

Business Strategy Analysis of Coffee Industry: Taking Starbucks as an Example

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Abstract: In the 20th century, the competition among many coffee brands in the world was gradually fierce. Under the background of improvement of people's living standards and changes in consumption habits, more and more people choose coffee as their daily drink. This paper focuses on status of the coffee industry, taking Starbucks as an example, analyzing its brand and financial situation based on its official annual report for the fiscal year 2021, 2022 and 2023. By comparing the different financial ratios in the past few years, this study gives an analysis of Starbucks' brand value in terms of SWOT model and finds some proposals for the brands in coffee industry. The paper demonstrates the development trend of coffee industry and one of the typical management modes, give out an instructor no matter whether for the academic field a direction to have deeper research in this industry or for other brands in their way of developing, both shows a great of significance in further study. This study uses comparative analysis of text analysis and case analysis, combined with actual data, to conduct in-depth research on the financial situation and development of Starbucks and coffee industry. The research carries out a strong correlation between coffee consumption and people's living habit, operation mode as well. The fruitful work also gives useful improvements on how to develop for coffee industry, it has contributed to the people present understanding of the different financial performance with different factors in production.

Keywords: Coffee industry, Financial analysis, SWOT, Revenue, Operation

1. Introduction

1.1. Research Background and Significance

Founded in 1971 and headquartered in Seattle, Washington, USA, Starbucks Coffee Company is an American multinational chain coffee shop and the world 's largest chain coffee shop. With coffee as its main product, Starbucks Coffee Company provides a variety of teas, cakes, etc., creating a unique social place. Since 1971, Starbucks Coffee Company has been committed to ethically sourcing and roasting high-quality arabica coffee. Today, with more than 38,000 stores worldwide, the company is the premier roaster and retailer of specialty coffee in the world [1].

In 1971, Starbucks established its first store in Seattle. In 1982, Howard Schultz joined Starbucks as director of marketing and retail operations. In 1987, Schultz acquired Starbucks. From 1993 to 2000, Starbucks was committed to local expansion and going overseas. From 2001 to 2008, Starbucks

expanded rapidly in the world. In 2015, Starbucks launched “Starbucks Digital Network”, allowing customers to use free Wi-Fi and power facilities in the store. In 2017, Starbucks announced that it would phase out the use of plastic straws over the next few years to reduce environmental pollution. In 2020, Starbucks launched a campaign which called “Shared Power of the Heart” to provide free coffee and breakfast to communities around the world that have been hardest hit by the COVID-19.

Coffee is a drink originated in Africa, originated in Ethiopia, and then spread to the Arabian Peninsula and East Africa. With the development of the world, coffee has gradually become a common drink around the world, lots of countries and regions have also generated a unique coffee culture. Coffee is already very popular in western countries, but for China and some eastern countries, coffee is still developing at a steady and low speed. Coffee is one of the most widely consumed beverages in the world, and the global coffee market is immeasurable. According to the International Coffee Organization, global coffee production has maintained a steady growth trend over the past few years. Between 2013 and 2022, global coffee production increased by 893,800 tons, an increase of about 9.31 %. Consumption increased by 1.4791 million tons, an increase of about 17.31 %. In China, Furthermore, many respondents take a professional stance in relation to coffee in their daily life. Several respondents claim that they only drink coffee in their own shops for the sake of work [2]. In 2018, coffee storage reached 100,000 bags, an increase of 14 % over 2017. Taking Starbucks as an example, the company plans to open more than 3,000 stores in China by 2019, and online coffee sales are also growing at an annual rate of 30 %. Finally, since 2015, three dedicated railways for coffee transportation from Yunnan via Singapore to Europe have been built. Over the past decade, China 's coffee production and consumption have seen double-digit growth. If the investment continues, the level of disposable income continues to increase, and this upward trend is expected to continue [3]. Moreover, it increased to 33,144 in 2023 which shows a significant increase in the number of registered coffee businesses. As for the whole coffee market, it is characterized by asset-heavy, highly competitive, functional attributes and gradual market expansion. As consumers' demands for coffee quality and experience continue to increase, new trends and innovations are emerging in the coffee market. Under the background of economic globalization and digital transformation, the economies of various countries will face many challenges and changes which may promote the coffee market to be more international, but also providing consumers with more choices, prompting the coffee industry to develop in the direction of sustainable development and high quality.

