

# The Starbucks Crisis—External and Endogenous Pressures of Coffee Market Giants

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**Abstract:** Walking on the first floor of many shopping malls, there is almost a coffee shop called "Starbucks" near the door. It has an eye-catching signboard and a unique decoration style, attracting passers-by to rest and consume. Since 1971, Starbucks has occupied many resources and advantages in the coffee market. After nearly 50 years of growth and development, it achieved the best revenue in 2018. In March 2022, Howard Schultz, the "Father of Starbucks", served as the president of Starbucks again to deal with the impact of the epidemic on the company. Surprisingly, despite the pressure, Starbucks still achieved year-over-year revenue growth. This article describes the development of Starbucks, initially analyzes the difficulties faced by the company, and deeply analyzes the indicators and stock price of its financial statements, revealing the reasons why Starbucks has achieved continuous growth. At last, look forward to the space and future of its development.

**Keywords:** Coffee culture, Starbucks, Howard Schultz, Crisis, Brand, Competition, Challenge.

## 1. The Origin and Prevalence of Coffee

Coffee is a popular drink all over the world, and its origin is Ethiopia in Africa. However, affected by the climate and terrain, the alpine country of Ethiopia is not suitable for artificial cultivation of coffee, so coffee was later spread to Yemen, where it was the first to be planted on a large scale. Later, the Arabs took back Yemen and created the Arab Empire, and coffee naturally became a special drink unique to the Arab Empire.

At that time, people had not yet formed the concept of commercialization, and the Arabs only regarded drinking coffee as their unique privilege. Subsequently, coffee spread to Europe. At that time, Europe was developing its colonies on a large scale, so a large number of slaves provided cheap productivity for growing coffee beans. Therefore, coffee evolved into a commodity, and people in European colonial countries brought coffee cultivation to the whole world in pursuit of economic interests.

The formation of a culture is a common phenomenon based on the evolution of living habits. After the precipitation of time and the polishing of history, it has a sense of age. During the period of the Republic of China, groups of twos and threes went to cafes to drink coffee, which was a common scene in Shanghai movies in the 1930s. The original coffee entered China in the form of instant coffee, and it became a fashion symbol once with coffee mate.

Nowadays, coffee shops have become a place for socializing and leisure, and the taste of coffee is constantly changing, stimulating coffee lovers to consume. In the United States, coffee represents roughness and casualness; in France, coffee symbolizes elegance and romance; in Australia, coffee interprets leisure and style; coffee culture is rapidly rising in countries all over the world. Up to now, people's standard of coffee has been improved more and more. A cup of coffee reflects not only the flavor of coffee beans, but also the aesthetics of packaging design, which can be used as a chat after dinner.

## 2. Schultz and Starbucks

This is the timeline of the development of Starbucks Corporation. In 1971, the three founders co-founded the Starbucks Coffee Company and opened the first store in Seattle, Washington, mainly selling coffee beans and spices. In 1982, Howard Schultz joined the company as marketing director. In 1987, Schultz took the initiative to acquire Starbucks, transformed it into a chain coffee shop, and saved Starbucks from the crisis. In 1992, Starbucks completed financing and went public successfully, raising a huge amount of money for global expansion. In 1999, China's first Starbucks store was established in Beijing International Trade Center. In 2000, Starbucks' aggressive rapid expansion led to a surge in costs and a sharp decline in sales. At the same time, "Father of Starbucks" Schultz resigned as CEO. In 2008, when the financial crisis came, Schultz came forward to propose measures to streamline stores and expand rationally, realizing another transformation of the enterprise. In 2018, Schultz stepped down again. Prior to this, Starbucks' stock price had achieved a 21,000% increase, with a store coverage of more than 28,000, covering 77 countries around the world, firmly occupying the throne of the first coffee chain store. In 2021, Starbucks' profit level, sales, and transaction volume will all decline, and Starbucks will continue to face competition and pressure. In 2022, in the face of global inflation, Starbucks' net profit will drop by as much as 20 points, and the company's stock price will drop by 26.9%. Schultz will once again serve as Starbucks CEO and lead the team to reverse the bad situation.

## 3. The Multiple Pressures Starbucks Is Facing

Forbes believes: "The reason why Schultz came out again is the result of Starbucks not being able to find a successor and not being able to bear the consequences." In fact, the return of Schultz means that the company has encountered difficulties that are difficult to solve. The failure to find a CEO successor is only one of the factors. What is more urgent is

that Starbucks is currently facing a lot of pressure, and these pressures are difficult for professional managers to solve.

