

Focal Company Report:

An Analysis of Starbucks Corporation 2023



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Guiding Principles

With its humble beginnings in Seattle in 1971, Starbucks has evolved into a global coffeehouse chain, leaving an ingrained mark on various continents and cultures. Renowned for its unwavering commitment to quality, innovation, and social responsibility, Starbucks has become the go-to destination for coffee lovers worldwide. Boasting a staggering presence of over 35,000 coffee shops across the globe and commanding over 37% of America's coffee market share, Starbucks continues to thrive as a leading brand in the industry¹ (Jeffrey, 2023). Central to its success, Starbucks maintains a steadfast commitment to its mission and core values, placing a prominent emphasis on valuing diversity and inclusion, and fostering a culture of warmth and belonging for its cherished customers and valued partners.

Mission

At the heart of Starbucks' philosophy lies its mission:² "to inspire and nurture the human spirit, one person, one cup, and one neighborhood at a time." This mission is not just a statement on paper, but a way of life for Starbucks, permeating through its entire ecosystem. Through exceptional coffee experiences, Starbucks seeks to uplift individuals and create a sense of community. Recognizing the importance of local neighborhoods, Starbucks is committed to contributing to their well-being through social and environmental initiatives. This mission serves as a guiding principle that inspires Starbucks' actions and encourages its partners and customers to make a positive impact on the world.

Values

Starbucks is also driven by a set of core values³ that guides its actions and decisions. With a focus on its partners, coffee, and customers, Starbucks lives by these values in all aspects of its operations. First, Starbucks is committed to creating a culture of warmth and belonging, where everyone is welcome, regardless of background or identity. Second, Starbucks holds itself accountable for delivering its very best in everything it does, setting high standards of excellence. Third, Starbucks embraces courage by challenging the status quo and constantly seeking new ways to grow the company and its people. Fourth, Starbucks values being present and connecting with transparency, dignity, and respect in all interactions. Lastly, Starbucks maintains a performance-driven mindset, but always through the lens of humanity, prioritizing the well-being and dignity of its partners and customers. These values shape Starbucks' ethos and contribute to its commitment to being a responsible and inclusive global company.

Constraints

¹<https://yourdreamcoffee.com/how-big-is-starbucks-market-share>

² <https://www.starbucks.com/careers/working-at-starbucks/culture-and-values/>

³ <https://www.starbucks.com/careers/working-at-starbucks/culture-and-values/>

Despite its global success, Starbucks is facing some challenges, starting with increasing pressure to unionize. As of 2023, there are more than 250 Starbucks locations that have unionized, and the push for unionization among Starbucks stores continues to gain momentum⁴. Employees are advocating for fair wages, better working conditions, and more benefits, and are actively organizing to form labor unions. Starbucks, once known for its progressive stance on employee benefits, is now grappling with the demands of its workforce for greater representation and collective bargaining power. A recent ruling by a US National Labor Relations Board (NLRB) judge has found that the company committed "egregious and widespread" violations of federal labor law in its stores in Buffalo and Rochester, New York⁵ (BBC News). The company is navigating the complexities of labor relations, as it seeks to balance the needs of its employees with the demands of its shareholders and customers. The ongoing push for unionization reflects a growing trend in the coffee industry and the broader labor movement, signaling that Starbucks, despite its global success, is not immune to the challenges of evolving labor dynamics in the 21st century.

Additionally, as younger generations gain increasing purchasing power, Starbucks encounters limitations in catering to their evolving preferences for healthier drink and snack options. With a growing awareness of health and wellness, younger consumers are opting for beverages and snacks that align with their desire for better nutrition and well-being. This shift in consumer preferences may impact Starbucks' traditional product offerings, which often include sugary drinks and high-calorie snacks. Starbucks may face challenges in adapting its menu to accommodate the changing demands of health-conscious younger consumers while still maintaining its brand identity and profitability. Finding a balance between offering healthier options and retaining the indulgent treats that have been a cornerstone of its menu could be a hurdle for Starbucks as it navigates the preferences of the younger generation with increasing purchasing power.