Starbucks is the most representative and influential brand among various brands in the world. As it has been mentioned before, global expansion is still working among three different level of tier cities. Under the fast development of technology, Starbucks is actively promoting digital transformation, connecting consumers more closely through mobile applications, digital payments and membership programs. The company continues to improve its mobile applications to provide convenient booking, payment and point reward services to satisfy the need of young consumers. What's more, Starbucks is constantly introducing new coffee products and drinks to attract a wider consumer base. For instance, they offer some specific drinks which suitable for different seasons, the healthy drink and some Caffeine-free drinks. At the same time, the coffee market is highly competitive and involves numerous international and local brands. Brands such as Starbucks and Nescafe have extensive market share and brand influence worldwide, however, as many regional and local brands are also emerging in the coffee market, attracting consumers through innovation, quality and service, it must be said that some local brands are also making a strong impact on these classic coffee brands.

Based on this background, there is a research direction that people will pay attention to: For these coffee brands, taking Starbucks as an example, what is their business model, management model and profit model. This paper will analyze the annual reports of Starbucks in different years, as well as

various data of the coffee industry, which is conducive to a general and clear business analysis, to further analyze the characteristics of the brands in coffee industry.

1.2. Literature Review

Several theories have been proposed to do some research on business analysis, some focusing on analysis of Starbucks' marketing approach in the Chinese market was conducted and some characteristics among Asian Coffee Industry, others on the operation analysis and indicator calculation in different regions, and some people even focus on the analysis of products and brand value. Many studies have talked about the Asian coffee industry and mentioned several unique characteristics of brands in China [2-4]. Research has shown that in certain specific cities, Starbucks should undergo localization transformation in advance and adapt to changes in domestic society, and they offer several business models that are crucial for improving operational capabilities, especially in areas experiencing special or difficult times [5-7]. As for the analysis of brands value and social influence, Campbell, K., & Helleloid, D., Wan, J. S. supposed that it's vital for company to build up their own brands image and raise the brands influence among the whole market. They also mentioned the ESG activities which may bring some influence on the development of coffee shops. Above all, they also examine Starbucks' financial, marketing, and other factors from a broad viewpoint [8,9].

Reviewing the previous research, to a certain extent, it brings me the theoretical basis and data support of the research, to improve my attention to all aspects of business analysis. However, there are still some defects in the collection process of some data in the previous research, which also makes the research results slightly lose some universality. For example, the data is limited by the region, and the research object cannot control the variables well. In this study, the scope of data collection will be expanded as much as possible to diversify the data, and how much difference can make the conclusion more reliable.

1.3. Research Contents

In this paper, there are four parts of the main contents: Firstly, the introduction acts as a rough direction of the whole article. Secondly, it comes to the SWOT analysis includes strengths, weaknesses, opportunities and threats, which is contributed to gain a deeper understanding about Starbucks. Thirdly, the financial condition was analyzed based on several data in recent years. Finally, after doing the research about the whole company and coffee industry, there are several proposals which is for Starbucks and the coffee industry to improve their operation methods.

2. SWOT Analysis

SWOT analysis is a simple and effective strategic planning tool for assessing strengths and weaknesses within an organization, as well as external opportunities and threats. Through SWOT analysis, organizations can formulate strategies, use their advantages to cope with challenges, seize opportunities, solve problems, respond to threats, and improve competitiveness.

2.1. Strengths

As for Starbucks, CEO Howard Schultz said, the company is not in the position of the coffee business class, but on the side of customers drinking coffee. With the slogan "Romanticizing coffee beans", "Romanticizing customers", Starbucks Coffee has made an unthinkable change in a whole culture. Compared with other coffee brands, the success of Starbucks Coffee is mainly due to the high mass popularity [4].

Firstly, customer-oriented is the main part that Starbucks focus on it. One-to-one personalized service is one of the symbols of this unique characteristic. In the stores of Starbucks, the communication and communication between customers and staff are ubiquitous, which can be felt both in the store and in the after-sales service. With the experience as the platform, the experience will be fully developed through specific details, so that the customers as the protagonist can fully show their personality and experience a completely different experience [5]. They have clear and precise customer base which the target around 25-44 years old, monthly income of 2w+ white-collar enterprises. Secondly, Starbucks offers more than just coffee, it's an experience. Comfortable in-store environments and consistent, high-quality service make Starbucks the preferred location for people to socialize, work or relax. In addition to excellent customer experience, they also attach importance to product innovation and service. In China, they have adapted their menus and introduced products adapted to local tastes and culture. The company continues to introduce new products and services, including seasonal beverages, specialty coffees and customization options. What's more, Starbucks is pursuing a digital transformation to provide convenient mobile payments to enhance customer experience and brand loyalty.

