

Research on Financial Analysis and Development of Starbucks

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Abstract. With the gradual relaxation of epidemic control measures, the advent of the post-epidemic era has far-reaching implications for the development of the coffee industry and other service industries. This paper focuses on Starbucks' financial ratios for the past three years based on its official annual report for the fiscal year 2021, using data from both the balance sheet and income statement. By comparing the financial ratios of the past three years, the paper examines Starbucks' financial situation in terms of profitability and capital flows; and explores the value of Starbucks' development in the post-epidemic era. The paper finds that Starbucks can positively reverse its losses from the 2020 epidemic through strategic reforms such as market innovation in the post-epidemic era, with overall profitability falling within the recovery period. Based on value chain analysis and data analysis of Starbucks' 2019-2021 financial statements, this paper makes a judgment on Starbucks' profitability and provides prudent investment recommendations for Starbucks' investors.

Keywords: Coffee Industry; Value Chain Analysis; Ratio Analysis.

1. Introduction

1.1. Background

Over the past three years, the emergence of COVID-19 had a significant impact on the development of the service industry. After a three-year cushion, the global market entered the post-epidemic era. Founded in 1971 and listed on the NASDAQ in New York in 1992, Starbucks was the world's first coffee world chain. As the leader of the coffee industry, Starbucks has a large group of potential investors. In the post-epidemic era, the government's control measures for the epidemic are different. For Starbucks investors, the results of financial ratio calculations and analysis are an important way to understand the value of Starbucks' growth within a differentially controlled international market.

As of October 28, 2021, Starbucks has delivered a perfect "results report" for investors. The annual report for the fiscal year 2021 shows that Starbucks generated revenue of US\$29,061 million and net profit after tax of US\$4.2 billion, which is the highest in the past three years. Contrary to these excellent results, Starbucks' debt is still greater than the total value of its assets and it is in an insolvent position.

With performance and financials at odds with each other, what is the direction of Starbucks' overall growth and financial performance? How should investors make their investment decisions? This paper examines these questions through a longitudinal analysis of Starbucks' historical financial ratios.

1.2. Related research

Yiwen uses Starbucks as an example to study the effect of financial indicators on stock returns and the relationship between financial indicators and stock returns by qualitative and quantitative approaches in 2022 based on the financial data of the company. The authors discovered a negative association between the financial indicators of stock returns, as well as correlations between profitability and operating ability and solvency and stock returns that were not statistically significant. Numerous factors, including the high volume of investors on the stock market and the fact that stock

prices are influenced by numerous factors, may contribute to the weak correlation between financial indicators and stock returns, which is also the cause of the low stock returns of companies [1]. Jing focused on analyzing the impact of the opening of the Starbucks Reserve Roastery in Shanghai. The author found that consumers have high loyalty to Starbucks because of the length and depth of Starbucks' product lines. In addition, Starbucks' competitiveness is mainly reflected in its competitiveness with small coffee-planting institutions. In terms of cooperation, Starbucks and these small coffee growers benefited from each other, which reduced the suppliers' bargaining power and also affected the company's profitability. Starbucks' future development plan is based on the model of the Starbucks Reserve Roastery, attracting consumers with high-end positioning and continuous introduction of new products, to improve and maintain consumers' brand loyalty to solve the problems caused by rapid expansion [2]. In an empirical study by Bemard and Stober, which included a sample of NYSE companies, the cash flow and earnings indicator data were chosen because of their relationship to the stock price of the company. The findings indicate that, in the short term, there is a weaker correlation between stock earnings per share and stock price fluctuations than there is between business earnings per share. the connection between stock price and cash flow. On the other hand, in the long run, there is little distinction between the two [3].

