Analysis of Starbucks' Financial Strategy and Operational Strategy

Yinuo Wang*

University of Dundee, Dundee, United Kingdom

*Corresponding author: 2562038@dundee.ac.uk

Abstract. People increasingly appreciate drinking coffee as a hobby due to the success of coffee goods. Numerous coffee brands have devoted followers. Starbucks, a major player in the coffee industry, is one of the brands that many consumers favor over others. Despite experiencing ups and downs throughout its history, Starbucks is still expanding. Many people have been interested in Starbucks' expansion and detailed numbers, yet it is challenging to summarize Starbucks' growth in detail. This article will analyze Starbucks' unique developments and then offer suggestions using the company's financial and market analyses and the SWOT, PEST, and Porter's Five Forces analysis models. According to the report, Starbucks' total sales and net income increased significantly between 2022 and 2021. Besides, the cash flow from financing activities decreased after the corporation sold its assets in 2022. What is more, in 2022, Starbucks employs an ambitious growth strategy, and its strong brand image gives Starbucks a significant advantage. However, Starbucks also faces other obstacles to its expansion, including a shift in consumer attitudes toward DIY projects and the proliferation of rival retailers, which will present substantial difficulties for Starbucks in the future.

Keywords: Starbucks; Balance sheet; Marketing Strategy.

1. Introduction

During the Great Voyage in the late 16th century, coffee became a prestige symbol and traveled the world with explorers [1]. Starbucks is always mentioned whenever someone brings up coffee in the twenty-first century. Starbucks has a strong history as a coffee company, and its growth rates have always attracted attention. Starbucks has competent management and a broad selection of goods. His idea of developing a casual public space in addition to homes and businesses has dominated the market [2]. Starbucks was able to return $12 billion to shareholders in 2019, an increase of $3.1 billion from 2018 [3] demonstrating the excellent benefits Starbucks can offer to investors and is one of the reasons why Starbucks investors picked Starbucks. But is Starbucks, as perceived by the general public, growing financially and already holding the top spot in the coffee industry? The author evaluates Starbucks' operational and financial strategies using its annual reports and current theoretical models and then offers suggestions for future changes. Based on the data, Starbucks' performance has greatly improved since 2021, and it has successfully implemented its new strategy in light of the current epidemic. However, Starbucks has also been hindered by other emerging products and the unpredictability of political variables.

The classic Moby Dick by Herman Melville, which has a dynamic first officer who enjoys coffee, is where the moniker Starbucks initially appeared. Starbucks is a worldwide American corporation with its headquarters in Seattle, Washington, in the United States. Starbucks launched its first store in 1971. Schultz decided to enter the coffee industry after becoming interested in espresso and coffee blends on a surprise work trip. When Starbucks first opened, it only offered coffee beans for sale. Starbucks made a qualitative transition from product to atmosphere under Schultz's direction, building the Starbucks economic empire in the process. Starbucks saw a tremendous expansion under Schultz's direction, expanding from fewer than 20 to more than 100 outlets in just four years [4]. Starbucks went public in 1992 as a result of the expansion. More than 32,000 Starbucks shops existed by the end of 2022.

The COVID-19 outbreak in 2019 necessitated the closure of many cafes, which also impacted Starbucks: total sales fell, and many outlets were closed. To minimize the losses, Starbucks used a variety of tactics. Starbucks offers a selection of coffee beans, gourmet foods, espresso, hot and cold beverages, and business supplies [5]. Another characteristic of Starbucks is the Starbucks logo. The logo represents the company's philosophy and image. The Starbucks logo has seen four significant revisions, with the original version showing a mermaid in brown and white with a crown and two tails. The Starbucks logo's mermaid had more straight lines in the second period, but the color scheme changed to green and white. Third revisions to the Starbucks logo were made in 1992, revealing only the top half of the mermaid and leaving the green and white color scheme unchanged. Starbucks' most recent update saw the textual frills removed, a cleaner icon, and no changes to the color scheme. Starbucks, at last, discovered a logo that embodied the company's core principles without compromising its integrity [6]. Plans for Starbucks are known. At Starbucks' biennial investor day, interim CEO Howard Schultz gave an overview of the business's reinvention strategy and stated that the firm aims to have 45,000 stores worldwide by the end of 2025 and 55,000 by 2030. Between 2023 and 2025, the number of Barker stores is anticipated to rise by roughly 7% yearly, while revenue is anticipated to rise by 10% during the same time frame.

