks' financial situation will be evaluated. Moreover, the positive and negative influences of Starbucks' financial policies will be discussed at the same time. Finally, according to these findings, suggestions will be provided to those transnational corporations like Starbucks to guide their operation and strategies.

## 2. Development of Starbucks

Starbucks' first store was established in 1971 in Seattle's Pike Place Market. At that time, Starbucks sold coffee beans, tea, and spices in the store. In 1982, Starbucks then provided coffee to fine restaurants and espresso bars due to the joining of Howard Schultz. This expanded Starbucks' targeted customers from ordinary people to restaurants and bars. After one year, Howard Schultz traveled to Milan and was inspired by the coffeehouse culture in that city, so he decided to bring this culture to America. In 1984, the coffee concept was tested in the first store and gained a good response. From 1988 to 1995, Starbucks expanded its coffee stores quickly, which increased from 84 stores to 677 stores. This kept pace with the growth of the American economy. In this period, the growth rate of real GDP increased from 0.02% to 0.08%, which showed a rise in customers' spending power.

From 1995 to 2008, Starbucks kept expanding the number of coffee stores and made up the market share of the coffee chain industry. The quantity of Starbucks increased from 667 to 16680. The growth rate is quite fast. At the same time, the American economy was stable, which provided a good environment for Starbucks' development.

However, because of the financial crisis in 2008, the number of Starbucks' coffee stores declined by 45 from 2008 to 2009. In addition, before 2008, Starbucks maintain operating the traditional brick-and-mortar business model. However, in 2008, Starbucks set up its social media presence. Starbucks' first online community was also established at that time. This showed that Starbucks pays attention to the online channel. In addition, Starbucks developed their app in 2019, which means that they kept the traditional brick-and-mortar business model as the main business while they tried to develop the online business.

From 2009 to 2019, Starbucks maintained its expanding strategy and try to open its first store in other countries. The number of the coffee store increased rapidly. The global economy was recovering from the financial crisis and Consumer purchasing power picked up. In addition, because the public showed increasing attention to the environmental issue and corporate social responsibility, Starbucks began operating 'greener stores'.

In 2020, the pandemic of COVID-19 make a serious impact on the global economy. Although in that year Starbucks closed many stores, the net number of the coffee store still kept increasing, which was from 31795 to 32938.

## 3. Fundamental analysis Based on the key years

This paper chose two representative years, namely the financial crisis in 2008 and the epidemic in 2020, to analyze the business model of Starbucks.

### 3.1 2007~2010

In the past few years, due to the economic downturn, Starbucks had adopted different technologies to maintain its position in the market. The company continued to expand its stores, provided customers with free Wi-Fi and high-quality services, and introduced the new concept of third space, which brought great benefits to the company and attracted a large number of customers. However, the financial crisis of 2008 year in the United States affected all commercial sectors in the country and resulted in Starbucks having to close a large number of stores in America. According to the chart below, the ratio analysis of Starbucks from 2007 to 2008 was used to describe the financial performance of Starbucks in the last few years.

**Table 1.** 2007-2010 Financial Ratio Analysis (%)

| Year | Current ratio | Quick ratio | Receivable turnover | Inventory turnover | Net profit margin | Return on equity |
|------|---------------|-------------|---------------------|--------------------|-------------------|------------------|
| 2007 | 0.79          | 0.47        | 36.75               | 1.00               | 7.10              | 29.91            |
| 2008 | 0.80          | 0.46        | 33.63               | 0.98               | 3.04              | 13.21            |
| 2009 | 1.29          | 0.86        | 36.07               | 0.90               | 4.00              | 14.21            |
| 2010 | 1.55          | 0.96        | 35.37               | 1.28               | 8.83              | 25.75            |

The current ratio of Starbucks in 2007 and 2008 was similar, which was 0.79 and 0.80. In addition, its quick ratio was 0.46 and 0.46, respectively. This showed that the company's capital liquidity in the past two years was poor and the ability to repay debt in the short term was also weak. In the following two years, Starbucks' current ratio and quick ratio showed an upward trend, which indicated that Starbucks' ability to repay liability in the short term had improved.