Lauren Roby examines Starbucks' role in the specialty coffee industry and conducts research on Starbucks' business structure and the impact of its current business strategy on the future. The authors find that Starbucks is in a market with room for expansion and is in a superior overall position. By overcoming the effects of management and organization, Starbucks will also develop into a great role model for multinational corporations. For example, Starbucks has launched promising strategic and environmental goals in order to gain a firm foothold in the coffee industry, while controlling costs on the one hand, it also obtains coffee supplies from India and China. As a result, Starbucks may continue to grow in international markets for years to come [4]. Sholihah and Prabandari analyzed the current and future status of Starbucks in China through a quantitative SWOT approach in 2016. The authors found that Starbucks has the potential for strong consumer appeal in China, where Starbucks has given itself a strong competitive advantage through its strong brand equity such as high-quality coffee and excellent customer service. Starbucks' favorable access to its distribution network reinforces its franchise strength [5].

Liu conducted an in-depth study of Starbucks' financial statements, a comprehensive evaluation of Starbucks' corporate management capabilities, and an assessment of Starbucks' real value using fundamental analysis and a DCF model. Liu found that Starbucks has a strong competitive market position and that the company's omitted share price of US\$88.12 is significantly undervalued compared to the valuation of US\$100.6 under the DCF model, and therefore Starbucks' share price should trend positively in the future. [6]. Qu et al. conducted an extensive investigation of wealth risk management in the coffee industry under the influence of COVID-19 using data collecting and comparing methods to examine Starbucks' financial statements from the perspectives of financing capacity and liquidity risk. The authors discovered that Starbucks maintained its dominance in the coffee retail chain despite the COVID-19 outbreak and that an easing of national epidemic prevention and control regulations was positively connected with a recovery in the company's international sales profitability [7]. Alkaabi et al. evaluated Starbucks' financial status for the 2018–2019 fiscal year by performing a thorough review of the company's balance sheet and income statement, calculating financial ratios, and using data analysis. By primarily using equity financing to pay down its debt and cutting down on interest costs, Starbucks has a financial advantage, according to the authors' analysis of the leverage ratio [8].

Nair et al. used data research to examine the impact of Starbucks' marketing approaches and channels on customer purchasing behavior. The authors found that Starbucks marketing campaigns targeting consumers in different regions can increase the willingness to purchase goods from the customer's emotional perspective. Although Starbucks coffee has a high value, the high price strategy is causing the company to lose customers and the price strategy should be adjusted appropriately [9]. Shim et al. explored the determinants of customers' willingness to buy Starbucks by conducting

multiple linear regression and testing the research hypothesis. Using the method of variable analysis, the author found that healthiness, hygiene, quarantine, and ease of app users are the decisive factors that affect customers' willingness to buy coffee, and they are in direct proportion to Starbucks' sales [10].

1.3. Objective

This article is intended to provide investors with information about Starbucks' financial condition. In order to obtain information on Starbucks' competitive advantage in the industry, this paper will conduct a value chain analysis of Starbucks, which includes Starbucks' main activities and secondary activities. In addition, in order to obtain information on Starbucks' business capabilities, this article will calculate various indicators of Starbucks, such as Development indicators, Liability indicators, Profitability, and Operational Capacity. In the end, based on the above analysis results, this article will discuss Starbucks' business, investment and development value, as well as the impact of the epidemic on Starbucks, and give relevant information for investors.

2. Value Chain Analysis

2.1. Primary Activities

2.1.1 Inbound logistics

The term "inbound logistics" refers to Starbucks' choice of premium coffee beans from Latin America, Africa, and Asia. Direct shipments of green coffee beans from the field to Starbucks include the movement, storage, and eventual production of coffee. Coffee beans are packaged after being roasted.

2.1.2 Manufacturing

Even some franchised Starbucks locations operate mostly under direct management. Additionally, Starbucks owns a variety of product brands, including Evolution Fresh, Seattle's Best Coffee, and others.

2.1.3 Outbound Logistics

Coffee beverages make up the majority of Starbucks' offerings, and the coffee is brewed and distributed to customers inside the cafe. In the delivery of products, intermediaries have little function.

2.1.4 Sales and Marketing

Instead of spending money on aggressive marketing, Starbucks would rather invest in high-quality goods and excellent customer service.

