

Starbucks Corporation – 2011

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A. Case Abstract

Starbucks is a comprehensive strategic management case that includes the company's year-end 2010 financial statements, organizational chart, competitor information and more. The case time setting is the year 2011. Sufficient internal and external data are provided to enable students to evaluate current strategies and recommend a three-year strategic plan for the company. Headquartered in Seattle, Washington, Starbucks's common stock is publicly traded under the ticker symbol SBUX.

Starbucks is the largest specialty coffee retailer in the world with more than 16,850 coffee shops in 50 countries. Go into any Starbucks and you can buy coffee drinks and food items, as well as roasted beans, coffee accessories, and teas. Starbucks operates more than 8,800 of its shops, which are located in about 10 countries (mostly in the US), while licensees and franchisees operate more than 8,000 units worldwide (primarily in shopping centers and airports). Starbucks also owns the Seattle's Best Coffee and Torrefazione Italia coffee brands. Starbucks also markets its coffee through grocery stores and licenses its brand for other food and beverage products. Starbucks is doing great having very effectively weathered discount coffee promotions at McDonald's and Dunkin Donuts.

B. Vision Statement (proposed)

To become the number one chain restaurant in the United States.

C. Mission Statement (proposed)

At Starbucks we strive to provide our customers (1) around the world (3) with the best coffee (2) we can offer from around the world. We are strong advocates of the fair trade (8) policies which means we only do business with companies that pay fair wages and do not engage in child labor. To ensure quality control, we have strict standards on the roasting method (7) and personally over all roasting to ensure it is done to our standards. We consider all of our employees (9) as partners and hire the best scientist who use the latest technology (4) to ensure quality standards are maintained (5, 6).

1. Customers
2. Products or services
3. Markets
4. Technology
5. Concern for survival, growth, and profitability
6. Philosophy
7. Self-concept
8. Concern for public image
9. Concern for employees

D. External Audit

Opportunities

1. Potential \$377 million market annually for flavor coffee in the US.
2. Peet's Coffee & Tea Inc. struggling with higher coffee commodity prices.
3. Customers enjoy single brew coffee machines.
4. Average Starbucks customer ears over \$75,000 per year.
5. 25% of Americans eat fast food everyday.
6. Weaker US Dollar.
7. Growing economies in Eastern Europe and China.
8. Brazil is the 2nd largest coffee consumer in the world.

Threats

1. Dunkin Donuts and McDonald's offer lower priced coffee.
2. Green Mountain's Keurig single brew coffee machine.
3. Weaker economic times can drastically hurt sales on expensive coffee.
4. Coffee can be made easily at home for a fraction the cost of Starbucks.
5. Dunkin Donut recent IPO in summer 2011.
6. The price of coffee is subject to wild swings on the commodity market.
7. Health minded customers consider many of their favorite coffee and lattes to be high in sugar and fat.

Competitive Profile Matrix

		<u>Starbucks</u>		<u>Krispy Kreme</u>		<u>Dunkin Donuts</u>	
<u>Critical Success Factors</u>	<u>Weight</u>	<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>	<u>Rating</u>	<u>Score</u>
Advertising	0.06	2	0.12	1	0.06	4	0.24
Market Penetration	0.12	4	0.48	2	0.24	3	0.36
Product Variety	0.08	3	0.24	2	0.16	4	0.32
Store Locations	0.12	4	0.48	1	0.12	3	0.36
Employee Dedication	0.06	4	0.24	1	0.06	2	0.12
Financial Profit	0.12	4	0.48	1	0.12	2	0.24
Customer Loyalty	0.12	3	0.36	4	0.48	2	0.24
Price Competitiveness	0.12	1	0.12	3	0.36	2	0.24
Market Share	0.12	4	0.48	1	0.12	2	0.24
Product Quality	0.08	4	0.32	2	0.16	3	0.24
Totals	1.00	3.32		1.88		2.60	