The receivable turnover of Starbucks was relatively stable. Except for the ratio of 33.63 in 2008, the average account receivable turnover ratio for the other three years is 36.04. Starbucks was a cash-direct transaction enterprise, so customers' timely payment and the rate of fund recovery were also fast. The inventory turnover ratio of Starbucks in 2008 and 2009 was 0.98 and 0.90, respectively, which indicated that the sales situation of Starbucks in these two years was relatively poor. There were a lot of inventories. Whereas, the company's inventory turnover ratio in 2007 and 2010 increased to about 1, which indicated that Starbucks had a fast inventory turnover and good sales performance.

In 2007, Starbucks' net profit margin fell from 7.10 to 3.04 due to the financial crisis. Then, as the economy slowly recovered, its net profit margin began to increase, rising to 8.83 in 2010. Return on equity was the best indicator to comprehensively evaluate the profitability of an enterprise. Starbucks had great profitability in 2007 and 2010, with ROE values of 29.91 and 25.75, respectively. However, due to the economic recession of 2008, the value of the company's ROE was only 13.21.

### 3.2 2018~2021

Starbucks maintained its expanding strategy from 2018 to 2021. In this period, they still put the traditional brick-and-mortar business model as the main business.

Although COVID-19 influenced the global economy, Starbucks kept expanding both the local market and the international market. Although in that year Starbucks closed many stores, the net number of the coffee store still keeps increasing, which is from 29324 to 31625.

However, Starbucks' revenue decreased from 26508 million to 23518 million. COVID-19 led to the reduction of household consumption capacity. In addition, because of the pandemic and economic fluctuation, Starbucks used short-term debt in 2020. This changed Starbucks' previous financing methods, which preferred long-term debt rather than short-term debt and equity.

The current ratio and quick ratio of Starbucks remained stable for four years. What could have been seen was that from 2018 to 2021, the current liabilities overcame the current asset, which may have a liquidity problem. Therefore, Starbucks was improving its ability to pay its day-to-day expenses. At the same time, the liability to asset ratio of Starbucks was very high, which showed that Starbucks owned too much long-term debt. Starbucks was facing the risk of financial distress and bankruptcy. Starbucks should change its way of financing to achieve a stable and sustainable business model.

In addition, Starbucks continued improving its online business. They tried to improve digital adoption. For example, in China, they develop Starbucks Now™ stores which can integrate both physical and digital customer touchpoints. Meanwhile, customers can place the order in advance through the online App or Starbucks Delivers™. This is more convenient for customers to pick the productions they order because they do not need to line up to wait during the period of COVID-19.

**Table 2.**2018~2021 financial ratio analysis (%)

| Year | Current ratio | Quick ratio | Liability-asset ratio |
|------|---------------|-------------|-----------------------|
| 2018 | 0.83          | 0.62        | 130.19%               |
| 2019 | 0.83          | 0.62        | 130.19%               |
| 2020 | 0.84          | 0.59        | 130.75%               |
| 2021 | 0.84          | 0.59        | 130.75%               |

## 4. Inspirations to other multinational companies

### 4.1 The strategic decisions Starbucks made in 2008 have implications for other multinationals

From 2000 to 2008, Starbucks expanded blindly, ignoring core products and in-store losses, which resulted in corporate growth decline year by year. In 2008, after the full outbreak of the financial crisis, the capital market and the retail industry suffered an unprecedented shock. In the face of such a dramatic change, Starbucks' main figure Howard Schultz began to overhaul the management and implement major changes in strategy. These series of transformation measures in the following years also had a good response. For example, in 2008, Starbucks cut a large number of directly operated stores and slowed down the expansion of franchise stores. The reduction in the number of stores led to a significant increase in same-store growth. Same-store growth in global and North America was -6% in 2009 and 7% in 2010. In addition, Starbucks refocused on product quality and customer experience. In 2008, Starbucks was committed to product innovation, introduced new flavors of coffee beans and instant coffee lines, and added new types of meals. Besides, the emotional connection between brands and customers was also strengthened by bringing the unique in-store experience to customers. Starbucks believed that good employee management and incentive mechanisms were the basis for improving customer experience. Therefore, Starbucks' welfare and management of employees were worth learning for multinational enterprises. Within Starbucks, every employee, whether full-time or part-time, had access to a range of compensation and benefits programs, such as stock incentive plans, housing allowances, health insurance, and even benefits for parents and family.

