

A Financial Analysis and Valuation of Starbucks

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Abstract. Upon reviewing Starbucks' financial analysis, it can be seen a company poised for enduring growth, underpinned by a strategy that harmonizes customer engagement with market innovation. Starbucks leverages its market strength as a leading global coffeehouse chain despite challenges inherent in the coffee industry. As a result of the company's commitment to expansion, digital innovation, and sustainability, it is demonstrating a foresight aligned with consumer trends and market demands. With a diversified business model and a reputation for quality and ethical practices, Starbucks remains resilient to market competition. Strategic initiatives like the "Triple Shot Reinvention with Two Pumps" demonstrate the company's forward-looking approach. The company prioritizes customer satisfaction and innovation as it navigates the complexities of global expansion. As a result of this approach, as well as its prudent risk management strategy, Starbucks is well positioned to maintain its industry dominance and deliver shareholder value for many years to come.

Keywords: Starbucks, Financial Analysis, Valuation, Risk Assessment.

1. Introduction

Starbucks, a global coffee powerhouse, continues to demonstrate its market strength and operational efficiency into fiscal year 2024. According to the company's most recent earnings report, its North America segment generated \$7.1 billion in net revenues, an impressive 9% increase. Growth is driven by a 5% increase in comparable store sales, a 4% increase in average ticket prices, and a 1% increase in transactions, reflecting consumer loyalty and the adoption of premium product strategies [1].

Moreover, the brand's financial strength is substantiated by its operating income, which increased by 25% from the previous year to \$1.5 billion, with a 21.4% operating margin. In spite of balancing sales leverage with operational efficiency, Starbucks' figures demonstrate its ability to harmonize sales leverage with operational efficiency, even as it invests heavily in employee wages and benefits, part of its Reinvention plan, which aims to empower its employees and enhance customer service [1].

Starbucks' fiscal 2024 guidance reflects confidence in its business model and strategic initiatives. This company displays a strategic foresight, anticipating and capitalizing on market opportunities by estimating revenue growth between 10-12% and earnings growth of 15-20%. According to Starbucks, this financial outlook aligns with the company's long-range growth plan, known as "Triple Shot Reinvention with Two Pumps," aimed at enhancing brand experiences, strengthening digital engagement, and bolstering its global store count [2, 3].

Starbucks' goal of more than doubling its 75 million members over the next five years is a testament to the company's commitment to customer loyalty and personalized service. As well as Starbucks' intention to operate 55,000 stores worldwide by 2030, it demonstrates its commitment to a truly global footprint. Through a blend of digital innovation and traditional hospitality, Starbucks aims to make every customer interaction seamless and satisfying [2].

Aside from Starbucks' financial strength, its strategic maneuvers demonstrate a deep understanding of the market and a commitment to customer experience and innovation. With the introduction of plant-based options and specialty drinks to cater to a diverse customer palate, the company has successfully navigated a competitive landscape. Starbucks has expanded not only its physical presence but also its digital reach, as evidenced by significant investments in its app and loyalty program, which are pivotal in driving customer engagement and sales [2]. Throughout the world, millions of people have benefited from this approach to solidify its brand as an integral part of daily life. This paper will examine how these strategic layers contribute to Starbucks' financial

resilience and its ability to deliver value to shareholders as this paper unravels its financial fabric. These elements will be discussed in the subsequent sections, aiming to explain how Starbucks' strategic foresight positions the company at the forefront of the industry's financial future [1, 3].

2. SWOT Analysis

2.1. Strengths

Starbucks has a strong brand equity and a global presence that make it a strong competitor. Known worldwide, Starbucks' twin-tailed siren stands for a consistent, high-quality customer experience and premium coffee. The company uses this brand strength to support its premium pricing strategy, anchoring its position as a leader in the coffeehouse segment [4].

Consumers are becoming increasingly interested in Starbucks' commitment to sustainability and ethical sourcing practices. With various certifications like Fairtrade and Rainforest Alliance, Starbucks has been recognized for its responsible business practices. As part of Starbucks' corporate social responsibility initiatives, these certifications not only strengthen consumer trust, but also support ethical labor practices and environmental stewardship.

