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A Financial Performance Analysis of Starbucks

Haining Zhou[1,a,*]

[1]*School of Economic Management, Guangdong University of Petrochemical Technology, Maoming, 525000, China*
a. hainingzhou@gdupt.edu.cn
**corresponding author*

Abstract: In a remarkably short span, Starbucks has evolved into a cultural icon synonymous with coffee and fashion in China. Beyond merely serving coffee, it embodies a brand and cultural phenomenon, exerting a profound influence on global economic dynamics. This paper conducts a comprehensive financial analysis of Starbucks, juxtaposing it against Rexall Coffee, Coca-Cola, and Nongfu Spring. China, emerging as Starbucks' second-largest investment market after the U.S., underscores the immense potential it holds for the coffee giant. Focusing on liquidity, solvency, profitability, and key performance indicators like ROE and ROA, the paper delves into Starbucks' strategic positioning within the dynamic Chinese market. As Starbucks continues to augment its investments in China, the analysis presented here underscores its pivotal role in shaping both consumer behavior and economic trends. Through this examination, the paper sheds light on the intricate interplay between Starbucks and the evolving landscape of the Chinese market, reaffirming its status as a global economic powerhouse.

Keywords: Financial Performance, Starbucks, Competitors

1. Introduction

Starbucks was founded in 1971 in Seattle. At the time, it was a small company selling coffee beans and spices, specializing in the world's finest Arabica beans, and with a mission to educate its customers, the company worked one-on-one with its customers to teach them what good coffee was all about. At the time, Starbucks had only four small stores, and its coffee beans were made using heavy roasting techniques. At that time, Starbucks only sold beans, not coffee, and there was no seating in the stores [1].

In 1982, Howard Schultz, the current president of Starbucks, said that Starbucks was not a coffee company, and that the company was not a coffee company. In 1982 Howard Schultz, the current president of Starbucks, took over the marketing of Starbucks. In the spring of 1983, he was scheduled to attend a trade show in Milan and decided to introduce the atmosphere and drinks of an Italian café to the United States, thus transforming Starbucks from a small, quiet store in Seattle into an international coffee chain [1].

In April 1984, Starbucks opened its sixth store in downtown Seattle and began selling coffee beverages on a trial basis. This was a major breakthrough in the history of Starbucks because it was the first store to sell both coffee beans and hot coffee beverages, and it was the first Starbucks store to be located in the heart of a business center. It was also the first Starbucks store to be located in a

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commercial center, and the day it opened was the first time Americans tasted a latte [1]. In 1985, Howard Schultz was recognized for his work with Starbucks. In 1985, Howard Schultz resigned from Starbucks because he did not agree with his employer's management philosophy and opened his own coffee shop called "Daily Coffee" (also known as "Everyday") [1]. The origins of today's Starbucks Corporation should be summarized as follows: Daily Coffee Company, founded in 1985, bought the Starbucks Coffee Company in 1987 and merged it into Starbucks Corporation [1].

Each Starbucks locale embodies the essence of coffee through the elemental forces of earth, water, fire, and wind. Here, "earth" symbolizes the origin of the coffee beans, "water" represents the vital hydration required for cultivation, "fire" signifies the meticulous roasting process, while "wind" encapsulates the unique flavor profile of each blend. In a broader context, these elements reflect the molecular dynamics of the world, where density shifts manifest as diverse atmospheric phenomena, much like the changing appearance of clouds across seasons [2].

Just as atmospheric conditions influence cloud formations, the interplay of "earth, water, fire, wind" imparts distinct nuances to coffee, rendering each cup a sensory journey shaped by individual emotions. These elemental markers serve as conduits for consumers to encapsulate their moods and interpret their Starbucks experience [2]. In a competitive coffee landscape, Starbucks remains committed to delivering unparalleled quality, fostering warm hospitality, cultivating refined ambiances, and disseminating coffee expertise through educational materials, all while prioritizing meaningful interactions with patrons.

2. Liquidity Performance

The mermaid logo in the Starbucks trademark is the sea goddess Siren in Greek mythology, and legend has it that his song is extremely magical, and anyone who listens to it will be mesmerized by it. Consumers can always find the goddess Siren in Starbucks' décor and design, from the green circle, she represents the human nature of the seven emotions and joys and sorrows, which can make the brand personality of Starbucks more romantic charm [1]. This may be one of the reasons why people are more likely to walk into Starbucks Coffee as opposed to Rexall Coffee. But Starbucks still faces financial risks. First, Starbucks' financial woes are a result of its rapid global expansion strategy Although its business in China is performing well, its performance in the U.S. and other markets has been less than Second, Starbucks' financial difficulties were caused by its rapid expansion strategy around the world.

Starbucks' ESG report also revealed some problems. While Starbucks has made some efforts in the areas of environmental protection, social good, and corporate governance, its data and results are not as good as they could be. For example, coffee growers in its supply chain often face unfair treatment and environmental damage. In addition, Starbucks' U.S. employees face low wages and unstable working conditions [3].