### 3.1. Labor Relations

In 2020, under the influence of the new crown pneumonia epidemic, the unemployment rate of Starbucks workers has risen sharply, a large number of employees have been forced to resign, and the labor shortage problem has become increasingly prominent. Prior to this, a Starbucks store stated that employees had repeatedly asked the company to increase capital investment for normal needs such as repairing equipment and enhancing benefits, but the repeated requests were fruitless. Based on such conflicts between labor and capital, in December last year, a Starbucks store in New York voted to form the first labor union, demanding double hourly wages, enhanced benefits, and shortened working hours.

In the United States, trade unions, as one of the three main bodies, are quite influential social groups. Although Starbucks' labor union movement existed when the company was founded, it has never established a formal organization. Due to the epidemic and the impact of the supply chain crisis, workers had to organize and put forward their reasonable demands.

In this regard, Starbucks has always opposed it on the grounds that it "forms a cooperative relationship with employees rather than an employment relationship" and encourages employees to communicate directly with the company. Employees at the Elmwood store demanded that Starbucks sign an agreement requiring Starbucks to "recognize the union" and "agree to cease efforts to interfere with future unions and bargain in good faith with partners to promote the principles of equity, diversity and sustainability." And Starbucks spokesman Reggie Borges responded: "Every partner is very important to us and will continue to do our best to provide customers with the best experience. At the end of December, Starbucks also proposed three times the employee salary increase plan as a countermeasure to retain employees. From this point of view, Starbucks lacks communication with employees and cannot meet workers' demands in a timely manner. As a profit body, the company needs the labor force of employees to create value. On the other hand, when the global economy is down, workers also need more friendly incentives and rewards. The two parties need to find a delicate balance relationship, so as to drive the development of the enterprise.

### 3.2. Cost pressure

In February 2022, some consumers discovered that the prices of some Starbucks drinks had been raised by 1 to 2¥. The official stated that this was the result of comprehensive consideration of operating costs and other factors. In addition, coffee brands "luckin coffee" and "Tims" have also raised prices to varying degrees. Based on the background of the epidemic, the number of offline consumers has generally decreased, the cost pressure of store rent and maintenance has only increased, and the supply cost of some materials has also increased, and Starbucks' official delivery fees are high, resulting in a decline in turnover. During the epidemic, consumers also changed their consumption concepts to varying degrees, thinking that coffee is not a necessity of life. Starbucks made up for it by fine-tuning prices to offset related economic pressures. This approach seems to be effective, but it actually ignores the problem of declining spending power of consumers during the epidemic. During the

epidemic, many people's incomes were reduced or even lost their jobs. Starbucks can be said to be "forced" to raise prices to cope with changes in supply and demand. By raising prices, passing on part of the cost to consumers and increasing revenue, the consumption of some coffee lovers can be maintained in the short term, but in the long run, it is necessary to optimize the supply chain and reduce controllable costs. It is still unknown whether the price increase can stimulate the growth of Starbucks' turnover and whether consumers will pay for the cost pressure of the enterprise.

### 3.3. Food safety issues

In November 2021, according to a reporter's report, there was a problem of falsifying the shelf life of food in a Starbucks store in Wuxi, China, that is, the remaining food materials were not discarded according to strict standards. Previously, in Starbucks' cost structure, the cost of raw materials was not high. The cost reduction in this way also. In this regard, Starbucks China expressed its deep shock, closed the store and conducted an in-depth investigation. It apologized: "In the past 22 years since entering the Chinese market, we have been committed to implementing strict food safety standards, and we firmly cannot tolerate the existence of food safety problems. Reflected problems such as poor management and poor management of stores. The average price of Starbucks' drinks is more than 40¥. It is difficult to guarantee the quality while earning high profits, which makes consumers feel disappointed. One of the challenges Starbucks faces is that there is too much room for man-made maneuverability in the store's business process, and insufficient training, punishment, and supervision.

### 3.4. Brand image issues

In February 2022, Starbucks broke the news about the expulsion of the police at the store entrance. The police were eating at that time, which did not affect its normal operation. The reason given by Starbucks for driving away the police is that it affects the brand image. Later, Starbucks China apologized and explained that "the customer felt that the presence of the police made them feel uneasy, so the clerk asked them to leave", and attributed the reason to the consumers rather than the staff, which showed Starbucks' arrogance to a certain extent. The company did not do a good job in positive publicity, but invisibly divided the class, which makes people question what kind of brand image Starbucks is creating, whether it is for the public or for itself. The impression given to consumers is that a multinational company displays such an image to the outside world, and its internal governance is also unsatisfactory. In the service industry, product quality control is of course important, but how to display the company's corporate culture is also an important aspect, which directly affects the customer's experience and impression. As we all know, customer consumption is a process of feeling the connotation of the brand. Without a good public relations team and employee training system, Starbucks' reputation will drop for a while, which will directly affect the stock price and profitability.