Starbucks also faces challenges related to ecological factors. As a company that relies heavily on coffee beans as its primary raw material, Starbucks is vulnerable to environmental factors such as climate change, deforestation, and changes in weather patterns that can affect the quality and availability of coffee beans. These ecological constraints can impact Starbucks' supply chain, as well as its sustainability commitments and reputation. Starbucks has taken steps to address these constraints through various sustainability initiatives, such as ethical sourcing practices, farmer support centers, and investments in farmer support centers, and investments in renewable energy⁶. However, continued efforts to mitigate the ecological constraints and promote sustainability throughout its operations are necessary for Starbucks to ensure the long-term availability of high-quality coffee beans and to meet the evolving expectations of environmentally-conscious consumers.

⁴<https://www.forbes.com/sites/qai/2022/12/19/starbucks-union-why-are-workers-unionizing-now-what-do-unions-really-mean-to-investors/?sh=2ef044f72144>

⁵ <https://www.bbc.com/news/business-64819774>

⁶ <https://www.qsr magazine.com/news/starbucks-investing-colombian-coffee-farmers>

Corporate Level Strategy

Starbucks is a world-class behemoth in the coffeehouse and specialty coffee retailers and shops industry, competing on a global scale with an omni-channel operating business unit model. Starbucks divides its operations into the following (with respective share-of-revenues)⁷:

- **North America** (72% share of revenue)
- **International:** China, Japan, Asia Pacific, Europe, Middle East, Africa, Latin America and The Caribbean (22%)
- **Channel Development** (6%)

According to their self-published *Starbucks Stories & News*, Starbucks strives to create and maintain repeat customer business by focusing on excellent customer service, premier products, and becoming the “Third Place” (other than the workplace or home) that an individual may visit to socialize, conduct business, or find a reprieve from the stresses of daily life⁸. Beyond their customer-focused corporate strategy, Starbucks also takes a holistic approach to considerations regarding their place as a leader in the global coffee market. Emerging out of the global Covid-19 Pandemic specifically, Starbucks has declared a renewed focus on the accelerated growth in emerging international markets. With the announcement of its seminal September 2022 “Reinvention Plan⁹”, Starbucks, in a push to grow EPS, plans to implement an expansion strategy with special focus on its international business unit. Stating with strategic intent, the initiative proclaims:

“Starbucks now expects global revenue growth in the range of 10% to 12% annually from fiscal 2023 to fiscal 2025. This represents an improvement from the company’s previous range of 8% to 10%, driven by priority investments that elevate partner engagement and store efficiency... (the) Starbucks International segment continues to accelerate growth for the company, with two-thirds of global retail growth over the next three years expected to come from its international business. Underpinning this strong foundation and ongoing momentum is the strength of the licensing model, acceleration of the digital Starbucks Experience, and the purpose-driven growth agenda in China.”

Market Expansion Strategy

⁷ <https://www.sec.gov/Archives/edgar/data/829224/000082922422000058/sbux-20221002.htm>

⁸ <https://stories.starbucks.com/stories/2022/starbucks-creating-the-digital-third-place/>

⁹ <https://stories.starbucks.com/press/2022/starbucks-enters-new-era-of-growth-driven-by-an-unparalleled-reinvention-plan/>

Further examination of the initiative that Starbucks is implementing to drive growth throughout the world reveals a tactical approach to recover any forward momentum that may have stalled during the period from 2020-2022 due to Covid-19 and its attendant sufferings, shutdowns, and shortages. In Starbucks' 2022 10-K they state

"Our strategy for expanding our global retail business is to increase our category share in a disciplined manner, by selectively opening additional stores in new and existing markets, as well as increasing sales in existing stores, to support our long-term strategic objective to maintain Starbucks standing as one of the most recognized and respected brands in the world" (Sbux 10-K).

Starbucks has realized that to stay relevant and competitive they must continue to grow their customer-retention rate. The easiest way for Starbucks to do this is to look to emerging markets where individuals may have the disposable income to spend on premium coffee. In order to fully capture wallet-share in the developing international market, Starbucks is adopting the following three-tiered diversification strategy (from *Unparalleled Reinvention*): Licensing, development of the digital Starbucks Experience, and a specific growth strategy for the Chinese market.