Table 1: Liquidity ratios of Starbucks and its competitors.

	Starbucks	Rexall	Coca-Cola	Nongfu Spring
Liability	3.32	1.01	2.58	0.26
Return on capital	15.74%	38.51%	14.15%	34.32%
3-year free cash flow per share growth rate	220.5%	49%	4%	22.7%

Data source: Starbucks 2023 annual report.

In Table 1, Starbucks has a liquidity ratio of 0.78, up 1.3% year-over-year. A year-over-year increase in the liquidity ratio usually indicates an improvement in a company's short-term solvency. Specifically, it means that a business has more liquid assets available to service its short-term debt.

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This metric is an important reference for assessing a company's liquidity and solvency. However, Starbucks' current ratio is still less than 1, which indicates that the return of funds is slow, and there is a risk that the capital chain will be broken, and additional investment is needed to maintain daily operation.

Also comparing the three selected companies, Starbucks' liability is significantly higher than the other companies, but Starbucks' 3-year free cash flow per share growth rate is similarly higher than the other companies. The higher this growth rate is, the greater the growth potential of the company to continually increase its competitive advantage and market share [4].

3. Solvency Performance

The cash gearing ratio is a measure of a company's financial strength. A high cash gearing ratio means that the net cash flow from operating activities is large enough to ensure that the company pays its debts as they fall due. While comparing the four companies selected, Starbucks has the lowest cash gearing ratio and Nongfu Spring has the highest cash gearing ratio, as Table 2 shown. It is important to note that the cash current debt ratio is not as high as it should be, because too high a metric also indicates that the company is not fully utilizing its cash, as it generates very little income, so it can affect the profitability of the company. Starbucks cash debt ratio below 1 is facing some risk in terms of liquidity and debt servicing through a large amount of debt outstanding as mentioned in Starbucks 2023 annual report. In comparison, Rexall Coffee has the most appropriate value for that.

Table 2: Solvency ratios of Starbucks and its competitors.

	Starbucks	Rexall	Coca-Cola	Nongfu Spring
Cash Debt Ratio	0.16	1.44	0.38	6.16
Debt-to-equity ratio	-3.08	0.49	1.53	0.18
Interest Coverage Multiple	10.23	-	9.03	134.53

Data source: Starbucks 2023 annual report.

A high debt-to-equity ratio underscores the company's heavy reliance on borrowing compared to shareholder investments. It signals to investors and stakeholders the extensive use of leverage, resulting in elevated interest expenses, intensified repayment obligations, increased capital costs, heightened strain on cash flow, and amplified demands on financing capabilities. Comparing the four companies chosen, Starbucks has the lowest debt-to-equity ratio, even negative, while the other three companies have values within an appropriate range. The characteristics of a low debt-to-equity ratio have the property that when the economy is bad, the company will not be under much debt pressure and will be able to survive the winter. It can also mean that the company lacks more capital to invest and grow. The annual report of Starbucks shows that it has a low debt-to-equity ratio because of debt repayment which may lead to lack of capital to invest in growth.

As the interest coverage multiple increases, so does the enterprise's capacity to meet interest obligations. Conversely, a lower ratio suggests challenges in ensuring that operating income adequately covers interest payments on liabilities in a timely manner. Starbucks has an interest coverage multiple of 10.23, which indicates that Starbucks has the ability to pay the debt it owes [5].

4. Profitability Performance

A greater operating profit margin indicates that a larger portion of the enterprise's sales revenue translates into operating profit, reflecting a robust profitability. Conversely, a lower ratio signals diminished profitability for the enterprise, as a smaller proportion of sales revenue contributes to operating profit. The operating margins of Starbucks and Rexall Coffee in Table 3 are not very different from each other, and are nearly double that of Coca-Cola and Nongfu Spring. This indicates that the two coffee companies selected do not have the same level of operating profit as the two companies in other industries.

Table 3: Profitability ratios of Starbucks and its competitors.

	Starbucks	Rexall	Coca-Cola	Nongfu Spring
Operating profit margin	15.3%	14.97%	28.45%	30.35%
Net interest ratio	11.47%	12.05%	23.92%	26.02%
P/E Ratio	25.69	22.5	24.25	44.68
P/S Ratio	2.94	2.65	5.82	11.64
Gross profit ratio	27.37%	36.47	59.14%	58.11%

Data source: Starbucks 2023 annual report.

A high net profit signifies superior operational efficiency and enhanced operating capability within the company. The net profit of Rexall Coffee, which is in the same industry as Starbucks, is not much different, but it is almost twice as bad as Coca-Cola in the beverage industry and Nongfu Spring in the tap water industry, suggesting that the cost of the coffee industry is slightly higher than that of the other two companies in the industry. High P/E and P/S ratios indicate that the value of the stock is relatively high and investors' expectations are high, suggesting that the current stock price is at a high level. Of the four companies chosen Farmers Spring meets this three highs and Starbucks is clearly the one that meets the least [6].