2.1.5 Customer Service

Starbucks attaches great importance to customer service. In order to build customer brand loyalty and create brand value, Starbucks regards after-sales service training as an important link.

2.2. Secondary Activities

2.2.1 Administration

Starbucks' shop operations are supervised and maintained by management divisions such as the administrative, finance, and legal departments. For its international business partners, Starbucks also employs shop managers.

2.2.2 Management of human resources

Starbucks provides incentives to its staff. As part of our corporate culture, Starbucks offers its staff a wide range of training opportunities to keep them inspired and productive. A committed workforce is viewed as a crucial component of a company's success and development under Porter's value creation concept.

2.2.3 Technology

Starbucks manages the coffee brewing process according to uniform technical standards to achieve uniformity in coffee taste and quality while reducing expenses. Starbucks has also created a variety of software apps, and its coffee shops now offer free Wi-Fi, making it simple for customers to utilize them as temporary workplaces or meeting spaces. Customers have the option of placing a takeout order using a mobile APP or pre-ordering items to be picked up in-store.

2.2.4 Procurement Process

All links of the supply chain are included in this process. Starbucks sees its own coffee bean sourcing process as one of its competitive advantages because Starbucks manages all sourcing processes itself.

3. Results

In order to further adopt the method of data analysis, based on the financial statement information disclosed by Starbucks in FY2021, the authors combined the data of the past five fiscal years to calculate the Current ratio, Acid test ratio, Net profit ratio, Receivable collection period, Inventory holding period, Gearing ratio, the Percentage increase in revenue. The authors use the method of data analysis to interpret and forecast the financial position and future development trend of Starbucks in FY2021

3.1. Development indicators

As an important reference object of development indicators, the article uses a percentage increase in revenue as the measurement basis for analysis and comparison with historical financial data. The specific data are shown in table 1.

Table 1. Percentage increase in revenue

Fiscal year	Basic year	Rate of increase
2021	2020	23.57%
	2019	9.63%
2020	2019	-11.28%

In fiscal 2020, the percentage increase in revenue, and net revenue in total, declined by 11.28% compared to fiscal 2019, which, in the context of the actual social context, was a significant blow to Starbucks' revenue in the wake of the global outbreak of the New Crown epidemic. In 2021, Starbucks' net revenue is up 23.57% compared to fiscal 2020 and up 9.63% compared to fiscal 2019, with the percentage increase in revenue turning negative to positive.

3.2. Liability indicator

After data filtering, the article uses the current ratio and acid test ratio as the measurement basis to calculate and explain Starbucks' debt capacity. The calculation formula and data are presented in table 2 and table 3 respectively.

Table 2. Data formula

Current ratio	Acid test ratio
$= \frac{\text{Total current assets}}{\text{Total current liabilities}}$	$= \frac{\text{company's most short – term assets}}{\text{Total current liabilities}}$

Table 3. The current ratio and Acid test ratio

	2021	2020	2019
Current ratio	119.69%	106.26%	91.65%
Acid test ratio	100.01%	85.14%	66.86%

Looking at Starbucks' current ratios, the ratio has been increasing for three consecutive years since FY2019, from 96.65% in FY2019 to 106.26% in 2020 and 119.69% in FY2021, indicating that the company's liquidity is strengthening and its ability to repay debt is increasing, with current assets increasing faster than Current assets are increasing faster than current liabilities, and overall the trend is steadily improving, but still less than 140%. However, Starbucks' acid test ratio is 66.86%, 85.14%, and 100.01% for the three years respectively, all of which are greater than 60%. Starbucks' acid test ratio exceeds 100% in FY2021, indicating that for the first time in three years, the company's solvency has reached a situation where it can repay its current liabilities.

3.3. Profitability

Table 4 shows Starbucks' Gross profit ratio and Net profit ratio. Starbucks' Net profit ratio fell to 3.95% in 2020. But in FY2021, Starbucks' net profit ratio quickly returned to 14.45%, which is the highest level in three years. Starbucks' gross profit ratio has remained flat for the past two years, growing by about 2.5% in 2021. The overall upward trend.