The purpose of this paper is to examine the 2022 financial information and market information of Starbucks. It also compares the strengths and weaknesses of Starbucks Corporation's development, gives examples of its drawbacks in terms of policies, and concludes with suggestions for areas where Starbucks should improve.

2. Balance sheet

The total assets of Starbucks in the year ended 2 October 2022 were 27.978 billion, which was 31.3292 billion in the year ended 2021 [7]. The assets side of the balance sheet of the firm for the year 2022 and 2021 has been exhibited in Fig. 1:

Period Ending:	2022 02/10	2021 03/10
Total Current Assets	7018.7	9756.4
Cash and Short Term Investments	3182.9	6617.9
Cash	-	-
Cash & Equivalents	2818.4	6455.7
Short Term Investments	364.5	162.2
Total Receivables, Net	1272.6	1133.1
Accounts Receivables - Trade, Net	1175.5	940
Total Inventory	2176.6	1603.9
Prepaid Expenses	311.5	253.9
Other Current Assets, Total	75.1	147.6
Total Assets	27978.4	31392.6
Property/Plant/Equipment, Total - Net	14576.1	14605.5
Property/Plant/Equipment, Total - Gross	23625.4	23064.8
Accumulated Depreciation, Total	-9049.3	-8459.3
Goodwill, Net	3283.5	3677.3
Intangibles, Net	155.9	349.9
Long Term Investments	590.3	572.9
Note Receivable - Long Term	97.1	193.1
Other Long Term Assets, Total	554.2	555.8
Other Assets, Total	3143.3	2655.4

Figure 1. Starbucks Balance Assets [7]

On the other hand, the firm's total liabilities and shareholder's equity has been exhibited in Figure 2 below:

Total Current Liabilities	9151.8	8151.4
Accounts Payable	1441.4	1211.6
Payable/Accrued	-	-
Accrued Expenses	1273.2	1326.7
Notes Payable/Short Term Debt	175	-
Current Port. of LT Debt/Capital Leases	3006.7	2250.2
Other Current liabilities, Total	3255.5	3362.9
Total Liabilities	36677.1	36707.1
Total Long Term Debt	13153.9	13618.2
Long Term Debt	13153.9	13618.2
Capital Lease Obligations	-	-
Deferred Income Tax	118.6	148.5
Minority Interest	7.9	6.7
Other Liabilities, Total	14069.9	14782.3
Total Equity	-8698.7	-5314.5
Redeemable Preferred Stock, Total	-	-
Preferred Stock - Non Redeemable, Net	-	-
Common Stock, Total	1.1	1.2
Additional Paid-In Capital	205.3	846.1
Retained Earnings (Accumulated Deficit)	-8449.8	-6315.7
Treasury Stock - Common	-	-
ESOP Debt Guarantee	-	-
Unrealized Gain (Loss)	-	1.5
Other Equity, Total	-455.3	153.9
Total Liabilities & Shareholders' Equity	27978.4	31392.6

Figure 2. Starbucks Balance Sheet Liabilities and Owner's Equity [7]

2.1 Financial Strategy Analysis

The financial analysis of Starbucks could reveal that in the year ended October 2, 2022, the firm reported a total global revenue of US$ 32.25 Billion, which was USD 29.06 billion in the year 2021 [8]. As compared to this, the net income of the firm experienced phenomenal growth during the year 2022 as the firm's total net income was US$ 3281.6 million as against USD 4199.3 million in the year 2021 [7]. Furthermore, the analysis of the firm could reveal that in the year 2022, the firm's total assets dropped down from 31.392 billion in the year 2021 to 27.878 billion in the year 2022. The firm's total liabilities for the year 2022 remained almost flat and no chances in the total liabilities of the firm have been witnessed in the year 2022 [9]. On the other hand, the firm's total equity in the year 2022 was US$ -8698.7 million, which was US$ -5314.5 million in the year 2021 [7].