Licensing Model

The composition of the Starbucks International portfolio contains a substantial number of franchised-licensed stores. These entities drive a significant portion of the future growth potential of their markets, through their operational experience as well as through their expertise regarding local market structures and customer taste preferences. The licensing model positions franchise owners (operating license holders) not only as valued business partners, but also as collaborators in innovation, driving the creation of region-specific services and beverage offerings. By tapping into the unique benefits of the licensing model, Starbucks aims to foster growth internationally, exerting a key competitive advantage and enabling the company to achieve a higher return on invested capital. With over 17,000 licensed stores globally, including 6,500 in the U.S., the licensing model allows Starbucks to fully leverage its brand potential.

Digital Starbucks Experience

Despite the nascent stages of the digital life-cycle in many developing international regions, Starbucks has established a strong foundation to expedite digital growth during the expansion initiative put forth in the *Reinvention Plan*. With 28 million active Starbucks Rewards members globally, Starbucks is in possession of a user-data/metadata foundation that finds the company well-positioned to capitalize on its digital initiatives. As of September 2022, digital transactions comprised slightly more than 10% of all transactions in international licensed stores. To augment the company's

digital expansion efforts worldwide, Starbucks has launched Starbucks Digital Solutions, a dedicated platform designed exclusively for international markets. This platform will enable Starbucks to provide a consistent digital experience for both customers and partners, regardless of location. In turn, this effort should enhance Starbucks' brand value and wallet-share in the targeted international markets.

Purposeful Growth in Chinese Markets

Despite being Starbucks' second largest market (to North America), the general Chinese coffee market is still in an embryonic stage, presenting a well-positioned company the opportunity to capitalize on the region's potential for substantial growth. To fully leverage this potential, Starbucks has initiated a reevaluation of its infrastructure in China, with an eye toward reorienting its capacities toward accelerated growth plans. By focusing on a so-called flywheel approach (where growth becomes self-propelling through the compounding inertia of small "wins") that involves expanding store footprints, enhancing omni-channel capabilities, digitizing operations, deepening engagement with customers and partners, and extending coffee craft and innovation leadership, Starbucks aims to achieve a significant escalation of its operating income in China. In fact, the company expects to double its sales in the market within the next three years, driven in large part by a 50% projected increase in individual storefronts, ultimately totaling 9,000 stores by end-of-fiscal 2025. Through an application of this strategic approach, Starbucks leadership in the Chinese market is poised to develop and capture an increasing share of the regions' rapidly growing coffee consumer segment.

Summation and Critiques of Corporate Strategy

Overall, this corporate level strategy in relation to financial performance is sound and easily comprehensible: Move your business into regions that have opportunities for high growth, and dominate the market. To this point, Starbucks has done a great job at signaling this strategy to investors through their many in-house publications. However, a valid critique of this approach is that this *Reinvention Plan* program takes a substantial financial and reputational risk based on the assumption that consumers will continue to imbibe the same-or-increasing levels of coffee year-over-year in perpetuity. In our current inflationary environment, and with the signals of a global recession becoming more apparent, as evidenced by events such as the Credit Suisse and Silicon Valley Bank failures, individuals may begin to curtail their retail luxury-coffee consumption. Coffee outside of the home is considered a discretionary expense, not dissimilar to that of vacations or hobbies¹⁰. This propensity toward wallet-tightening has the potential to be even more pronounced in countries like China, which are relatively new to the

¹⁰ <https://www.seniorfinanceadvisor.com/resources/discretionary-non-discretionary-spend>

discretionary spending only recently afforded to the emergent Chinese middle-class. Post-COVID, frugal is becoming “the new cool” in China, and high end coffee is considered an unnecessary expenditure¹¹. To better hedge risk against inflationary pressures, Starbucks may see an opportunity to brand a new product line or experience to the lower end of the market, where coffee is seen as an at home staple (ex: the Folgers Coffee brand, which has survived not one, but two corporate acquisitions, is a household name in America with a 170 year history of coffee production, but is not considered a luxury brand¹²).