It is also important to note that Starbucks Rewards is a strategic asset for the company. It effectively motivates repeat patronage through rewards and individualized offerings. Consequently, Starbucks has a high customer retention rate, resulting in stable revenue streams and a loyal customer base that contribute to the brand's longevity [5].

Technology adoption and innovation in digital engagement are also strengths. The Starbucks mobile app, for example, offers convenience through mobile ordering and payment, enhancing the customer experience and increasing efficiency within the store. Starbucks can use this data to enhance marketing and improve service offerings by providing customers with this digital edge.

Starbucks' geographical diversification allows the company to mitigate risks associated with market volatility in specific regions and tap into new growth markets thanks to its global supply chain. Thousands of Starbucks outlets worldwide are able to maintain consistent product quality, as a result of the supply chain's strong reliability [4, 5].

2.2. Weaknesses

Starbucks' high price point may alienate a wider demographic of price-sensitive consumers due to its high price point. As a result of this premium pricing model, Starbucks faces challenges in price-competitive markets where lower-cost alternatives abound.

The problem of product imitation is another significant weakness. The success of Starbucks' products often inspires competitors to replicate them at lower prices. Starbucks is under pressure to constantly innovate to stay ahead of this imitation threat, which not only impacts market share but also puts pressure on them to maintain their market share.

Its multitude of global outlets presents another inherent weakness in maintaining high-quality customer service. To deliver a premium experience, the brand relies heavily on highly trained employees, particularly baristas. Customers' satisfaction and loyalty can be diluted by inconsistency in service and product quality in the retail sector.

Starbucks' product recalls also reflect a vulnerability in quality assurance that can taint the brand's image and undermine customer confidence. Recalls due to contamination risks in the past highlight the potential operational pitfalls associated with an expansive and intricate supply chain [6].

In addition, Starbucks' focus on coffee as its core offering makes it susceptible to market fluctuations in coffee prices and changes in consumer tastes. If health trends lead to a drop in coffee consumption or a shift towards alternative beverages, the company's bottom line could be significantly affected. A single commodity reliance underscores the need for product diversification to mitigate risk [4].

Starbucks must address these weaknesses as it navigates the highly competitive and constantly evolving food and beverage industry. Adapting pricing strategies, protecting against product imitation,

maintaining high customer service standards, and diversifying product offerings could strengthen the company's market position.

2.3. Opportunities

Starbucks has a golden opportunity to expand into emerging markets. With the help of countries like India, China, and Africa, the brand has the potential to grow its international footprint significantly. With a rapidly growing middle class and increasing affinity for Western brands, these markets are ripe for Starbucks' expansion. Starbucks' premium brand in these regions can drive growth and diversify its revenue streams outside of its traditional markets.

Additionally, Starbucks' diversification of its product portfolio offers a pathway to broaden its customer base by catering to local tastes and dietary preferences. Introducing health-conscious and locally inspired menu items can meet a growing global demand for healthier options, attracting a demographic that values wellness. By aligning with contemporary lifestyle trends, Starbucks not only broadens its appeal, but also enhances its market relevance.

Starbucks can differentiate itself from its competitors by leveraging technological advancements and tapping into the latest coffee trends. An enhanced Starbucks app, eco-friendly practices, and cutting-edge brewing techniques could improve the customer experience. It is also possible to explore the possibility of a coffee subscription model, which can provide a steady revenue stream and foster a stronger relationship between the brand and the customer [6].

Starbucks' convenience factor could be significantly enhanced by embracing the digital shift in consumer behavior by strengthening online sales channels. Enhancing Starbucks' accessibility through efficient online platforms and delivery services aligns with the evolving preferences of modern consumers, who value ease and speed. Starbucks' strategic move not only meets the demand for convenience but also positions the company to capture a greater share of the coffee market.