EFE Matrix

Strengths		Weight	Rating	Weighted Score
1.	Starbucks is the third largest chain restaurant in the US based on 2010 sales.	0.12	4	0.48
2.	World's largest coffee company with 16,635 stores in 50 countries.	0.15	4	0.60
3.	Starbucks has locations in 35 cities in China.	0.06	3	0.18
4.	Plans to open 1500 stores in China by 2015.	0.06	4	0.24
5.	Able to purchase Starbucks coffee from your phone at 6,500 locations.	0.02	3	0.06
6.	Signed a deal with Courtesy Products to provide coffee in 500,000 luxury hotel rooms national wide.	0.05	3	0.15
7.	Recently changed logo design dropping "Starbucks Coffee" to "Starbucks Logo."	0.06	4	0.24
8.	Stores are viewed as places to study, meet friends, and relax.	0.06	4	0.24

Weaknesses		Weight	Rating	Weighted Score
1.	Policy of keeping the tap water running nonstop.	0.04	2	0.08
2.	Mostly limited to coffee related products.	0.06	2	0.12
3.	Inventory turnover of 11 vs 20 for the industry average.	0.07	2	0.14
4.	Forced to close over 600 stores during the economic recession.	0.06	2	0.12
5.	Do not offer cheaper coffee products for more price sensitive customers.	0.06	2	0.12
6.	Mission and vision statements are not clear and lack direction.	0.04	2	0.08
7.	Failure to develop a product to compete with Green Mountain's Keurig single brew coffee machine.	0.05	1	0.05
8.	Only 4% of revenues come from ground coffee sold in stores.	0.04	1	0.04
TOTALS		1.00		2.94

E. Internal Audit

Strengths

1. Starbucks is the third largest chain restaurant in the US based on 2010 sales.
2. World's largest coffee company with 16,635 stores in 50 countries.
3. Starbucks has locations in 35 cities in China.
4. Plans to open 1500 stores in China by 2015.
5. Able to purchase Starbucks coffee from your phone at 6,500 locations.
6. Signed a deal with Courtesy Products to provide coffee in 500,000 luxury hotel rooms national wide.
7. Recently changed logo design dropping "Starbucks Coffee" to "Starbucks Logo."
8. Stores are viewed as places to study, meet friends, and relax.

Weaknesses

1. Policy of keeping the tap water running nonstop.
2. Mostly limited to coffee related products.
3. Inventory turnover of 11 vs 20 for the industry average.
4. Forced to close over 600 stores during the economic recession.
5. Do not offer cheaper coffee products for more price sensitive customers.

6. Mission and vision statements are not clear and lack direction.
8. Failure to develop a product to compete with Green Mountain's Keurig single brew coffee machine.
9. Only 4% of revenues come from ground coffee sold in stores.

Financial Ratio Analysis

Growth Rate Percent	Starbucks	Industry	S&P 500
Sales (Qtr vs year ago qtr)	6.80	8.50	14.50
Net Income (YTD vs YTD)	NA	NA	NA
Net Income (Qtr vs year ago qtr)	28.50	28.00	47.50
Sales (5-Year Annual Avg.)	8.48	9.66	8.27
Net Income (5-Year Annual Avg.)	16.46	16.30	8.68
Dividends (5-Year Annual Avg.)	NA	0.00	5.68
Profit Margin Percent			
Gross Margin	26.4	26.4	39.9
Pre-Tax Margin	15.5	15.1	18.1
Net Profit Margin	10.7	10.4	13.2
5Yr Gross Margin (5-Year Avg.)	23.1	27.5	39.8
Liquidity Ratios			
Debt/Equity Ratio	0.13	0.12	1.01
Current Ratio	1.8	1.8	1.4
Quick Ratio	1.4	1.4	0.9
Profitability Ratios			
Return On Equity	30.9	30.1	26.0
Return On Assets	18.2	17.9	8.9
Return On Capital	25.3	24.7	11.8
Return On Equity (5-Year Avg.)	24.1	22.9	23.8
Return On Assets (5-Year Avg.)	12.4	12.1	8.0
Return On Capital (5-Year Avg.)	18.7	17.9	10.8
Efficiency Ratios			
Income/Employee	NA	1,246	126,213
Revenue/Employee	NA	13,684	1 Mil
Receivable Turnover	34.0	39.2	15.7
Inventory Turnover	11.4	20.8	12.4

