An Assessment of Starbucks' Profitability Through Financial and Operational Strategy

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Abstract. The market was economically weakened as a result of covid-19. Starbucks has long had a considerable market share in the coffee industry, particularly in the United States. Therefore, this article will examine Starbucks' profitability and provide insight into the aspects that influence Starbucks' profitability. Some models will be used to analyze this, including earnings per share, P/E ratio, dividend payout ratio, return on assets, operating margin, sales profit margin, fixed asset ratio, financial leverage ratio, sales to equity ratio, and expense revenue ratio. This article will use the SWOT model to analyze the internal and external influences and the strengths and weaknesses of Starbucks in the market. Based on the analysis, while Starbucks has a huge market share and a great brand image, the pricey product can be a disadvantage during economic downturns. Starbucks' new approach to expanding into new markets will help to counteract the negative image of self-erosion in its primary US coffee market due to overcrowding. This article will explain why it was decided to invest in Starbucks as a corporation. This paper will provide some insight into the operational strategy and profitability of existing competitors to companies wishing to enter the coffee market.

Keywords: Financial Statement; Profitability; ROA; SWOT; Starbucks.

1. Introduction

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Because of Covid-19, most governments have implemented preventive, restricting, and long-term measures and policies to deal with the pandemic's detrimental effects. Lockdowns and confinement, alienation to limit options and activities, and company closures all have a negative impact on communities and enterprises [1]. As a result of these circumstances, firms will face financing issues, as funding sources are exceedingly volatile [2]. Furthermore, the global containment strategies implemented by the state will disrupt the supply, sales and consumption chains of companies that would otherwise be there, resulting in a significant loss of revenue [3]. This will cause investors to lose confidence and invest less. The restaurant industry has been particularly adversely affected [4]. The restaurant industry will confront employee shortages, financial losses, liquidity issues, and forced closure regulations, all of which will add to the industry's stress in the face of the epidemic. And, as a result of the disruption in cash flow caused by the outbreak, many small enterprises were shut down. However, it must be stated that the companies that survived were those that were inventive, sustainable, and resilient. This is why entrepreneurs have had to innovate and update their strategic management and operational strategies in order to ease the pressure on their companies. This article will look at the profitability of Starbucks during the epidemic by examining a company that is typical of the restaurant industry. It will also explore how Starbucks was able to quickly recover from the crisis and return to its pre-crisis economic state. Therefore, it is particularly necessary to analyse well-run catering companies in this context.

Hence, this study will evaluate the profitability of a company that managed to gain substantial market share despite the epidemic and analyse the elements that influenced it. Because a high level of profitability can indicate the utility of management decisions on a company's economic resources and potential future changes [5], analyzing profitability ratios will give a good idea of its potential for development and viability in this industry. The paper will analyse the reasons for Starbucks' profitability and its competitive advantages from both a financial and operational perspective. This is due to the fact that excellent profitability increases a company's competitiveness while also satisfying the interests of its shareholders. This article examines the elements impacting profitability using a range of models for analysing corporate performance. These models also demonstrate the significant correlation between Starbucks' profitability as measured by return on assets and resource management. Because internal financial elements can be changed, this article focuses on the influence of changes in internal financial factors on profitability rather than concentrating on external factors that cannot be easily changed. As a result, this study can identify the financial paths that are suited for the company's growth and profitability, as well as assist in implementing management activities to increase the company's profitability.