Business Level Strategy

Customer Segmentation

To evaluate Starbucks' business level strategy, it is important to consider who the company serves. Starbucks caters to a diverse range of customers based on various demographic, socioeconomic, geographic, psychological, and consumption factors. Based on the findings of a report entitled *Who is Starbucks' Target Market? Customer Characteristics & Marketing Strategy Analysis* by business blog Start.io¹³, the following paragraphs will go into detail on these factors for the Starbucks coffee brand.

Demographically, Starbucks serves customers of all ages, but its typical age range is between 22 and 60, with the average customer being 42 years old. The company caters to both sexes and highly educated individuals, including students, professionals, and employees. The typical Starbucks customer is single or newly married, as well as parents of younger or older children, and they tend to be from the middle to upper class. From a socioeconomic perspective, Starbucks' customers tend to be from higher-income households with a higher disposable income, averaging around \$90,000 per year. With higher levels of disposable income, these customers are willing to pay a premium for high-quality coffee and are often interested in premium food offerings as well.

Geographically, Starbucks has a global presence with stores in North America, Europe, Asia Pacific, the Middle East, Africa, and China. Within the American market, California has the largest quantity of retail locations (3,000+), which accounts for 19% of all U.S. presence in the sector. Starbucks stores are typically located in urban and suburban areas, with the majority located in high-traffic areas such as shopping malls, airports, and business districts. The company caters to both walk-in crowds and drive-thru customers. Psychologically, Starbucks targets busy achievers and explorers who have a

¹¹ <https://www.reuters.com/article/china-economy-frugality-idAFL4N3091DG>

¹² <https://www.folgerscoffee.com/our-story/history>

¹³ <https://www.start.io/blog/starbucks-target-market-customer-characteristics-marketing-strategy/>

budget to spare and spend. These customers place value in the brands they choose, are health-conscious, socially aware, and care about the environment. Finally, in terms of consumption patterns, Starbucks customers are loyal, often developing a habit of visiting the store regularly. Order pickups and drive-thru transactions are by far the most popular ways to purchase, comprising 80% of pre-pandemic ordering patterns, a figure that will surely experience an upward growth trend with the creeping ubiquity of digital-ordering platforms.

Value Proposition

Starbucks Coffee satisfies various needs of its customers by offering a high-quality coffee experience in a welcoming and comfortable environment. Its customer value proposition is focused on providing innovative, high-quality, convenient, diverse, and brand-oriented products and services¹⁴. Starbucks' value proposition is centered around innovation, which means that the company is constantly designing new and innovative products for its customers. They offer a wide range of coffee blends, including seasonal favorites, and a diverse range of other snack options such as sandwiches, pastries, tea, smoothies, and salads. Additionally, Starbucks only uses high-quality beans and trained roasters to work on them, ensuring that every cup of coffee is of the highest quality.

Convenience is another important aspect of Starbucks' value proposition. The company has made ordering products through its aforementioned app easy and simple, allowing customers to avoid long lines at the stores. This feature is especially helpful for busy professionals and young adults who are often looking for a quick yet enjoyable coffee break during their day. Starbucks' value proposition also emphasizes the variety of products it offers. The company has various blends of coffee and a wide range of other snack options, ensuring that there is something for everyone. Finally, Starbucks has built a strong brand identity that is recognized globally, and this adds value to the customer experience through its association with a quality product and mission-driven culture.

Differentiation Strategy

Starbucks Coffee satisfies its customers' needs by pursuing a product differentiation strategy. This is achieved through a unique value proposition centered around providing a high-quality coffee experience in an upscale environment, with exceptional customer service. Starbucks focus on creating a unique atmosphere and customer experience sets it apart from other coffee shops. It achieves this differentiation by using high-quality beans, offering a variety of products, and continually investing in innovation. Starbucks' approach to satisfying customer needs is evident in its focus on creating a comfortable and welcoming atmosphere, which encourages customers to linger and

¹⁴ https://businessmodelanalyst.com/starbucks-business-model/#Starbucks_Value_Propositions

enjoy their coffee. This approach is supported by Starbucks' use of technology to streamline the ordering process and provide added convenience to its customers. Starbucks' strategy of offering a wide variety of products and continually introducing new offerings ensures that its customers have a broad range of options to choose from.