Net Worth Analysis (in millions)

Stockholders Equity	\$4,384
Net Income x 5	\$6,225
(Share Price/EPS) x Net Income	\$34,045
Number of Shares Outstanding x Share Price	\$33,048
Method Average	\$19,426

IFE Matrix

	Opportunities	Weight	Rating	Weighted Score
1.	Potential \$377 million market annually for flavor coffee in the US.	0.08	4	0.32
2.	Peet's Coffee & Tea Inc. struggling with higher coffee commodity prices.	0.05	2	0.10
3.	Customers enjoy single brew coffee machines.	0.10	1	0.10
4.	Average Starbucks customer earns over \$75,000 per year.	0.04	4	0.16
5.	25% of Americans eat fast food everyday.	0.04	1	0.04
6.	Weaker US Dollar.	0.04	3	0.12
7.	Growing economies in Eastern Europe and China.	0.08	2	0.16
8.	Brazil is the 2nd largest coffee consumer in the world.	0.08	2	0.16

	Threats	Weight	Rating	Weighted Score
1.	Dunkin Donuts and McDonald's offer lower priced coffee.	0.15	2	0.30
2.	Green Mountain's Keurig single brew coffee machine.	0.06	2	0.12
3.	Weaker economic times can drastically hurt sales on expensive coffee.	0.08	2	0.16
4.	Coffee can be made easily at home for a fraction the cost of Starbucks.	0.08	2	0.16
5.	Dunkin Donut recent IPO in summer 2011.	0.04	4	0.16
6.	The price of coffee is subject to wild swings on the commodity market.	0.04	3	0.12
7.	Health minded customers consider many of their favorite coffee and lattes to be high in sugar and fat.	0.04	3	0.12
TOTALS		1.00		2.30

F. SWOT

SO Strategies

1. Develop two new flavor coffees for \$25M (S1, O1).
2. Acquire Peet's coffee and tea for \$750M (S7, O2).

WO Strategies

1. Develop a single brew coffee machine for in home use for \$100M (W5, O3).
2. Open 100 new stores in Brazil at \$500K each (W4, O8).