2.4. Threats

Starbucks is one of the largest players in the global coffee market, but it faces several threats that could negatively affect its long-term growth and market position. A significant challenge is the intense competition between high-end specialty coffee shops and low-cost coffee vendors. Local coffee shops that offer authentic, artisanal experiences can attract customers seeking authenticity and a break from corporate coffee chains. While fast-food chains have significantly improved their coffee offerings, offering quality products at lower prices, which appeals to consumers on a budget. To maintain its market share, Starbucks must continue to innovate and differentiate from both premium and budget competitors.

Another significant threat is the shift towards healthier and more sustainable choices by consumers. Consumers are increasingly seeking products that align with their values when it comes to health and the environment. In order to meet customer expectations, Starbucks must adapt its product lineup to include healthier options and sustainably sourced ingredients. Furthermore, changing regulations around sustainability practices could impose additional operational costs or require changes in supply chain management [6].

Starbucks' globalization exposes the company to geopolitical risks, fluctuations in foreign exchange rates, and supply chain vulnerabilities, especially in regions prone to political instability or natural disasters. External factors can disrupt operations, affect profitability, and require quick strategic adjustments to mitigate risks.

Last but not least, the ongoing effects of COVID-19 threaten the entire food and beverage industry, with future waves or similar health crises posing risks of store closures, reduced customer traffic, and shifts in consumer behavior toward online or takeout options over traditional dining. In this uncertain landscape, Starbucks must remain responsive and agile, investing in digital platforms and delivery services to meet new consumer habits that may become permanent post-pandemic.

3. Valuation

3.1. Competitive Advantages

Business Model and Revenue Streams: Starbucks' business model features company-operated stores, licensed outlets, and consumer products sold outside cafes. In addition to diversifying income, the mix of revenue streams also increases brand recognition globally. Company-operated stores provide direct control over customer experience and product quality. Consumer products in grocery stores and collaborations with companies extend brand visibility and accessibility, as well as lower operational costs, through licensed stores.

Innovation and Digital Engagement: Starbucks has been a leader in innovation, particularly in digital technology. Starbucks' mobile app, for instance, enhances convenience and drives loyalty by revolutionizing how customers order and pay. Further illustrating the company's forward-looking approach is its investment in AI and machine learning [7].

Global Expansion and Local Adaptation: Starbucks' global expansion strategy involves more than just opening more stores; it also involves adapting to different cultures and tastes around the world. Starbucks' success in China, a tea-dominant market, is a testament to its ability to cater to local preferences while maintaining its brand essence.

Financial Resilience and Growth Prospects: Over the years, Starbucks has demonstrated remarkable financial resilience, navigating economic downturns and market challenges with ease. Revenue growth, profitability, and a strong balance sheet demonstrate the company's strong financial health. Investments in Starbucks' growth areas include expanding its product portfolio to include more health-conscious and sustainable options, exploring new store formats, and expanding into new markets.

Sustainability and Corporate Social Responsibility: Starbucks' corporate social responsibility (CSR) and sustainability are integral to its brand identity and operations. With increasingly conscientious consumers, the company's commitment to ethical sourcing, reducing environmental impact, and community engagement enhances its corporate image [8].

Adapting to Changing Consumer Behaviors: Starbucks has remained relevant and grown by understanding and adapting to changing consumer behaviors. As a result of the COVID-19 pandemic, mobile ordering, contactless pickup, and delivery have become more popular. As a result of these trends, Starbucks optimized its store portfolio to focus on drive-thru and pickup locations, demonstrating its adaptability and resilience.

Starbucks' valuation reflects its comprehensive strengths across multiple dimensions, including its robust business model, innovative customer engagement, strategic global expansion, financial resilience, commitment to sustainability, and adaptability to market and consumer changes. While Starbucks faces challenges like any global enterprise, its operational efficiency and strategic initiatives position it well for continued growth and success.