Summation and Critiques of Business-Level Strategy

Overall, Starbucks' product differentiation business level strategy is successful as it targets a broad and diverse range of customers with different demographic, socioeconomic, geographic, psychological, and consumption factors. By focusing on high-quality coffee and premium food offerings, Starbucks has built a loyal and broad customer base that values the brand and is willing to pay a premium for the products. Starbucks also differentiates itself from other coffee shops by solving the unique problem of busy professionals and young adults who are looking for a quick yet enjoyable coffee break during their day.

With this context in mind, it is clear that Starbucks' business level strategy fits into the overall differentiation category as shown in **Figure 2** in the included Appendix. The company satisfies the need for a comfortable and welcoming atmosphere where customers can relax, recharge, and enjoy a high-quality coffee beverage. Through its customer value proposition, Starbucks delivers on its promise of providing innovative, high-quality, convenient, diverse, and brand-oriented products and services, making it a top choice for coffee lovers around the world. Risks associated with its chosen differentiation strategy, such as price differential and counterfeit goods, are mitigated by catering to an affluent customer base that is less price sensitive and less likely to seek out cheaper alternatives. Additionally, Starbucks' strong brand and reputation ensure that customers are unlikely to seek out imitations or counterfeit products.

Financial Performance Analysis

Over the last three years, Starbucks has witnessed steady revenue growth, with an impressive compound annual growth rate (CAGR) of 11%. The company's sales grew by 11% in 2022 (from \$29.06 billion to \$32.25 billion) and by a whopping 23.6% in 2021, (from \$23.52 billion to \$29.06 billion). The company's sources of revenue primarily come from Company-operated stores which sell its popular range of coffee beverages and food items which accounted for about 82.4% of the total revenue.

In addition to its brick-and-mortar stores, Starbucks has expanded its reach through strategic partnerships and licensing agreements, which have contributed 11.33% of its total revenue. Other revenues which contain the launch of Starbucks Rewards, royalty

revenue in the Global Coffee Alliance and ready-to-drink business accounted for 6.27% of its total revenue as per Starbucks's 2022 Annual Report¹⁵. Furthermore, Starbucks has invested heavily in its digital infrastructure, enabling it to cater to the changing preferences of its customers. The company's robust online ordering system, delivery options, and mobile payment capabilities have helped it to attract new customers and retain existing ones.

Starbucks has demonstrated impressive revenue growth over the last three years, driven by its diverse revenue streams, strategic partnerships, and investment in digital infrastructure. As noted above, the company's strong brand recognition and customer loyalty position it well for continued growth and success in the highly competitive food and beverage industry across different demographics. As such, Starbucks represents a compelling investment opportunity for discerning investors looking for long-term value. In the last 5 years, the share price of Starbucks ticker \$SBUX has given 73.71% uptick in value, while the computation *Total Return to Shareholder*, which offers a comprehensive examination of investment earnings by including dividends paid, shows a robust 181.16% TRS for the fiscal periods 2018-2022¹⁶ (**Figure 3**).

Competitor Financial Analysis & Key Indicator Comparisons

We completed a financial analysis of two companies that are currently competitors of Starbucks in the coffee and quick-service restaurant market, for the purpose of comparison. When it comes to the coffee and quick-service restaurant industry, Starbucks, Dutch Bros, and Dunkin Donuts are all major players with significant market share.

Starbucks is a global brand with a strong reputation for quality coffee and a wide range of food offerings. The largest player in the group, Starbucks claims the highest revenue and market capitalization of \$32.25b and \$120b, respectively. The company's digital initiatives, such as its mobile ordering and rewards program, have been incredibly successful in engaging its customers and driving repeat business. However, the company's premium pricing and focus on urban markets may limit its appeal to certain demographics.