2. Basic Descriptions of Starbucks

Starbucks opened its first store in 1971, but it only sold freshly roasted coffee beans, tea leaves, and spices at the time. Howard was inspired to bring Italian coffee culture to Starbucks in 1987, ushering in a new chapter for the café [6]. Starbucks has gradually increased public awareness of the Starbucks coffee brand by providing handcrafted, high-quality coffee. Starbucks' organisational culture is centred on uplifting and nurturing the human spirit, one person, one cup, and one neighbourhood at a time [6]. It introduced its Community Store programme in 2015, which offers venues for Starbucks partners throughout the world to connect and represent the communities they serve in unique ways. Community Stores include Sign Language Stores which empower deaf and hard of hearing people, Military Family Stores which employ and recognise service members, veterans, and their families, and International Community Stores which focus on providing economic opportunities in the community and collaborating with local charitable organisations to make an impact [7]. And thus, Starbucks will be able to recruit veterans and military spouses, refugees, opportunity youngsters, and recently incarcerated persons and help them build their futures. Starbucks has become a leader in the coffee sector, but instead of staying stagnant, it has set sustainability goals to become a resource-positive firm. It will show that they wish to save more carbon than they emit, restore more fresh water than they use, and eliminate waste. It has established a goal of reducing carbon dioxide emissions, carbon footprints, and wasted water impact in half by 2030. 100 million disease-resistant coffee trees will be distributed by Starbucks to farmers and communities by 2025 [8]. While coffee is at the heart of Starbucks, the company is continually innovating not only in the way it is ordered and prepared, but also in food, beverages, stores, and new methods to bring the Starbucks experience to customers. Starbucks' endless momentum and potential for future growth prospects will be provided by these distinct business concepts, inventive tactics, and regularly updated marketing strategies. Starbucks is a typical representative of a modern coffee shop chain, according to a complete review of its recent financial performance and business philosophy, as well as an evaluation of its profitability. It is hoped that this article will provide some insight into the operations of coffee chain companies and shed some light on prospective future Starbucks investors and lenders' future decisions.

3. Financial Statement

3.1 Analysis of Operational Strategies

Product uniqueness has been a strategy that Starbucks has maintained because it is the only way to ensure that the products it makes are unique and irreplaceable. The absence of identical substitutes is accompanied by excellent customer service, fast customer feedback, and convenient marketing venues, all of which will benefit the brand [9]. This is difficult for competitors to imitate, thus building a quality and valuable brand because of product independence. Human resource development is another significant Starbucks strategy, in which staff is highly trained and taught to follow the company's approach to dealing with problems promptly [10]. Effective issue solutions and quality service attitudes all result in an excellent customer experience, which in turn leaves a positive impression of the brand image, which leads to customer loyalty. Staff is encouraged to smile at every client and provide excellent service, such as writing the customer's name on their coffee cup to give them a sense of belonging and individuality.

3.2 Analysis of Cash Holdings

It is important to analyze the financial health of Starbucks from the cash flow statement (Table 1). The impact of Covid-19 on Starbucks in 2020 was not significant within a year. Operating and financial cash flows are both positive, while investing cash flow is negative, indicating that the business is prospering and growing. Financing cash flows were used to capitalize on growth opportunities. However, from 2021 to 2022, operating cash flow is positive while investing and financial cash flow are both negative. Starbucks is doing well during a prolonged recession, but it may not have many strong growth chances because it is using operating earnings to pay down debt and pay shareholders.

Table 1. The Cash flow Statement of Starbucks
(Data Source: Yahoo! (2023, January 18). Starbucks Corporation (SBUX) cash flow – yahoo finance – yahoo finance. Yahoo! Finance.)

	(TTM)30/09/2022	(TTM)30/09/2021	(TTM)30/09/2020	(TTM)30/09/2019
Operating cash flows	4397300000	5989100000	1597800000	5047000000
Investing cash flows	-2146300000	-319500000	-1711500000	-1010800000
Financing cash flows	-5638000000	-3651000000	1713300000	-10056900000
Net cash flow	2556000000	4519100000	114200000	3240400000

3.3 Analysis of Accounting Performance

The epidemic has continued in 2019-2022, and the market is economically challenged. So, in 2019 and 2022, Starbucks purchased back a large amount of common stock from shareholders in order to boost share price growth (Table 2). The company's stock is currently overvalued by P/E ratio (Table 3) because the price of Starbucks is higher than that of the restaurant industry.