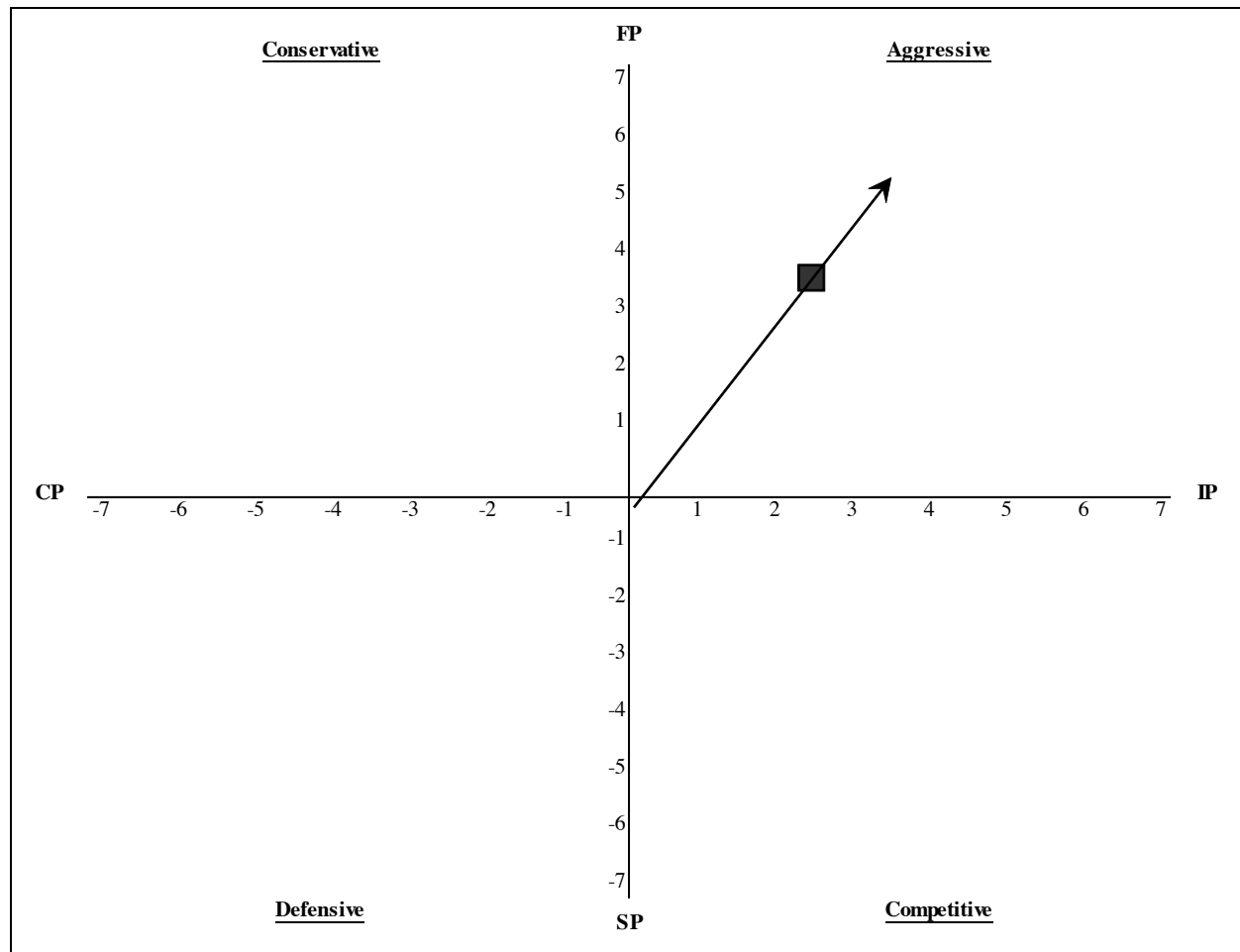
ST Strategies

1. Spend \$200M on advertising to portray Starbucks as a place to study and enjoy coffee (S8, T4).

WT Strategies

1. Reduce price by 30% on regular coffee (W5, T1).

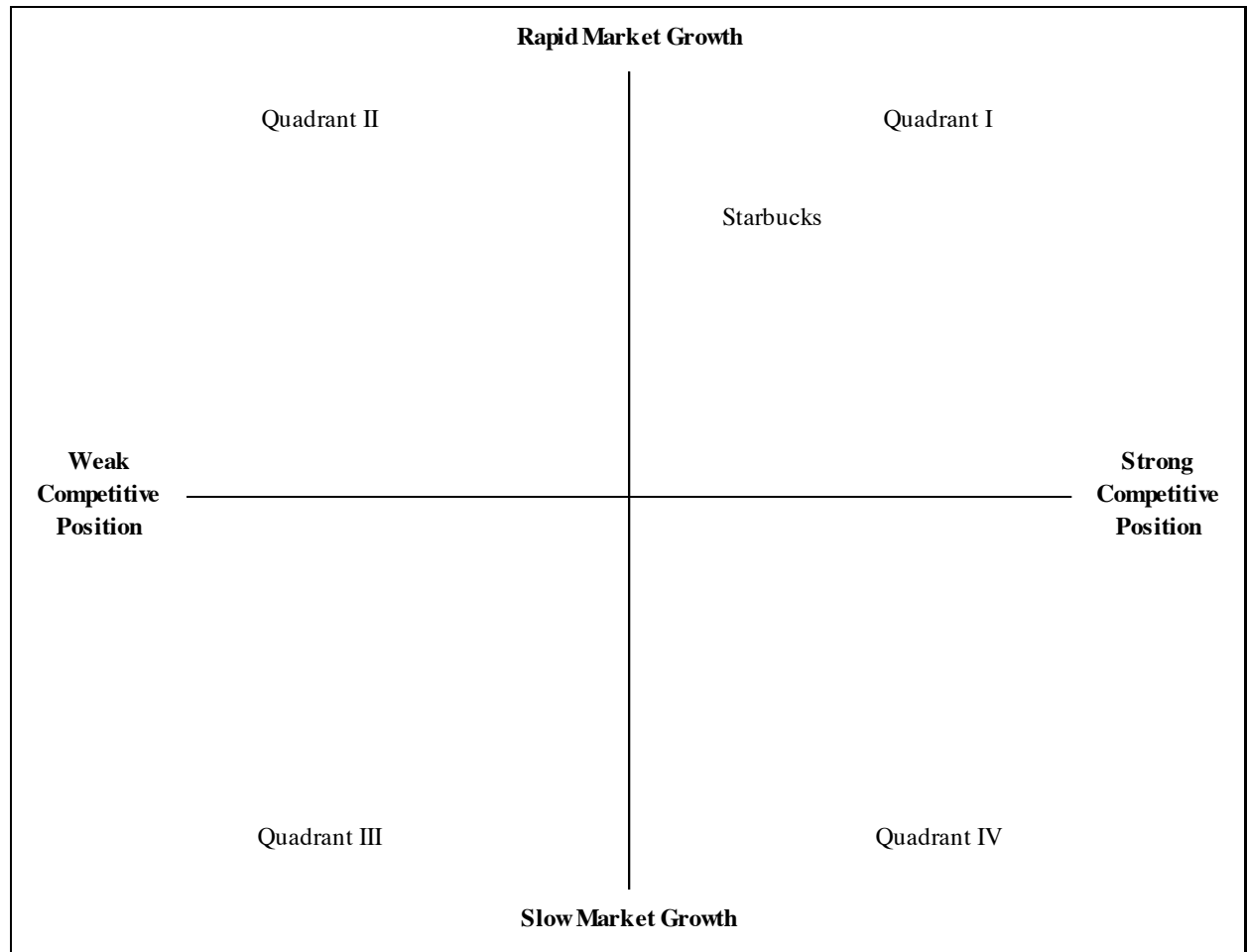
G. SPACE Matrix



<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<u>Financial Position (FP)</u>		<u>Stability Position (SP)</u>	
Sales	7	Rate of Inflation	-2
Gross Margin	6	Technological Changes	-1
Debt/Equity	7	Price Elasticity of Demand	-2
ROE	6	Competitive Pressure	-6
ROA	6	Barriers to Entry into Market	-4
Financial Position (FP) Average	6.4	Stability Position (SP) Average	-3.0

<i>Internal Analysis:</i>		<i>External Analysis:</i>	
<u>Competitive Position (CP)</u>		<u>Industry Position (IP)</u>	
Market Share	-1	Growth Potential	6
Product Quality	-2	Financial Stability	4
Customer Loyalty	-2	Ease of Entry into Market	4
Product Variety	-3	Resource Utilization	4
Control over Suppliers and Distributors	-4	Profit Potential	6
Competitive Position (CP) Average	-2.4	Industry Position (IP) Average	4.8