Dutch Bros, on the other hand, is a rapidly growing chain with a loyal customer base that appreciates its friendly service and unique coffee offerings. The company has built a strong brand by emphasizing its commitment to social responsibility and community

¹⁵ <https://investor.starbucks.com/financial-data/annual-reports/default.aspx>

¹⁶ <https://www-mergentonline-com.ezproxy1.lib.asu.edu/equitypricing.php?pagetype=report&compnumber=73271&page=32&sort=DESC>

engagement. Dutch Bros has demonstrated explosive growth with a CAGR of 31%, but it is possible that the company's relatively niche Generation-Z core consumer demographic footprint may otherwise limit its growth potential in the near-term.

Dunkin' Donuts has a long-standing reputation for serving affordable coffee and donuts. The company has faced challenges in recent years, with slowing sales growth and increased competition from other coffee chains (such as Starbucks). Recently rebranded as Dunkin', the company was acquired by privately held company Inspire Brands as of December 15, 2020¹⁷. While this limits our ability to analyze the company's retail operations, Dunkin' has also, since 2015, been partnered with publicly-traded J.M. Smucker for the production vertical of Keurig-Coffee "K-cup" packs of Dunkin' coffee. The company has a wide range of menu offerings, and a large network of franchised stores, which allows it to reach a broad consumer audience. J.M. Smucker leads the U.S. at-home retail coffee category with brands like Dunkin', Folgers, Café Bustelo, Café Pilon and Medaglia D'Oro¹⁸.

Starbucks and JM Smucker both have strong inventory turnover ratios, indicating efficient inventory management. Dutch Bros has a relatively high inventory turnover ratio, but this could be due to the company's limited product offerings. Overall, while Dutch Bros has shown impressive growth, it remains to be seen if the company can generate consistent profits. Starbucks and JM Smucker, on the other hand, have demonstrated stability and profitability over the last 3 years.

Company	Year	Revenue in Millions	Revenue Growth %	EBITDA Margin %	Net Margin %	EPS	ROA %	Quick Ratio	Inventory Turnover	Cash Flow per Share
Starbucks (SBUX)	2022	\$ 32,250	11.00%	18.34%	10.20%	\$ 2.83	11.1%	0.48	5.46	3.82
	2021	\$ 29,060	23.60%	23.66%	14.50%	\$ 3.54	13.6%	0.95	5.54	5
	2020	\$ 23,518	-11.30%	11.66%	4.00%	\$ 0.79	3.83%	0.75	5	1.37
Dutch Bros (BROS)	2022	\$ 739	48.69%	4.10%	-2.60%	\$ (0.09)	-0.55%	0.12	17.84	1.15
	2021	\$ 497	51.99%	18.64%	-23.7%	\$ (0.28)	-20%	0.15	17.78	1.75
	2020	\$ 327	37.00%	7.08%	1.85%	\$ -	2.67%	0.58	15.98	0
JM Smucker (SJM)	2022	\$ 7,998	-0.10%	15.50%	7.90%	\$ 5.83	3.91%	0.35	5.17	10.53
	2021	\$ 8,002	2.60%	19.60%	10.90%	\$ 7.79	5.27%	0.3	5.24	13.97

¹⁷<https://inspirebrands.com/inspire-brands-completes-acquisition-of-dunkin-brands>

¹⁸ <https://www.jmsmucker.com/brands-you-love/coffee>

	2020	\$ 7,801	-0.50%	18.28%	9.90%	\$ 6.84	4.62%	0.59	5.32	11.04
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Table Sources: www-mergentonline-com, 10 K Annual Reports for Starbucks, Dutch Bros & JM Smucker

Stock & Valuation Analysis

In terms of market valuation, Starbucks has the highest market cap among the three companies, standing at \$120.31 billion, followed by J.M. Smucker at \$16.7 billion, and Dutch Bros at \$5.16 billion. When it comes to the P/E ratio, Starbucks has a higher P/E ratio at 35.1, indicating that the market is willing to pay a higher price per earnings for the company's stock compared to the other two companies' due to worldwide footprint and brand recognition. J.M. Smucker also has a relatively high P/E ratio of 29.8, while Dutch Bros does not have a current P/E ratio available. In terms of price-to-sales (P/S) ratio, Starbucks has a P/S ratio of 3.6, which is higher than JM Smucker's P/S ratio of 2.1 and Dutch Bros' P/S ratio of 2.23. Finally, the EV/EBITDA ratio shows that Starbucks has a higher ratio of 21.5 than J.M. Smucker of 14.7.