Table 2. Common stock repurchased of Starbucks
(Data Source: Yahoo! (2023, January 18). Starbucks Corporation (SBUX) cash flow – yahoo finance – yahoo finance. Yahoo! Finance.)

	30/09/2022	30/09/2021	30/09/2020	30/09/2019
Common stock repurchased	-4013000000	0	-1698900000	-10222300000

Table 3. P/E Ratio of Starbucks
(Data Source: Yahoo! (2023, January 18). Starbucks Corporation (SBUX) cash flow – yahoo finance – yahoo finance. Yahoo! Finance.)

	Starbucks	Industry
Market capital	123.08B	
Price	106.75	
EPS	2.83	
P/E	36.23	21.25

Price of starbucks=P/E*EPS=36.23*2.83=102.5309

Price of industry=21.25*2.83=60.1375

Price of Starbucks>Price of industry

To evaluate earnings from the perspective of the market value of listed companies, the greater the earnings per share index, the better the performance. Earnings per share of 2.83 represent Starbucks' average earnings per common share throughout the fiscal year. The market's anticipation of Starbucks' growth is reflected in the 36.23 P/E ratio, and the higher the metric, the more bullish the market is about Starbucks. As a result, the higher the P/E ratio figure, the more costly the company is in comparison to its most recent earnings. This could also imply that people expect their income to rise in the future. The dividend payout ratio of 69.26%, which shows Starbucks' dividend distribution strategy, and the dividend cover multiple of the inverse of this indicator show that the company has an extraordinarily high dividend payout capacity. Return on total assets is regarded to incorporate all influencing variables of asset management and is a significant indication for enhancing a company's performance; it also determines the company's economic growth potential [11]. Starbucks' extraordinarily high profit-generating ability is shown in its ROA (9.36%), which is the outcome of resource productivity and efficient management. The higher the ROA statistic, the better, suggesting more profitability of the company's total assets and a higher level of investor protection. Starbucks' ability to make a return on capital invested reflects the ability of the corporation to satisfy long-term financing suppliers and attract future capital providers, according to an analysis of asset profitability.

Table 4. Ratio of Starbucks
(Data Source: Yahoo! (2023, January 18). Starbucks Corporation (SBUX) cash flow – yahoo finance – yahoo finance. Yahoo! Finance.)

	18/01/2023	Formula
Earnings per share (ttm)	2.83	=net income/share number
P/E ratio	36.23	=latest closing price/ EPS
Dividend payout ratio	69.26%	=dividends per share/earnings per share
Return on assets (ttm)	9.36%	=net income/total asset
Operating margin (ttm)	13.78%	=operating profit/sale
Sales profit margin	10.18%	=profit/sale
Fixed assets ratio	74.9%	=fixed assets /total assets
Financial leverage ratio	1.73	=total debt /total shareholder equity
Sales to equity ratio	1.17	=net sales / total shareholders equity
Expenses revenue ratio	88.98%	=operating costs /operating income

Operating margins of 13.78% suggest a high level of profitability from typical company activities, while sales margins of 10.18% indicate a high level of overall profitability. A greater profit margin indicates a more profitable sales business. Starbucks has maintained sustained profitability throughout time by utilizing advanced technology, product design principles, economies of scale, and scientific cost management tactics to cut costs. The fixed asset ratio shows the fraction of assets permanently disposed of by the company for its operations, as well as the amount of money invested in manufacturing and technological facilities [12]. If this indication was less than 50%, it would imply an increase in working capital efficiency and the prospect of actively expanding the company, but Starbucks has the opposite, with a high of 74.9%. The financial leverage ratio of 1.73 gives a precise representation of how Starbucks is funded. It is expressed as a ratio of debt to own capital. Obtaining an effective finance structure connection implies that Starbucks' investors indirectly raise equity in terms of future growth [13]. The sales-to-equity ratio of 1.17 indicate that the company used its capital to generate sales. An increase in this indicator in a dynamic setting usually indicates a positive aspect,

i. e. discloses better management of own capital utilised in the activity and an increase in their efficiency. The Expenses Revenue Ratio connects expenses to revenues and demonstrates Starbucks' efficiency in reducing costs. The increase in this ratio from 80.17% in 2021 to 88.98% in 2022 suggests no significant improvement in resource management and a smaller improvement in economic performance (Table 4).