Table 4. Profit margin

	2021	2020	2019
Gross profit ratio	69.93%	67.28%	67.83%
Net profit ratio	14.45%	3.95%	13.58%

3.4. Operational Capacity

Table 5 and Table 6 respectively show the formula and data of the Starbucks-related operating ratio. Starbucks' Receivable collection period for FY2021 was 11.81, the best level in three years. Inventory holding period 2020 rose to 73.59 in 2020 but returned to the normal level of 66.99 in FY2021, which is roughly the same as in 2019. The company's gearing has been on a downward trend for the second consecutive year, falling to 116.9% in FY 2021, down approximately 10% from 2020.

Table 5. Operating Ratio's Data formula

Receivable collection period	Inventory holding period	Asset-liability ratio
$\frac{\text{Accounts receivable,}}{\text{total net revenues} * 365}$	$\frac{\text{Inventories}}{\text{Product and distribution costs} * 365}$	$\frac{\text{Debt}}{\text{Total Assets}}$

Table 6. Operating Ratio

	2021	2020	2019
Receivable collection period	11.81	13.71	12.11
Inventory holding period	66.99	73.59	65.47
Asset-liability ratio	116.9%	126.6%	132.4%

4. Discussion

4.1. Financial analysis

In terms of profitability, Starbucks' profitability has improved year by year and is in a steady upward trend. Starbucks is recovering from the epidemic at a certain speed, but Starbucks' return on equity has been negative for three fiscal years, saying that Starbucks has been in a loss state.

In terms of capital, the payment period shows that Starbucks has a relatively fast capital turnover, which is beneficial to the company's economic benefits. However, the working capital cycle has significantly increased by almost 10% in 2020, suggesting that the company has encountered some difficulties during this period, which may be due to the impact of COVID-19 on the service industry. In addition, Starbucks' latest financial report shows that sales in the latest quarter hit a record high, but due to investments in stores and employees, its profits were almost halved year-on-year.

Starbucks' net profit in the fourth quarter was US\$878 million, a year-on-year decrease of about 50%. Profit margins at the company's stores have declined due to higher wages for employees, new training for workers and higher supply chain, food and material costs.

Overall, there is uncertainty in the overall business environment, but consumer demand for Starbucks beverages remains unchanged, and Starbucks' high-price strategy is still working, at least among younger customers, whose loyalty to Starbucks is quite significant and foreseeable.

4.2. Investment and development value

From the perspective of executing strategy and operations, Starbucks is on an improving trend, which is also reflected in the recovery of financial ratios in fiscal 2021. In the fiscal year 2020, Starbucks announced a restructuring plan to optimize the Starbucks store portfolio in North America, mainly through the vigorous development of new formats to better cater to customers' changing tastes and preferences. Numerous store closures, numerous reorganizations, impairments and losses are recorded in the income statement. Improvements in Starbucks' execution strategy and operations are positive for investors. On the other hand, although the net interest rate is stable at around 14%, the ROE is negative, and the negative peak of -79.03% in the fiscal year 2021 indicates that although Starbucks has a short-term rebound in the fiscal year 2020, its losses are still increasing. That's not good news for investors.

5. Conclusion

The purpose of this article is to provide investors with information about Starbucks' financial condition. This article conducts value chain analysis, indicator calculation and analysis of Starbucks in 2020 and 2021. Based on the above analysis results, this article discusses Starbucks' business, investment and development value, as well as the impact of the epidemic on Starbucks. Starbucks' profitability is on a steady upward trend and its cash turnover is relatively fast, but Starbucks has been at a loss for the past three years. From the perspective of execution strategy and operation, Starbucks is in an improvement trend. Despite the uncertainty of the overall business environment, consumers' demand for Starbucks drinks has not changed. Starbucks' sales are on the rise, and Starbucks is also vigorously developing new formats. However, due to the impact of the epidemic, the overall business environment is uncertain, and Starbucks' losses are still increasing. This is not good news for investors.

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