3.2. Forecast

Table 1. Forecast ratios of Starbucks

Share Price	\$90.71	EPS Growth vs. Previous Year	20%
TTM P/E	25.5	NTM P/E	21.7
PEG	25.62	Revenue Growth Rate	11.46%

As Table 1 shown, the share price of \$90.71 and EPS growth of 20% over the previous year show Starbucks' strong earnings momentum. Growth stocks are likely to be attracted by this trend. This EPS growth rate could potentially accelerate in high-growth regions like Asia if Starbucks maintains its innovation pace and market expansion. Additionally, The trailing twelve months (TTM) P/E ratio is 25.5, while the next twelve months (NTM) forecast is 21.7x. This indicates that the market expects higher earnings or a more conservative valuation of the company. Long-term investors would find

Starbucks' P/E ratio attractive if it continues to decline despite Starbucks' strategic initiatives such as expanding digital platforms and product offerings.

Starbucks may currently be valued at a premium based on its growth prospects at a PEG ratio of 25.62. Based on this ratio, investors are expecting high earnings growth over the next few years. Increasing consumer demands for plant-based products, combined with Starbucks' commitment to sustainability, may further boost its growth, potentially improving its PEG ratio. Moreover, a revenue growth rate of 11.46% illustrates Starbucks' success in expanding and increasing sales. This is particularly impressive given the mature nature of the coffee market in many regions. Adapting to local markets and increasing coffee consumption globally can sustain revenue growth. This growth rate could be further boosted by Starbucks' expansion of its product lines, including cold brews and specialty beverages.

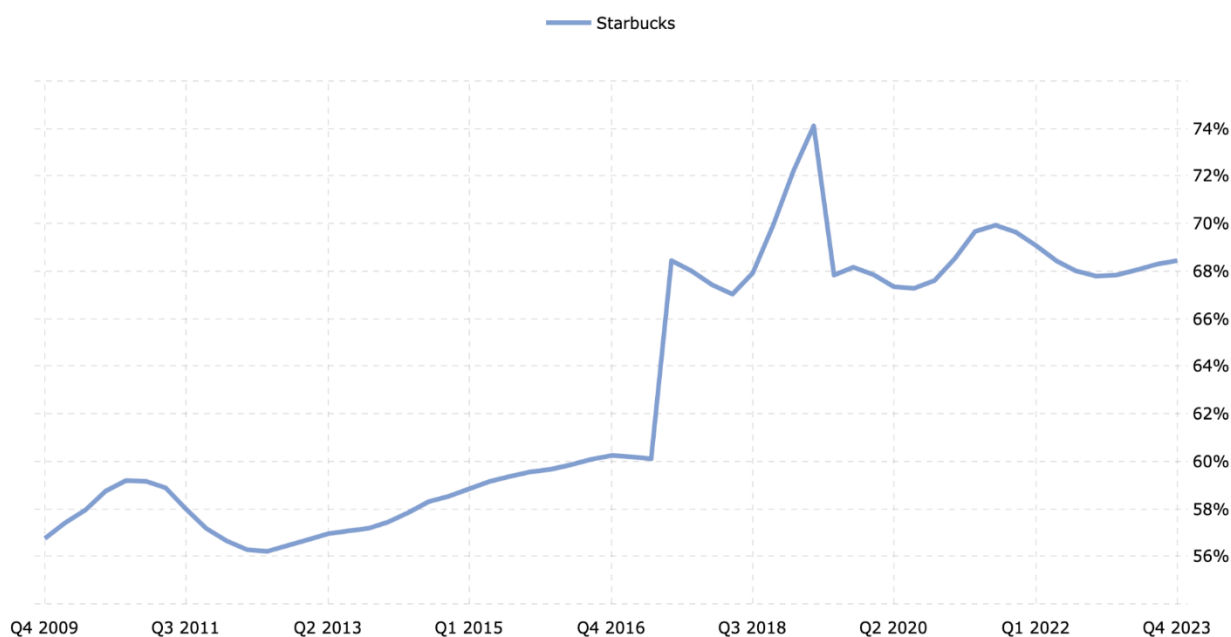


Fig. 1 Gross Margin of Starbucks from 2009Q4 to 2023Q4 [9].