### 3.5. Competitors

At present, the coffee brands that are also active in the market include "Luckin Coffee", "Costa", "Tims", "85 Degrees C", etc. Among them, "Luckin Coffee" has a rapid development momentum and once surpassed Starbucks. By

the end of 2021, the total number of Luckin Coffee stores has exceeded 6,000, surpassing Starbucks and becoming China's largest chain coffee brand. At the same time, the competitors also include niche cafes that are very popular at the moment. These cafes have unique locations and decoration styles. However, it attracts many people to come to check in and take pictures, which may become one of the consumption trends of young people: they tend to favor niche online celebrity shops and novelty things, have a petty bourgeois sentiment, and do not have such high quality requirements. However, it attracts many people to come to check in and take pictures, which may become one of the consumption trends of young people: and because the price of coffee has been rising in recent years, young people are more inclined to consume cost-effective coffee products due to the pressure of living costs. Take American coffee as an example. Depending on the quality of the coffee beans, the cost can be as low as 6 yuan per catty. Popular milk tea shops such as Nayuki, Heytea, Coco and other brands are selling Americano, which results in a variety of choices for consumers. It also has a certain impact on Starbucks' sales.

Therefore, Starbucks' core competitiveness and monopoly position are now weak. How to seek stable development and stand out is a problem to be considered and resolved.

## 4. Three-year Financial Report and Stock Price Analysis

As the world's largest coffee retailer, Starbucks' main business income sources mainly include: beverages, food, and other services and products. Other services mainly lie in the "third space", that is, offline experience stores, such as "Shanghai Bakery", which provide more snacks, and the whole process of making coffee is transparent, satisfying consumers' curiosity and driving consumption. This is a new retail model for enterprises.

Starbucks occupies one-tenth of the market in China, and the industrial park is also becoming highly intelligent and automated, and has become the "innovation center" of Starbucks.

### 4.1. Operational capacity analysis

The asset turnover of the enterprise is relatively stable within three years, indicating that its operating efficiency and financing ability are relatively strong, and its industrial chain and supply chain are relatively stable. In 2021, due to its rising business costs and the expansion of its stores, it will be difficult for Starbucks to take care of the development of its supply chain for a period of time. The company's employees discovered the problem and proposed measures to solve the problem from three aspects: strengthening the division of labor in the supply chain department, optimizing the supplier evaluation system, and increasing the distribution volume. These measures have effectively reformed the supply chain, reduced some transportation costs, and optimized the supply chain while rapidly expanding the number of stores. Starbucks also pays attention to "sustainable development", effectively caters to the contemporary global sustainable development strategy, solves the problem of discarding paper cups, optimizes the welfare and management of farmers and workers, etc. These measures will help optimize the supply chain and control costs. Starbucks has faced a sharp decline in revenue and rising costs, and supply chain reform has played a big role.

### 4.2. Profitability analysis:

Compared with the indicators of the past three years, the added value of Starbucks products shows an increasing trend. Compared with other brands in the same industry such as "85°C" and "Coffee on both sides of the Strait", Starbucks' profitability is even more impressive. During decades of growth, Starbucks has invested a lot of money in the early stage to build a coffee market, exaggerate coffee culture, cultivate brand recognition, and form a brand effect. Now, by using its brand value, Starbucks can reduce the rent of stalls to less than half of that of the same industry, which is one point of profit. Moreover, Starbucks' pricing method reasonably analyzes the psychology of consumers and maximizes the subsidiary value of a cup of coffee. A cup of coffee at 30 yuan costs less than 6 yuan, but it can bring consumers a good mood through store decoration and environment. Invisibly let customers accept its "high-end" pricing, which is its second profit point. Due to the continuous update of today's consumption patterns, the management of Starbucks has proposed a pickup model. In the near future, we will see more business models dominated by convenience and efficiency. The effect of the new model will further improve profitability.

### 4.3. Analysis of solvency

Starbucks has hundreds of millions of dollars in stored-value card liabilities, and the debt ratio is relatively high. Generally speaking, Starbucks is using customers' money for production, which is equivalent to a company borrowing from customers. However, Starbucks' current ratio is lower than 2. The quick ratio is lower than 1, and the proportion of current assets is relatively small, indicating that its short-term solvency is not guaranteed, and excessive debt may occur, which will affect the flow of funds. At the same time, the low solvency will affect the bank's credit evaluation of the enterprise, which in turn will affect the financing of the enterprise. This is because most of Starbucks' current assets are coffee bean raw materials, which may result in a large hoard of inventory. Enterprises should give full play to the role of financial leverage and reduce financial risks to ensure that all debts can be repaid in full and on schedule.