4. Marketing

4.1 Analysis of the Industry

Starbucks already has over 34,000 stores in 84 countries [14] and will maintain a 42.6% market share in the United States by 2020, even if the country experiences a Covid-19 recession (Fig.1). While Starbucks has a monopoly-first market share, with two-thirds of the market share of its next closest competitor. Starbucks is the market leader in terms of market share, visits, and brand affinity. Starbucks is also the most trusted brand among consumers, placing 51st in the world's top brands in 2022, with a current brand value of $14,050 million, up 8% from last year (Fig. 2).

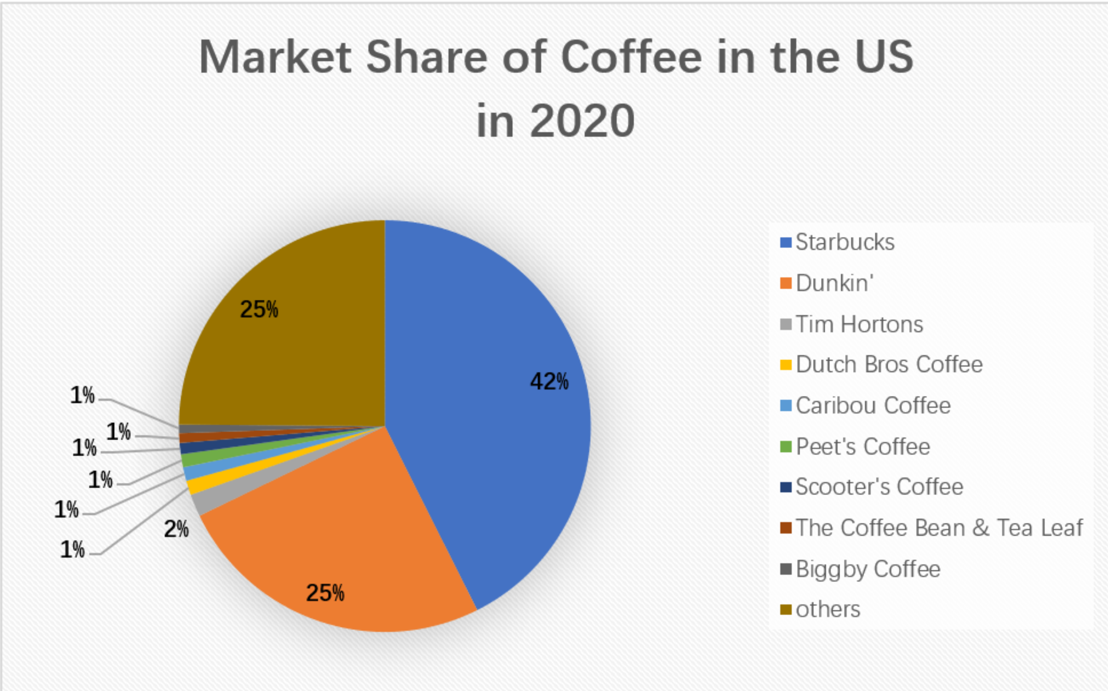

Figure 1. Coffee Market Share in the US in 2020(Photo credit: Original)