Figure 1 shows Starbucks' gross margin trends, which have fluctuated but on average appear stable with a gentle upward trend in recent years. A company's gross margin can be affected by a variety of factors, including cost control, pricing strategies, and sales mix. Maintaining or improving these margins will depend on Starbucks' ability to manage its supply chain effectively and introduce high-margin products.

Starbucks' growth trajectory appears promising in the future. As the company expands its digital footprint, offers a more diverse product mix, and penetrates new markets, it is poised for success. Competition, economic uncertainty, and fluctuating commodity prices will require careful navigation, however.

Starbucks is well positioned for sustained growth if it continues to execute its strategic initiatives effectively while adapting to changing market conditions. If market conditions remain favorable, investors may see continued growth in EPS and revenue, leading to an upward trend in share prices. As long as the company maintains its earnings growth trajectory, a decrease in the P/E ratio could be an opportune time to invest. Starbucks needs to monitor gross margins closely as it scales up its operations to ensure profitability.

3.3. Risk Management

In order to manage and mitigate these risks effectively, Starbucks leverages its size and market position across its business operations and industry at large. Sustainable sourcing and close relationships with coffee farmers are key strategies, both of which are crucial due to the commodities' price volatility and the challenges that developing countries face. For a consistent supply of high-

quality Arabica beans in an industry prone to supply shortages and price fluctuations, the company pays premium prices above market rates.

Additionally, Starbucks adheres to rigorous ethical sourcing standards and supports sustainable farming practices. Not only are these efforts altruistic, but they protect the brand's reputation from activist attacks that target perceived deficiencies in human rights or environmental stewardship within its supply chain.

Starbucks uses a variety of hedging strategies to mitigate price volatility for essential inputs, such as coffee, dairy, and fuel. By using these strategies, you can manage the unpredictable nature of commodity markets and stabilize costs. Starbucks gains control over its primary input costs by entering into fixed-price and price-to-be-fixed contracts for Arabica coffee outside of the commodity market.

Additionally, the company invests in vertical integration where strategic appropriate to mitigate operational risks associated with global expansion. As part of this effort, direct acquisitions, such as La Boulange, are made to ensure consistent supply chains as well as supporting initiatives such as farmer loans and community development [10].

It hedges against foreign exchange rate fluctuations and diversifies its revenue streams to protect itself from geopolitical and macroeconomic fluctuations, especially in China and Latin America. Starbucks' strategy to maintain market dominance amidst changing consumer behaviors also includes strategic pricing adjustments and the use of digital sales platforms.

In its North American and International segments' performance, and in its Channel Development successes, the company's recent quarterly results reflect its ongoing strategies and challenges. Despite some declines, Starbucks shows a strong ability to leverage its brand and adapt strategically, such as through its Reinvention plan aimed at elevating brand experience and scaling digital capabilities. Starbucks' strategies, based on a deep understanding of the market and consumer trends, position it to continue to lead the global coffee market.

4. Conclusion

Based on the analysis, Starbucks has consistently demonstrated a robust business strategy and navigated industry risks with measured agility. Through sustainable practices, ethical sourcing, and innovative customer engagement strategies, the company has strengthened its competitive edge. With these concerted efforts, the brand's reputation has been protected as well as a resilient supply chain has been built that can withstand market volatility. With sophisticated hedging strategies for coffee prices, dairy products, and fuel, along with a diverse supply chain, Starbucks maintains consistent service and product quality across its global operations. As a result of its digital initiatives and global market expansion, the company is striving to maintain sustainable growth and adapt to the changing needs of consumers.

Starbucks must manage its growth in the future while maintaining its uniquely Starbucks experience as it commits to its "Reinvention" strategy. It will likely involve leveraging technology, expanding its global footprint, and continuing to innovate in product offerings and sustainability. Investing in supply chain resilience and vertical integration, as well as the company's risk management approach, positions it well for future challenges. Starbucks' proactive approach to corporate responsibility aligns with its growth objectives, including its investment in supplier relationships and ethical sourcing certifications. Taking into account Starbucks' operational performance and strategic foresight, it can conclude that the company is cautiously optimistic. A large market position and commitment to strategic growth and sustainability provide the company with tools for managing industry risks.

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