### 4.4. Growth rate analysis

Starbucks revenue growth rate has increased year-on-year in three years, exceeding analyst expectations. The Starbucks Development Index is still growing. With high-quality products and services, Starbucks stimulates customer consumption; opens up the supply chain to control costs; expands the number of stores and develops sinking markets. It is worth mentioning that due to the growth of the new retail industry in recent years, Starbucks is also constantly adjusting and transforming to achieve online and offline integration and bring. At the same time, Starbucks continues to establish cooperation across industries and brands to promote win-win results. For example, it has jointly launched "STARBUCKS NOW" with Alibaba; it has cooperated with Nescafé and the beverage industry to seize more market share in China. Users a better consumption experience. In the future, Starbucks will continue to set up "STARBUCKS NOW" stores in first-tier cities to improve brand services.

On the whole, Starbucks has expanded its asset management scale relatively quickly in the past three years, and has relatively large development activities. Despite the impact of the epidemic, Starbucks, as a pioneer in the coffee

market, still wins in the industry. The following are worthy of attention: Enterprises should pay attention to avoiding financial risks and accumulate a certain amount of capital to deal with risks. Optimize the asset utilization rate of the enterprise, reduce asset accumulation, and reduce other costs. Continue to develop digital operation capabilities, cater to changing trends and consumer needs, and continue to create a high-end coffee market.

#### 4.5. Stock price analysis:

In the past ten years, Starbucks has achieved a nearly ten-fold increase in its stock price. Today, it is still expanding its room for growth, and there are fewer bottlenecks. In 2003, Starbucks faced a crisis of closing stores. In 2008, due to poor management and decision-making by the management, the stock price of Starbucks was in deep crisis and its revenue continued to decline. Schultz served as CEO again, adjusted the business model and encouraged environmental protection to increase efficiency. After several years of transformation, he finally turned losses into profits. In the past three years, from the perspective of its earnings per share, there have been some fluctuations. It may be due to Starbucks' employee activities that Starbucks has adopted higher employee benefits, resulting in increased labor costs and decreased net profits. The stock interest is relatively stable, and for investors, the coffee retail industry is not a good choice for equity, because it will not have too high a rate of return. Starbucks analysts believe that Starbucks will perform well and encourage buying. In fact, Starbucks has exceeded analysts' expectations every time, and has a strong growth momentum. As for the Chinese market, investors not only need to consider capital return, but also need to pay special attention to more issues, such as external business opponents, political factors, etc. Previously, Starbucks was not prepared for labor union activities, resulting in sales that fell short of expectations, but analysts still gave their opinions on holding stocks. As a growth stock, Starbucks is a good choice, and it has amazing vitality.

Starbucks has gained a lot of attention, partly due to the adoption of natural measures to expand the scope of sustainable development. In order to reduce the impact of environmental problems on coffee bean cultivation, the following measures have been taken: carbon reduction and emission reduction, investment in photovoltaic power generation, optimization of waste disposal and realization of regeneration and recycling of coffee cups, etc.

This coffee giant is at Starbucks has a high-precision data processing system that will analyze the most accurate customer data and make adaptive decisions. he forefront of the market, with a keen sense of smell and innovation. Starbucks is at the forefront of automation and continues to invest in digital projects, App, CEM platform, "Deep Brew", cloud

computing, etc., in order to save operating costs and improve the level of management.

## 5. Opportunities and Challenges

Although many people define Starbucks as a "forgotten brand", this does not mean that Starbucks will be buried. As a classic brand, it has made its own brand characteristics without overly catering to the market, which is rare. It can be found in well-known shopping malls almost all over the country. At present, Chinese consumers still think of Starbucks first when they mention coffee shops, which shows that this multinational company has sufficient research and thinking on Chinese culture and market. element. It can be said that Starbucks perfectly fits the psychology of Chinese consumers.

And as consumer demand changes, the brand advantage may weaken in the future. The rise of "online celebrity stores" in China will have an impact on Starbucks' market share. How to stabilize its status as a business giant needs to be considered.

After several turmoil, Starbucks actively responded, improved its strategy, made up for shortcomings, and eliminated shortcomings. After time, whether it can continue to be popular and lead the trend of the Chinese coffee market is very exciting.

Opportunities are often contained in changes. With the advent of the web3.0 era and the rise of the digital age, Starbucks will continue to use the "third space" to bring industrial effects, integrate with the digital ecology, and create a new interactive experience for members. This will be the future trend of the retail industry and will attract the attention of investors and consumers.

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