2.2 Analysis of cash holdings

On the other hand, the cash flow of the firm could be analysed in terms operating, investing and financing activities. The analysis of the firm's activities in these three key areas has been exhibited in Table 1 below:

Table 1. Starbucks Summary of Cashflow Activities [9]

Period Ending (Amount in US$)	**Oct. 2, 2022**	**Oct. 3, 2021**
Cash from Operating Activities	4397.3 million	5989.1 million
Cash from Investing activities	-2146.30 million	-319.50 million
Cash from Financing Activities	-5638 million	-3651 million
Net Changes in Cash	-3637.30 million	2104.80 million

The analysis could reveal that the firm has generated lesser cash from the operating activities than what Starbucks was generating in the year 2021 [10]. On the other hand, the firm has divested its assets in the year 2022 as more assets have been converted into cash. This in turn exhibits that the firm has been using a more conservative strategy that could have increased the cash inflow of the firm [11]. On the other hand, the firm’s cash flow from financing activities has also dropped down, as the cash flow is -5638 million as compared to -3651 million in the year 2021[7].

2.3 Accounting performance analysis

The key performance of the firms in terms of the changes in profitability of Starbucks has been exhibited in Table 2:

Table 2. Starbucks major changes in the Profitability Ratios in year 2022 [9]

Changes in the Major Profitability Ratio	Percentage
Gross	26%
Operating Margin	13.78%
Net Profit Margin	10.18%

From the analysis of Table 2, one could see that in terms of profitability, the performance of Starbucks has significantly improved in the year 2022 as compared to 2021. The net profit margin, for instance, increased by 10.18%. As the entire major ratios, except ROA have significantly increased [7]. In addition, solvency ratio could be used to analyse the leverage that the firm has been using for generating profit. The key solvency ratio of the firm has been calculated and exhibited in Table 3:

Table 3. Starbucks major Solvency Ratios 2022 [9]

Major Solvency Ratio	Ratio
Quick Ratio	0.48
Current Ratio	0.77
Long- term Debt to Equity Ratio	0%
Total Debt to Equity Ratio	-273.94%

From the analysis of Starbucks solvency ratios, one could see that the firm has been enjoying a perfect position as both quick and current ratios are positive and well above to cover the short-term liabilities of the organization.

3. Marketing

3.1 Operation Strategy

Starbucks has largely captured the emerging opportunities in the global coffee industry. Particularly, as the industry is still enjoying a very high growth rate, Starbucks has been following aggressive growth strategies to capture emerging opportunities in the market [11]. This is evident from the fact that in the year 2021 has been estimated USD 115.20 billion, however, it has been projected that the industry will reach a massive 186.41, by the end of year 2029 [12]. This will result in a CAGR of 6.2% in the period 2021 to 2029. The market trends have been presented in Fig. 3 below:

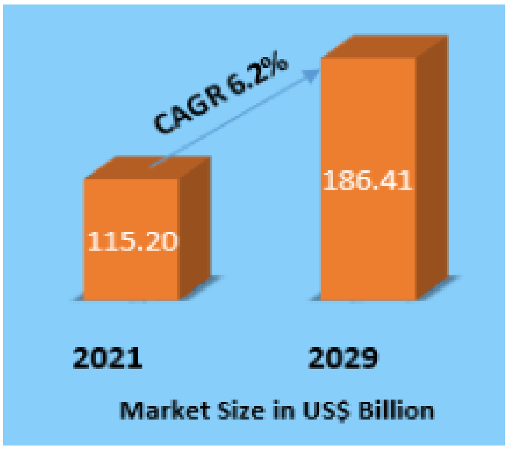

Figure 3. Global Coffee Industry Current Market Size vs. Projected Market Size [13]

Although Starbucks has been offering products in different categories within the coffee industry, the firm is known for its ready-to-drink coffee within and outside the US market. As per Statista [13] the firm held about 40.80% per cent share of the market, which makes the firm as the market leader within the market. The market share of the leading ready-to-drink coffee brand has been exhibited in Fig. 4 below:

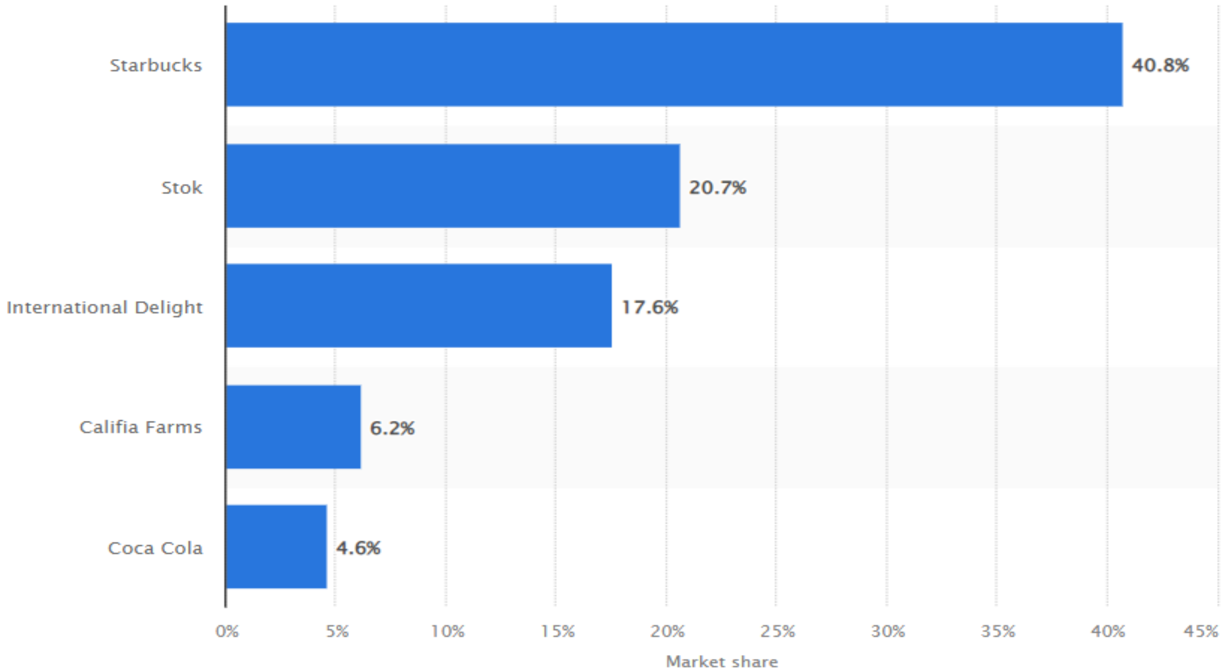

Figure 4. Market Share of the Major Ready-to-Drink Coffee Market [13]

From the analysis of Fig. 4, one could see that Starbucks has a very strong position within the market, as its market share is more than double what the next big rival, Stok possessed in the market [13]. The strong position held by Starbucks could be attributed to the fact that the firm now has operations in 83 countries of the world, whereas it has more than 35,000 licensed stores, carrying Starbucks products [10].

3.2 SWOT Analysis

A SWOT analysis of Starbucks is shown in the table 4 below.

Table 4. SWOT analysis of Starbucks

Strengths:	Weaknesses:
— Strong brand image across the world [11]. — Well-established global supply chain [9]. — Robust financial position [8]. — Strong presence in the emerging markets — Efficient internationalisation strategy [10]. — Strong employer brands attracting the best talent in the market [13].	— High prices, limiting the firm's targeting strategies [12]. — Product imitations [11]. — Engaged in tax scandals in the UK and the EU [8]. — Inability to conserve supply chain creating procurement risks [13]. — Multiple products recall [10].
Opportunities: — Internationalisation and expansion to developing countries. — New product or brand development in the medium price range — Strategic partnership and alliances with the supply chain partners. — Mergers and acquisitions.	Threats: — Emerging low-cost competitors in the market. — Global inflation and economic recession across the world. — Product imitations — Emergence of independent coffees houses across the world.

3.3 PEST analysis method

The macro environmental analysis of the firm could be analysed through the PEST analysis framework, which stands for political, economic, social, and technological analysis. The analysis of political factors may exhibit that the political factors confronting Starbucks are very challenging [11]. Due to the Russian invasion over Ukraine, the firm has already pulled out of the Russian market, where the firm was operating for the last 15 years. In addition, the political factors could also reveal that the organisation has been confronting significant supply chain issues, because of the Ukraine war, as Starbucks was using significant sourcing through the Russian market [14]. The war has significantly affected the global supply chain that was once the major strength of the firm providing it with a competitive advantage in the market [10].

The economic factors that Starbucks has been witnessing are also very challenging. Not only the consumer confidence level has been significantly affected by the ongoing economic recession at the global level, but also the mega inflation trends witnessed in different parts of the world, have been affecting consumer disposable income [12]. As a result of the drop in disposable income, an increased number of the consumers are skipping towards the low-cost coffee brands or preferring making their own coffee at home, rather than outdoor coffee [11].