H. Grand Strategy Matrix



I. The Internal-External (IE) Matrix

		The Total IFE Weighted Scores		
		<i>Strong</i> 4.0 to 3.0	<i>Average</i> 2.99 to 2.0	<i>Weak</i> 1.99 to 1.0
The EFE Total Weighted Scores	<i>High</i>	4.0 I	II	III
	<i>Medium</i>	3.0 IV	V	VI
			Starbucks	
<i>Low</i>		2.0 VII	VIII	IX
		1.0		

Segment (company operated)	2010 Revenue
Beverages	75%
Food	19
Whole bean and soluble coffees	4
Merchandise	2
Total	100

J. QSPM

		<i>Acquire Peet's Coffee</i>		<i>Develop 2 new flavors of coffee</i>		
Opportunities		Weight	AS	TAS	AS	TAS
1.	Potential \$377 million market annually for flavor coffee in the US.	0.08	2	0.16	4	0.32
2.	Peet's Coffee & Tea Inc. struggling with higher coffee commodity prices.	0.05	4	0.20	1	0.05
3.	Customers enjoy single brew coffee machines.	0.10	0	0.00	0	0.00
4.	Average Starbucks customer ears over \$75,000 per year.	0.04	2	0.08	3	0.12
5.	25% of Americans eat fast food everyday.	0.04	0	0.00	0	0.00
6.	Weaker US Dollar.	0.04	0	0.00	0	0.00
7.	Growing economies in Eastern Europe and China.	0.08	0	0.00	0	0.00
8.	Brazil is the 2nd largest coffee consumer in the world.	0.08	0	0.00	0	0.00

Threats		Weight	AS	TAS	AS	TAS
1.	Dunkin Donuts and McDonald's offer lower priced coffee.	0.15	0	0.00	0	0.00
2.	Green Mountain's Keurig single brew coffee machine.	0.06	0	0.00	0	0.00
3.	Weaker economic times can drastically hurt sales on expensive coffee.	0.08	0	0.00	0	0.00
4.	Coffee can be made easily at home for a fraction the cost of Starbucks.	0.08	0	0.00	0	0.00
5.	Dunkin Donut recent IPO in summer 2011.	0.04	2	0.08	1	0.04
6.	The price of coffee is subject to wild swings on the commodity market.	0.04	3	0.12	1	0.04
7.	Health minded customers consider many of their favorite coffee and lattes to be high in sugar and fat.	0.04	0	0.00	0	0.00

		<i>Acquire Peet's Coffee</i>		<i>Develop 2 new flavors of coffee</i>		
Strengths		Weight	AS	TAS	AS	TAS
1.	Starbucks is the third largest chain restaurant in the US based on 2010 sales.	0.12	4	0.48	3	0.36
2.	World's largest coffee company with 16,635 stores in 50 countries.	0.15	4	0.60	3	0.45
3.	Starbucks has locations in 35 cities in China.	0.06	0	0.00	0	0.00
4.	Plans to open 1500 stores in China by 2015.	0.06	0	0.00	0	0.00
5.	Able to purchase Starbucks coffee from your phone at 6,500 locations.	0.02	0	0.00	0	0.00
6.	Signed a deal with Courtesy Products to provide coffee in 500,000 luxury hotel rooms national wide.	0.05	0	0.00	0	0.00
7.	Recently changed logo design dropping –Starbucks Coffee“ to –Starbucks Logo.“	0.06	4	0.24	2	0.12
8.	Stores are viewed as places to study, meet friends, and relax.	0.06	3	0.18	1	0.06

		Weight	AS	TAS	AS	TAS
1.	Policy of keeping the tap water running nonstop.	0.04	0	0.00	0	0.00
2.	Mostly limited to coffee related products.	0.06	4	0.24	1	0.06
3.	Inventory turnover of 11 vs 20 for the industry average.	0.07	0	0.00	0	0.00
4.	Forced to close over 600 stores during the economic recession.	0.06	0	0.00	0	0.00
5.	Do not offer cheaper coffee products for more price sensitive customers.	0.06	0	0.00	0	0.00
6.	Mission and vision statements are not clear and lack direction.	0.04	0	0.00	0	0.00
7.	Failure to develop a product to compete with Green Mountain's Keurig single brew coffee machine.	0.05	0	0.00	0	0.00
8.	Only 4% of revenues come from ground coffee sold in stores.	0.04	4	0.16	2	0.08
TOTALS				2.54		1.70