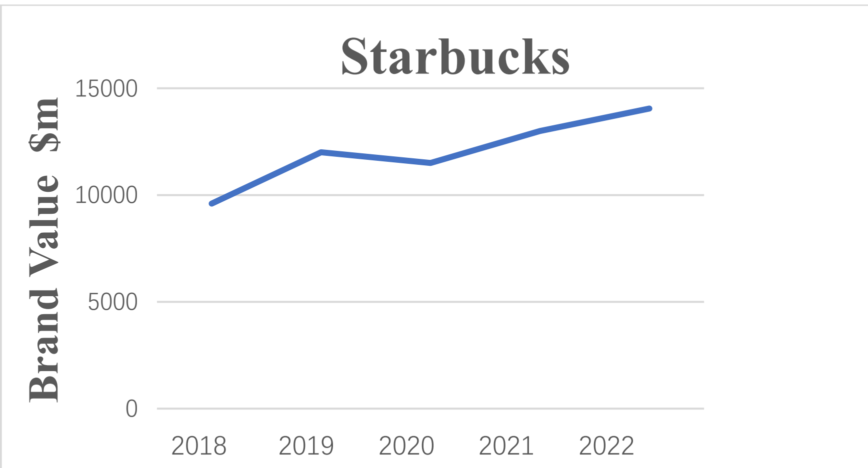

Figure 2. Starbucks' Brand Value from 2018 to 2022(Photo credit: Original)

4.2 SWOT Analysis Methodology

4.2.1 Strengths

Large Market share and good brand image: Starbucks has used its brand position to achieve a major competitive edge in future worldwide expansion by targeting Latino, African-American, and Asian-American customers in particular [6]. It also realises enormous economies of scale through efficient distribution channels and supplier connections.

High quality of products: Starbucks focuses the greatest emphasis on product quality. Experts thoroughly examine the coffee beans that Starbucks brings to market. They are quite picky about their coffee, from the kind to the origin to the grain shape. Every aspect is held to a high quality. They've also built their growing facility just for this reason.

Locations and environment of stores: Starbucks locations are generally positioned in shopping malls, office buildings, and university campuses, where there will be a huge number of potential consumers and foot traffic, allowing for high sales. Starbucks seeks to build a "third home" that is apart from home and work in order to provide a comfortable place for customers to consume its products [15]. It can create a relaxing setting and is an excellent choice for certain persons searching for a quiet place to study or work.

Digital Starbucks: Starbucks is using Starbucks Connect technology to improve its digital Starbucks experience, as it has already had good success in the US market, where digital orders already account for 25% of total sales [6]. The app will be used by Starbucks to boost consumer relevance and mobile order growth. Starbucks is preparing to use digital Starbucks on a broad scale in order to meet rising customer demand.

Leading sustainability: Starbucks is committed to being a resource-positive company, actively using resources and giving back more to the planet than we take. By 2030, the company's carbon, water, and waste footprints will have been cut in half [14].

4.2.2 Weaknesses

The expensive product: the high price of coffee is a fatal defect as the coffee shop sector is very competitive. High prices restrict the intended demographic and decrease sales. This is especially true during economic downturns when consumers are forced to switch to lower-cost competitors rather than pay a premium for their products.

Negative image: Starbucks has locations in several countries, and the effects of inadequate supervision at one of these locations will harm the overall brand.

4.2.3 Opportunities

Innovation: Starbucks has reconfigured its cold beverage stations to shorten the time and processes required to prepare cold beverages. It employs the Clover Vertica™equipment to boost the efficiency of making coffee per employee to improve daily sales, as the device only takes 30 seconds to prepare a cup of coffee [6]. Starbucks is also expanding its drive-through restaurants and "purpose-built" stores, such as delivery-only and curbside pick-up locations. Furthermore, this new design approach and shop opening strategy will be more in keeping with the quick pace of modern youth life, catering to a larger target demographic and increasing consumer demand. Starbucks will also promote a new generation of Starbucks coffee art, which will deliver warmth and brand connection with hand-crafted graphics that anticipate the brand while maintaining a modern flair.

Expand the new market: Starbucks is becoming more reliant on the US market for its primary market share, and the increasing saturation of the US market has made overseas expansion even more vital. Starbucks is rapidly extending to earn a market share in new areas by capitalizing on global shop expansion possibilities. Expanding its global network, the company intends to have 45,000 stores by the end of 2025 (up from over 35,000 presently) and 55,000 stores by 2030[6].