2.2. Weaknesses

In the process of development, although Starbucks has always been in the leading position, there are some unfavorable factors. Firstly, what can impact the customers most is the price. The source of Starbucks' high quality and brand image is the high-cost expenditure, including high-quality coffee beans, well-decorated shops and good staff welfare, however, considered about the price sensitivity, the price of single-cup goods of Starbucks is higher, which to some extent affects consumers' choices.

When it comes to the coffee market, saturation is a factor that needs more attention. According to the data of the number of Starbucks stores in China's provinces, there were 1,115 stores in Shanghai, 986 stores in Guangzhou and 977 stores in Zhejiang. However, it's impossible for people not to worry about that in some regions, especially in developed countries, Starbucks' market is quite saturated, which means that further expansion may encounter fierce competition and growth constraints. With the increase of competitive brands, consumers have more choices, and Starbucks' market share in some markets may be challenged. This will also limit Starbucks' growth space in the market.

Erosion of trust in the brand value can be caused by isolated or recurring incidents originating both from the business partners, or from external events [8]. Such incidents can potentially trigger boycotts of the stores or result in civil or criminal liability and can have a negative impact on the financial results [10]. The managers supposed that it's vital for Starbucks to keep their brand value, which may be affected by some public actions. For example, some controversies on environmental protection, social responsibility or political issues. What's more, Starbucks continues to introduce new products and services, so that the excessive expansion of the product line which may lead to the brand image is no longer focused on high-quality coffee awareness. If Starbucks over-expands to different market segments, such as the pursuit of price-sensitive consumer groups, it may damage its high-end, high-quality brand image, resulting in lower consumer recognition of its brand value. These examples may lead to the dilution of Starbucks' brand image and challenge its core value proposition.

2.3. Opportunities

In emerging markets, especially in Asia, increasing middle class population and the rise of coffee culture. As a result, coffee consumption is gradually increasing, providing Starbucks with opportunities to expand and grow. Such as China, India and Latin America where the coffee markets have great potential. According to Starbucks(China)2024 fiscal year Q1 performance, for the first quarter ended 31 December 2023, net revenue of US\$735 million was achieved after removing the

impact of foreign exchange movements, up 20% year-on-year. Same-store sales increased 10 per cent and same-store transactions increased 21 per cent.

Under the background of the rapid development of technology, such as cloud computing, big data analytics, artificial intelligence, the Internet and other new technologies continue to emerge, providing companies with more opportunities for innovation and improvement. Digital transformation can help Starbucks enhance the customer experience, improve efficiency and expand sales channels. For instance, ordering and payment capabilities, digital marketing and personalized recommendations through mobile apps are wise choices to improve the quality of their service. Digital marketing has expanded the market for coffee products, and Starbucks can promote its brand through multiple channels.

Good ESG performance can help strengthen a company's reputation, reduce costs, increase employee loyalty, attract investors and customers, and reduce legal and ethical risks. Starbucks can work harder on social responsibility and sustainability. Starbucks has begun recruiting the disabled since 2007 and signed an employment promotion agreement with the Korea Employment Agency for the first time in the coffee industry in 2012 and is hiring people with disabilities every quarter, regardless of disability type and disability level [9]. Just like what it has done, do more initiatives such as sourcing sustainably grown coffee beans, reducing your environmental footprint, and supporting the community projects can enhance Starbucks' brand image and attract more consumers who take socially responsible.