A high gross margin shows that a company's products are more competitive in the marketplace and have higher product profit margins. This usually means that consumers are willing to pay a higher price for such products than their peers, or because the direct costs of the firm's production are lower. During economic downturns, companies with high gross profit margins tend to have a greater ability to reduce prices and maintain profit margins even after price reductions are made [7]. The gross margin of Starbucks is lower than the other three companies, which shows that even in the current recession, Starbucks did not go with the flow and choose to sell at a lower price, but still make the product with high cost and high quality.

5. Investment Performance

When shareholders' equity is negative, it can be a warning sign that the company may be in financial distress. Negative shareholders' equity may mean that the company needs to take a closer look at its financial position and business strategy to ensure the company's long-term stability. The reason Starbucks has a negative stockholders' equity ratio (see Table 4) is because of the multi-tiered, multi-category Starbucks equity incentive system.

Firstly, Starbucks epitomizes the concept of a "third space," fostering a romantic work environment characterized by a relaxed and jovial atmosphere, thus ensuring employee satisfaction. Furthermore, the company offers salaries that surpass industry standards, accompanied by generous additional benefits, including the coveted "bean stock" stock option incentives. Moreover, Starbucks prioritizes employee well-being through comprehensive healthcare measures, resulting in minimal dissatisfaction among its workforce.

Secondly, as part of its incentive structure, Starbucks actively encourages employees to contribute ideas, regardless of scale, and places significant emphasis on implementing employee suggestions, even facilitating direct interaction between employees and executives in internal forums. This not only demonstrates respect for employees and fosters a sense of ownership and company cohesion but also enhances the company's performance through innovative contributions. Ultimately, this approach

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leads to a triple-win scenario, bolstering employee satisfaction, company effectiveness, and individual achievements.

In contrast to its competitors, Starbucks offers more generous salaries and benefits, instilling a sense of value and incentivizing employee retention. Additionally, the provision of "bean stock" to employees after a certain tenure, whether full-time or part-time, serves as a well-calibrated stimulus, designed to maintain equitable compensation structures and foster employee loyalty. This strategic approach emphasizes fairness in compensation and benefits, thereby enhancing employee retention. Furthermore, Starbucks continues to invest in ideological engagement and rewards, encouraging employees to contribute ideas and fostering a culture of achievement, thereby reinforcing its commitment to respecting and valuing its workforce. Ultimately, Starbucks leverages equity theory to optimize employee motivation and satisfaction [8].

Table 4: Investment ratios of Starbucks and its competitors.

	Starbucks	Rexall	Coca-Cola	Nongfu Spring
Shareholders' equity ratio	-0.27	0.45	0.27	0.45
WACC (%)	8.08	1.14	6.47	6.21
ROIC (%)	16.26	38.51	14.15	34.32
ROE	negative number	42.9%	43.27%	42.7%
ROA	14.42%	20.29%	11.25%	22.41%

Data source: Starbucks 2023 annual report.

When the WACC is higher, it means that the cost of financing the firm will be higher, which will lead the firm to seek a higher return on investment to compensate for the increase in financing costs. In this case, the investment risk of the firm will also increase. In short, firms with high WACC need to earn higher returns in the future to keep their operations healthy. Starbucks is at such a risk. ROE is a metric that gauges the profitability of a company by evaluating the returns generated from shareholders' equity. It serves as a yardstick to assess how efficiently a company utilizes its own capital. A higher ROE signifies a greater return on investment [9]. Starbucks has a negative return on net assets, which means that the company's net assets are not generating income for a certain period of time.

The higher the return on assets, the more efficient the utilization of the enterprise's assets, the more profit generated by the use of assets, and the stronger the profitability of the enterprise as a whole. Return on assets can be used for comparison between different companies in the same industry, but companies in different industries do not have strong comparability due to large differences in the total asset base [10]. By comparing two companies in the same coffee industry, the return on assets of Starbucks is slightly lower than that of Rexall Coffee, indicating that Starbucks' asset utilization in 2023 is not as good as that of Rexall Coffee.

6. Conclusion

So far, Starbucks branch network has been spread across 42 cities in China, including 10 new cities this year, "the coffee industry in the mainland has a huge potential, although the history of tea drinking in China has been as long as 5,000 years, but Starbucks is still here to create a new coffee culture." Starbucks Asia-Pacific President Wang Jinlong explained to Chinese media, which is the future plans to expand in the mainland is the reason. This series of moves suggests that Starbucks will be more "independent" in its new moves in China.

When Starbucks pays off a large amount of debt, there is a significant reduction in liabilities and therefore a rise in the value of various assets, which can lead to an increase in the value of the stock.

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Monitoring competitors' strategies is crucial for enhancing the competitiveness of Starbucks products within the industry. Michael Porter emphasized that "Competitive advantage is central to a company's success in a competitive market." The ability to gain a competitive edge over rivals in intense market competition is pivotal for a company's survival and growth. Currently, the enterprise should prioritize implementing strategies aimed at promptly enhancing the competitiveness of Starbucks industry products. This involves minimizing disparities in product quality, service offerings, marketing strategies, and other areas, while also striving for tactical innovation.

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