Thus, through the analysis of the strategic decisions made by Starbucks in 2008, other multinational companies could get these inspirations: First, multinational companies should not greatly expand their stores for the sake of profit or marketing volume, thereby ignoring product innovation and customer experience. They could conduct market research on customer needs and changing tastes to develop new products and improve customer satisfaction. Secondly, multinational companies should provide employees with appropriate reward mechanisms or welfare plans. Good employee management and incentive mechanism would improve employees' corporate identity and work enthusiasm.

### 4.2 The strategic decisions Starbucks made in 2020 have implications for other multinationals

Starbucks keeps expanding the number of coffee stores in several countries markets. Except for 2020 which was influenced by COVID-19, the revenue of Starbucks kept positive growth from 2018~2021. In addition, the working capital operating cycle remained stable which showed its operational capability. However, due to expanding strategies, Starbucks needed financing. Starbucks financed capital by issuing long-term debt, which led to the huge interest which was needed to pay each year. Other companies need to pay attention to this situation, but for Starbucks, it can cover the interest. Overall, Starbucks operated well.

The strategies which Starbucks operates as a core strategy are expanding the coffee stores and then seizing the market share of both America and other foreign countries. At the same time, Starbucks is improving its digital strategy this year. For example, in the Chinese market, Starbucks cooperates with a food delivery platform to develop an online delivery service. Meanwhile, Starbucks also set

the online flagship store on the E-commerce platform. Additionally, Starbucks also develop its online platform: "STARBUCKS" APP.

Starbucks has been analyzed. Therefore, those other transnational companies, need to learn the advantage of Starbucks and avoid its problem. Transnational companies can expand their market share positively. They can try different foreign countries to create the chance to sell the products or services to more customers. Meanwhile, they can customize specific products according to the different consumer preferences. They can pay more attention to employee training and welfare, which helps employees to integrate into corporate culture and increase their identity. Focus on Starbucks' problem, other transnational companies should consider suitable finance portfolios. A large proportion of long-term debt will cause stress on the repayment of interest, which may face the risk of bankruptcy, though long-term debt is a stable finance resource compared with short-term debt.

**Table 3.** Revenue and period analysis

| Year | Revenue | Turnover period | Holding period |
|------|---------|-----------------|----------------|
| 2018 | 7636m   | 11.98           | 20.96          |
| 2019 | 15690m  | 11.14           | 20.22          |
| 2020 | 8150m   | 11.86           | 22.38          |
| 2021 | 23840m  | 11.81           | 21.16          |

## 5. Conclusion

In conclusion, several previous articles are reviewed first. Secondly, the timeline and the key years of Starbucks' change in business are summarized which provides a picture of the development of Starbucks. Then, according to the key years' financial statements, the impacts of changing the business model are evaluated. Finally, suggestions will be given to those multi-international companies like Starbucks. From this analysis, we conclude two important periods: 2007~2010 and 2018~2021. Starbucks expanded quickly this year. Several ratios remain stable while the liquidity-asset ratio is high which needs to improve. Due to the financial crisis in 2008 and COVID-19, Starbucks closed several stores and its revenue declined. However, Starbucks recover quickly. The possible reason is their increasing market share, products and employees' training. Based on the findings, three suggestions are summarized. First, other companies can expand their market share positively. However, as expanding, they also need to take product innovation and customer experience into consideration. They can conduct market research or customize products. Meanwhile, corporates should consider suitable finance portfolios when expanding. In addition, corporates should attach importance to employees' welfare and training.

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