4.2.4 Threats

Self-encroachment due to overcrowding [9]: Over a one-year period, US coffee chain sales climb by 10% from 2021 to 2022, approaching pre-pandemic levels [16]. As a result, a huge number of competitors will enter the coffee market, and congestion will allow aggressive expansion and high saturation to result in cannibalization, lowering Starbucks' long-term growth ambitions. Because the United States is Starbucks' primary sales market, this scenario has had a considerable negative influence on it.

Price volatility: Starbucks has no control over or precise prediction of the worldwide market price of coffee beans for sale. As a result, Starbucks may find itself in a reactive predicament.

Change of taste: Starbucks' future is jeopardized by changing consumer tastes and lifestyle choices, as well as the risk that coffee culture is just a fad.

5. Discussion

According to the cash flow statement, during the epidemic, Starbucks purchased a large number of ordinary shares from shareholders in order to increase the share price. This strategy was quite helpful in relieving Starbucks' strain to seek funding for the following round. Influential shareholders are also likely to have benefited considerably from the repurchase and would have invested more. When analyzing a company's profitability, ROA is critically essential. It is thought to include all of the influencing variables of asset management and is a critical indicator for enhancing a company's performance. As a result, a high ROA indicator demonstrates that Starbucks has great potential for economic growth. Starbucks' total asset profitability is also an indirect indication that Starbucks can allow investors to take less risk. As a result, it demonstrates that Starbucks can better control and more efficiently utilise the capital used in its operation. Starbucks had a strong recovery capability and used digital sales to improve the profitability of its original sales during the late epidemic. The fact that Starbucks has a majority market share in sales over the long term demonstrates the strong sales profitability of Starbucks as it continues to deliver high margins consistently over time.

Starbucks has developed a variety of creative programmes and policies in response to changing societal requirements. Starbucks cold beverage stations, drive-through restaurants and curbside pick-up shops will all create a new generation of Starbucks style and culture. This will help Starbucks expand consumer demand to increase sales and quickly capture new market share. Nowadays, more people are conscious of the environment and the need to conserve the earth's resources, and operators are more concerned about sustainable development strategies. So, Starbucks' eco-friendly operation concept will become a major trend and will have a strong brand loyalty and brand image in the future. Its brand value will be significantly increased in the future.

6. Conclusion

Starbucks has an irreplaceable business philosophy and an innovative marketing technique that has helped the company maintain its position as a global coffee industry leader. Based on an evaluation of operational strategy, cash holdings analysis, and accounting performance, Starbucks has a strong potential for economic growth, resource productivity, and efficient management. It can also improve a company's competitiveness and meet its shareholders' needs. Starbucks' profitability is examined in this research using financial statements and current strategy. It examines Starbucks' profitability and ability to expand its economic potential this year through the use of various models such as ROA, EPS, and P/E ratio, highlighting numerous critical variables. Furthermore, Starbucks has become the world's most recognizable brand by continuously innovating and reforming in response to the needs of modern society in order to maintain its long-term strategic objectives, which are based on an analysis of the internal and external competitive environments, as well as the strengths and weaknesses of the competitive conditions.

This article uses a limited number of models to analyse the market and industry context of Starbucks. There are many ratios to analyse profitability, but this paper only uses a restricted range of ratios to analyse the profitability and growth potential of Starbucks, more detailed and comprehensive analysis would be possible if more models were used. Furthermore, Covid-19 will soon be over and Starbucks will quickly change other policies to increase sales and meet the needs of modern society to cater to the market. Starbucks will also quickly introduce new strategies to prevent the negative effects of a major economic downturn such as the epidemic by preparing in advance to minimize financial losses and avoid capital shortfalls. Hence, it is worth analyzing the new operational strategies and profitability that Starbucks will use in the future to cope with a period of renewed economic growth. This will provide useful insights for the restaurant industry and help other companies to bring new thinking and insights.

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