2.4. Threats

Starbucks faces stiff competition in the coffee and coffee beverage industry, such as from other coffee brands, independent cafes, and fast-food restaurants. At the same time, Starbucks Coffee 's brands include the UK 's Costa Coffee and the world-renowned Cat 's Coffee. Finally, Starbucks Coffee stands out with its high-quality coffee and a new business model for the ' third space ' society. The new social business model of ' space ' stands out. Since then, the development of Starbucks coffee in China has been on the right track year by year. In 2017, the popular Luckin Coffee slowly revealed the brand 's ambitions, and finally attracted 100 million customers through frenzied opening of stores, with a loss of 10 billion yuan, and attracted 100 million customers through frenzied opening of stores and issuance of low-price coupons. With the addition of COTTI, the chain coffee industry has become more intense when people think that the chain coffee industry is gradually developing steadily. The addition of COTTI Coffee has intensified. The new coffee brand COTTI Coffee was founded by former founder. In 2022, COTTI Coffee, a new coffee brand founded by former Luckin Coffee founder, attracted lots of consumers with a coffee price of 9.9 yuan. Coffee price of 9.9 yuan attracted many consumers [6]. These competitions pose a threat to Starbucks' market share and profitability, especially in areas with saturated markets. At the same time, raw materials also have a big impact on Starbucks. Their main raw materials include coffee beans, milk and sugar, and fluctuations in the prices of these raw materials may have an impact on the company's costs and profitability. Unstable raw material prices and fickle policy may result in higher costs, which may affect the company's profitability. For example, to maintain and protect EU market integration, European Commission interferes with Starbucks appointment pricing arrangements due to the Dutch government's reservation pricing arrangement with Starbucks unduly reduces Starbucks' tax liability in the Netherlands. So, changes in regulations or the risk of litigation could have a negative impact on the Company's business and reputation. Therefore, Starbucks is facing many external threats, and it is necessary to strengthen internal management and improve the ability to solve problems efficiently to prevent those threats.

3. The Financial Condition of Starbucks

3.1. Revenue Scale and Profitability Level

Compared with the 2021 fiscal year, the Total Revenue of 2022 is increased by \$ 3.2 billion, an increase of 11 %, mainly due to the increase in the company's revenue from operating stores (\$2 billion). Also contributing were the revenues from 1,120 net new Starbucks company-operated store openings, as a 7% increase over the past 12 months. Licensed stores revenue increased \$972 million, primarily driven by higher product and equipment sales to and royalty revenues from the licensees (\$922 million) [11]. Overall, Starbucks ' revenue structure is still dominated by Company-operated stores, and the revenue growth mainly comes from the increase of Licensed stores' revenue, especially the growth of same-store income.

According to the Table 1, there are data regarding to the Net revenue, Total revenue, Total operating expenses and Gross Profit Margin which could hve out an analysis of the financial situation of Starbucks. The Total Revenue in 2023 increased by \$ 3.7 billion, or 12 %, over the fiscal year 2022, mainly due to increased revenue from the company's operating stores (\$2.9 billion). In the past 12 months, the net increase in revenue of 1339 new Starbucks stores (\$1.2 billion) has also led to an increase of 7% [12]. The Licensed stores revenue increased by \$ 857 million, mainly due to the increase in product and equipment sales and the Licensed fee income of the Licensed stores (\$898 million), mainly due to the revenue growth of the existing stores and the revenue growth of the 988 Starbucks Licensed stores opened in the past 12 months.

Table 1: A portion of Starbucks' financial performance (Units: millions)

Net revenues	Oct. 3,2021	Oct. 2,2022	Oct. 1,2023	Compared to 2021	Compared to 2022
Company-operated stores	\$24,607.0 0	\$26,576.1 0	\$29,462.3 0	8%	10.90%
Licensed stores	2,683.60	3,655.50	4,512.70	36.20%	23.40%
Other	1,770	2,018.70	2,000.60	14.10%	-0.9%
Total revenue	\$29,060.6 0	\$32,250.3 0	\$35,957.6 0	11%	11.60%
Total operating expenses	24,573.80	27,866.60	30,494.50	13.40%	9.43%
Gross Profit Margin	15.44%	13.59%	15.19%	-11.96%	11.77%

3.2. Analysis of Revenue Structure

As the birthplace of Starbucks, the US market is mature and potential, and it is still the main market of Starbucks. At the same time, it provides the largest proportion of revenue for Starbucks. According to the data, in the past three years, Starbucks ' income in the US market accounted for more than 70 % of its net income, which also shows that Starbucks ' market position in the United States is unshakable, and it can be speculated that American consumers ' consumption habits of Starbucks are deeply rooted in the hearts of the people. Starbucks can well meet their demand for coffee quality, product diversification and a comfortable store environment.

According to Figure 1, there is a clear performance that Starbucks ' income in the Chinese market accounted for 12.65 % of net income in 2021, and it was 9.33 % in 2022 and 8.57 % in 2023. Although there is a slight decrease, the overall proportion is still optimistic. The Chinese market is the second largest market of Starbucks in the international market. China 's coffee market is growing rapidly,

especially in the first and second tier cities which may have great potential. Since Starbucks entered the Chinese market in 1999, its scale in the Chinese market has continued to expand, both the number of stores and the cost of investing in localization have been increasing. Revenues from countries other than the U.S. and China consist primarily of revenues from Japan, Canada and the U.K., which together account for approximately 71% of net revenues from other countries for fiscal 2023. In addition, Starbucks is also expanding in other countries, some emerging markets potentially offering growth opportunities even some developed markets have already saturated.