K. Recommendations

1. Develop two new flavor coffees for \$25M.
2. Acquire Peet's coffee and tea for \$750M.

L. EPS/EBIT Analysis (in millions)

Amount Needed: \$775M

Stock Price: \$43.30

Shares Outstanding: 745

Interest Rate: 5%

Tax Rate: 31%

	<u>Common Stock Financing</u>			<u>Debt Financing</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$500	\$1,500	\$2,000	\$500	\$1,500	\$2,000
Interest	0	0	0	39	39	39
EBT	500	1,500	2,000	461	1,461	1,961
Taxes	155	465	620	143	453	608
EAT	345	1,035	1,380	318	1,008	1,353
# Shares	763	763	763	745	745	745
EPS	0.45	1.36	1.81	0.43	1.35	1.82

	<u>20 Percent Stock</u>			<u>80 Percent Stock</u>		
	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>	<u>Recession</u>	<u>Normal</u>	<u>Boom</u>
EBIT	\$500	\$1,500	\$2,000	\$500	\$1,500	\$2,000
Interest	31	31	31	8	8	8
EBT	469	1,469	1,969	492	1,492	1,992
Taxes	145	455	610	153	463	618
EAT	324	1,014	1,359	340	1,030	1,375
# Shares	749	749	749	759	759	759
EPS	0.43	1.35	1.81	0.45	1.36	1.81

M. Epilogue

For Q4 of 2011 that ended September 30, 2011, Starbucks (SBUX) reported excellent same-store sales expansion and an improved business outlook, despite higher coffee costs. The company's total revenues, on a comparable 13-week basis, increased 15 percent, while earnings per share increased 16 percent to a record \$0.37. Global results for Starbucks in their fiscal Q4 rose 9 percent on a comparable 13-week basis thanks to a 6 percent jump in traffic and a 3 percent increase in ticket prices (US results increased 10 percent, while international comps advanced 6 percent). These excellent results were better than rival Dunkin' Brands' (DNKN) 6 percent increases. US consumers seemingly can't get enough of Starbucks' brew thanks to growth of its loyalty program (My Starbucks Rewards program) and fall promotions (Pumpkin Spice Latte, etc.), while international growth continues to improve also.

On the heels of this excellent performance, Starbucks increased its dividend by 31 percent in November 2011 and announced an authorization to purchase as many as 20 million shares more of the company's stock.

Starbucks plans to open 800 net new stores globally during 2012, with half opening in the Americas, 300 in China and Asia, and the balance in EMEA (Europe, Middle East, Russia, and Africa). In fact, the firm expects to have 1,500 stores open in mainland China by 2015, a rapid pace of expansion (it currently has about 500 stores open there).

Starbucks' future looks excellent as the company has locked in lower coffee costs through 2013 and Starbucks K-Cups (which will be available in US retail stores in 2012) will likely become a more material earnings driver. Its partnership with Green Mountain (GMCR) will help propel results as well. Starbucks is very confident about its Starbucks Blonde Roast (a premium light roast coffee), which will be available in retail stores in January 2012, and estimates the market opportunity to be about \$1 billion.

Questions for discussion

As the external and internal conditions have changed significantly from 2011 to 2018, Starbucks' Vision, Mission, and Strategies should also be changed accordingly.

1. Review and update Starbucks' Vision & Mission for 2018.
2. Who are its main competitors in 2018?
3. What new strategies should it adopt to update its expansion plans in both products and geographical regions in order to out-perform its competitors?