On the other hand, the social factors that Starbucks has been witnessing are much opportunistic as the changes in the consumer lifestyle, witnessed in the recent past, are pushing market opportunities [12]. Not only an increased number of tea and soft-drink users are converting to coffee, but also because of the range of health-related benefits associated with coffee drinking are contributing to the growth of the industry [8]. Furthermore, the changing lifestyle patterns have been also contributing to the growth of the coffee industry. Particularly, the changes in terms of family structure have been increasingly contributing to outdoor coffee drinking [15].

The technological factors that Starbucks experienced, like the social factors, are also very opportunistic. The analysis could disclose that the growing ecommerce industry has been contributing to the growth of business as an increased number of customers these days are using the online ordering to get their coffee at their office or home address [12]. Furthermore, the social media technology has been also contributing to the growth of the market, as companies like Starbucks are leveraging the technology to develop more effective understandings of the consumer and the unique taste and quality preferences. This in turn has been leading to a more successful development of new product decisions within the organisation [8].

3.4 Porter Five Forces Analysis

Porter five forces analysis could disclose that the bargaining powers of the buyers that Starbucks experience is low. The buyers are mostly individuals, who lacked the desired concentration to influence the pricing and market performance of Starbucks in the market [12]. The power of suppliers within the industry are also low, because of the general nature of the material that Starbucks have been using and the ability of the firm to conveniently change the suppliers, if needed. On the other hand, the threats of new entrants within the market are moderate [8]. Although at the national level, significant capital and retail network development could be extremely costly, at the local levels, small and medium retail outlets could be established. The threats of substitutes in the market is high, as not only independent coffee houses pose strong threats to companies like Starbucks, but also coffee sold at fast-food outlets and other restaurants are emerging as the substitutes in the market [13]. The rivalry between existing market players within the market is also high, as the market is largely dominated by multinationals that possess economies of scale and other competitive benefits and use the same to establish their hold in the industry [12].

4. Recommendations

Based on the analysis presented in the report, there are different recommendations that could be put forward to the management of Starbucks. It is believed that by following the recommendations of the report, the firm will be able to more effectively realise its strategic goals and objectives. In this regard, it is recommended that instead of having just a premium brand, the firm should develop tier-2 and tier-3 brands in the market through which the firm could reach other segments in the market [16]. Although there are significant potentials that the firm could capture in the market, however, through the premium pricing that the firm has been using for its existing range, this has been preventing the middle and lower social class segments from buying Starbucks products [17]. Through development of new brands for the identified segments, the firm could continue enjoying opportunities in the existing segment, while the new brands could be used to target customers in the middle and lower social segment of the market [16].

The firm is recommended to show a high degree of dedication in terms of corporate social responsibilities (CSRs). Although the firm has been publishing its CSR report annually, and showing an extended range of activities that the organization has been undertaking in terms of CSR, however the analysis could reveal that issues like tax concealment and reporting of the firm’s online sales of one market in the tax heaven region has significantly influenced the firm’s CSR activities [8]. As the media in the past has been reporting such activities across the UK and EU, this has been significantly affecting the brand image and performance of the organization. It is therefore vital that the firm overcome such issues in the future.

It is recommended to the organization to work on supply chain resilience. Although the firm has been enjoying greater consistency in the past, the current global recession coupled with mega inflation has been exposing the weaknesses in its supply chain [18]. Through effective resilience activities, Starbucks could be able to enjoy more consistent performance in terms of supply chain, which in turn could ensure improved sustainability of the business enterprise [19].

5. Conclusion

This report summarises the advantages and potential risks to Starbucks' expansion by examining the data mentioned above and clarifies Starbucks' financial and operational plans. Despite being an established business, Starbucks' net income has increased significantly due to COVID-19. To boost the company's cash inflows, the company has also chosen a more cautious financial strategy. Second, Starbucks enjoys a huge market share due to the sheer volume of its stores. However, due to the shifting consumer consumption habits and the growing threat of substitute products on the market. Starbucks might expand its sales channels, penetrate new markets, and engage in corporate social responsibility. In general, Starbucks still has a lot of expansion obstacles to overcome. This article aims to analyse Starbucks to provide recommendations for the company's future growth. However, the analysis is not particularly thorough, and many pieces of information remain undiscovered. Hopefully, people will see the expansion of Starbucks Corporation's market presence in the future.

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