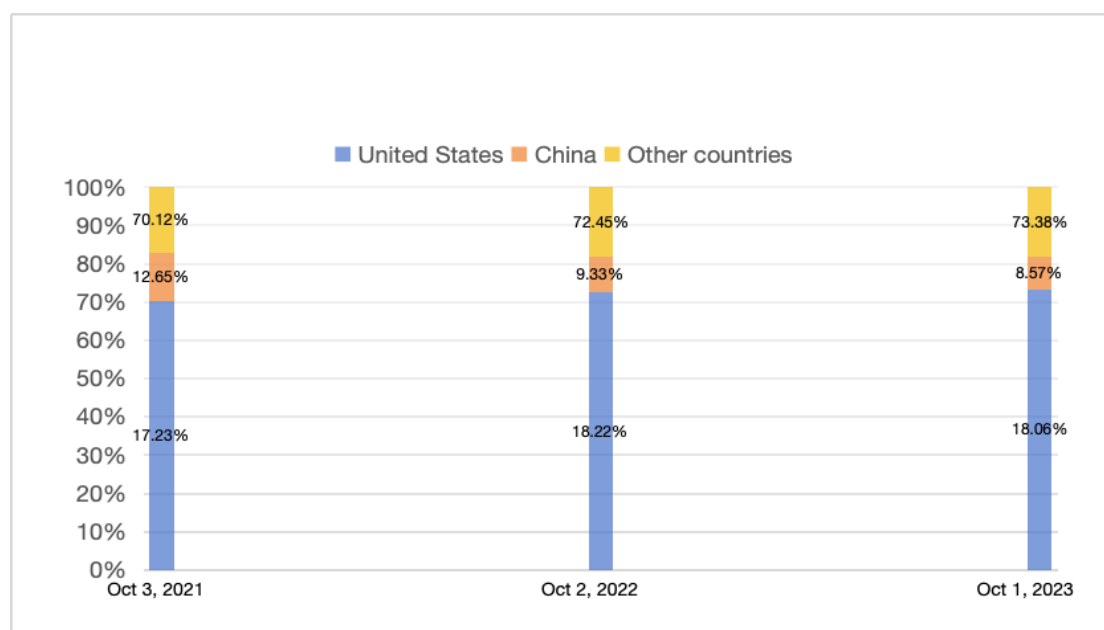


Figure 1: Revenue from different regions as a proportion of total revenue (Units: millions)

3.3. Cost and Expense

As shown in Figure 2, taking 2023 as an example, store operating costs account for the largest proportion of income which is 40.94 %. Followed by raw material costs, accounting for 31.73 % of income which illustrate that Starbucks has a large expenditure on store management, labor costs, rent, equipment maintenance, etc. It may also be because Starbucks has many stores around the world, so it needs to invest a lot of money to manage these stores. However, with the gradual strengthening of market competition, high store operating costs may challenge Starbucks' profitability. Moreover, factors such as fluctuations in the price of coffee beans and changes in the supply chain may affect fluctuations in the cost of raw materials, which in turn may affect Starbucks' profitability.

When it comes to the cost of raw materials, the proportion is 31.73 %, indicating that Starbucks spends more on the purchase of raw materials such as coffee beans. Starbucks mainly uses high-quality coffee beans from Latin America and Africa, as well as some coffee beans from the Asia-Pacific region. The coffee beans in these regions have their own characteristics in flavor and taste, providing more choices for Starbucks. To ensure the quality and sustainability of coffee beans, Starbucks is committed to establishing long-term partnerships with coffee growers and promoting sustainable coffee planting and community development projects. Through partnerships, the company cooperates with coffee farmers to provide training and support to help them improve planting techniques, improve the quality and yield of coffee beans, and pay attention to environmental protection and community development. However, the high quality of the raw material means the price of per coffee should be set at a higher level than other coffee brands. In a way, it probably may influence consumers' decision-making and reduce their impulse to consume.

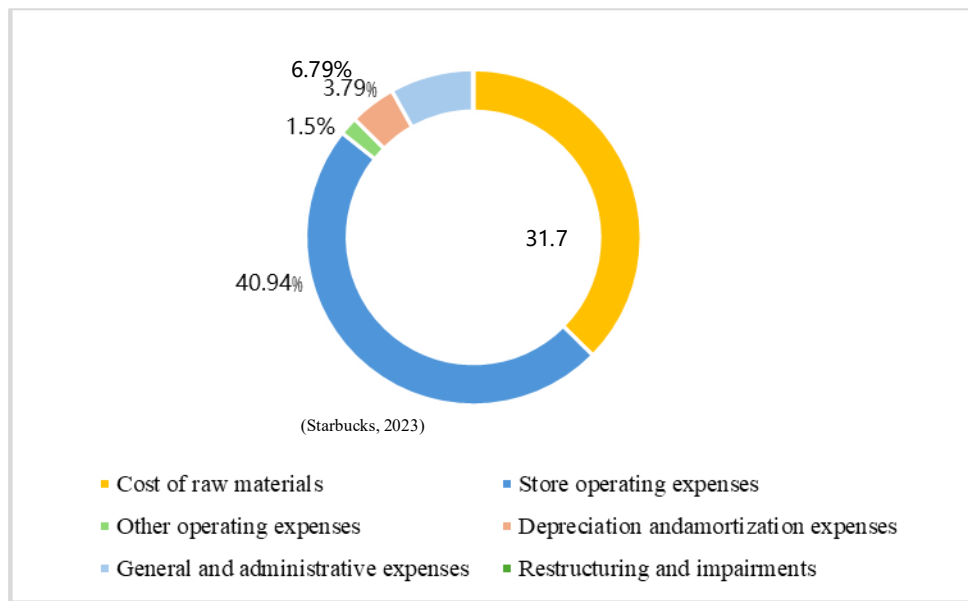


Figure 2: The Cost and Expense as a percentage of Revenue (2023 as an example)

4. Proposal for Starbucks

According to the research above, it shows the data which is related localization transformation. Starbucks has emerging markets from different continents, so it needs to pay more attention to the cultural characteristics of different regions to experiment with product localization, which is conducive to being welcomed by more consumers, thereby improving its profitability dramatically. For example, Starbucks could take a method which combines tea culture with coffee in China. The use of local raw materials may not only be more compatible with Chinese taste preferences, but also reduce the high cost of raw material production and transportation costs, reduce costs and expenses as well.

Considering today's consumers are increasingly concerned about sustainability and social responsibility, Starbucks can strengthen its investment and practice in sustainability and social responsibility to enhance its corporate image and brand value. ESG activities in coffee shops have a positive impact on corporate image, so ESG activities should be implemented quickly, not only in franchised coffee shops, but also in increasingly large private brand coffee shops. What's more, corporate image has a positive impact on customers' long-term positioning, which means that customers' perception of ESG activities in coffee shops is positive behavioral intention, such as relationship continuity and recommendation. Therefore, existing coffee shops and potential entrepreneurs are preparing for entrepreneurship to focus on project formulation and operation related to ESG activities [9].

Starbucks is known for its high-quality coffee beans and unique roasting process. In terms of product decision-making, the Starbucks brand has many consumers favorite products. In view of this, Starbucks is not eager to develop new products, change existing products, increase / decrease product lines or consider rebranding. However, Starbucks may wish to reconsider its product positioning next year. In the current environment, understanding the needs of consumers and catering to their needs through targeted product positioning may be beneficial to the company. For instance, Starbucks should pay close attention to which products are still successful during the 2020 influenza pandemic and related shutdowns [7].

5. Conclusion

The purpose of this paper is to provide people with information about Starbucks' financial situation. This paper conducts brand value analysis, indicator calculation and analysis of Starbucks in 2021, 2022 and 2023. Based on the above analysis results, this article discusses Starbucks' business model, which is helpful for operation and development value, doing a further analyze the characteristics of the brands in coffee industry, giving some suggestions on how to improve its profitability and built brand image. However, it should be emphasized that companies need more efforts on developing their specific products since product is the first reason for consumers choosing this brand.

To conclude, there are some limitations of this study. In the analysis of this paper, the samples may receive geographical restrictions. What should be suggested is that people can focus on the analysis of more emerging markets on different continents in the future to understand whether the cultural characteristics of the rapidly developing regions of the coffee industry will affect the results of the study. Similarly, researchers can do the analysis of this study in developed countries to determine whether the development of a country is different from the degree of development of a country will change consumers' views on different issues.

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