Company	Stock Price Change over 5 years	Total Valuation (Market Cap)	Price to Earning (P/E) Ratio 2022 Actual	Price to Sales (P/S) Ratio 2022 Actual	EV/EBITDA
Starbucks (SBUX)	73.71%	120.31 B	35.1	3.6	21.5
Dutch Bros (BROS)	-12.00%	5.16 B	-	2.23	-
JM Smucker (SJM)	27.50%	16.7 B	29.8	2.1	14.7

Table Sources: www-mergentonline-com, 10 K Annual Reports for Starbucks, Dutch Bros & JM Smucker

Again, Dutch Bros does not have an available EV/EBITDA ratio due to its negative net income. Overall, Starbucks has the highest market valuation, a relatively high P/E ratio, and a higher P/S ratio, but has a higher EV/EBITDA ratio compared to J.M. Smucker. Dutch Bros has a lower market valuation, no available P/E ratio, and no available EV/EBITDA ratio compared to the other two companies because it's a new market entrant and relatively new and growing coffee business.

STEEP Analysis

With a mission focused on "nurturing the human spirit," Starbucks has asserted itself as a dominant force in the coffee industry. As mentioned in sections above, the company has accomplished this through a differentiation strategy, focusing on a personalized

and cozy experience through coffee. Predominantly, this has been accomplished through the environment and level of service created in its brick-and-mortar retail stores.

In its retail stores, customers are served by their name, and comfortable leather chairs create an upscale and welcoming environment that invites human connection. Customers can purchase an array of made-to-order customized drinks, as well as retail items like cups and coffee beans. The experience is upscale and the prices are set to match the experience.

While Starbucks has set itself apart from other coffee shops, becoming a global force, consumer preferences and technology are changing, causing a threat to Starbucks' successful business model. In order to continue refining its products and enhancing experiences for customers, Starbucks has innovatively introduced its "Tryer Center," a full time shop at its corporate offices dedicated to flavor and process innovation. In the Center, employees are encouraged to try new connotations or modify any processes that might improve the customer experience. The Center adopts a try-and-test concept that encourages failure to innovate¹⁹. The company has also introduced a mobile platform that allows customers to order ahead, pay through the app, or browse products online.

Despite Starbucks' efforts to continuously innovate, a number of strategic factors present in the macro environment (**Appendix**) may prevent the company from continued success if they are not able to quickly adapt to changing customer preferences and global digitization. In fact, the company has often been criticized for its failure to adopt new technology and enter the modern era of business in favor of their experience-driven business model. This failure to adapt to new technology in a timely fashion cost the company in China, a country which was previously Starbucks' "second-largest market after the United States," up until recently²⁰. As the Chinese have shifted to an e-commerce and delivery-preferred market, Starbucks' lack of delivery options cost them market share. The Company has since partnered with Alibaba to address this issue, but will it be enough, or will it be too late?

In addition to considering impacts of digitization and shifting consumer preferences, the company needs to consider how to maintain its competitive advantage and profit margins in the face of rising costs as a result of a number of factors. First, the company is up against several potential unionization efforts, which may increase cost of labor. Second, extreme global inflationary pressures are causing increased costs of raw materials and every other facet of the business. Third, supply chain and climate change impacts are reducing the availability of quality raw product, which increases raw material and logistics costs. The company will need to consider these risks and its profitability as it competes with lower cost automated competitors and in-home options.

¹⁹ <https://stories.starbucks.com/stories/2019/inside-the-tryer-center-the-starbucks-lab-where-anything-is-possible/>

²⁰ <https://www.nytimes.com/2018/08/02/business/starbucks-china-alibaba.html>

Differentiation and customization are a core piece of the Starbucks brand. If abandoned all together, this could have a deteriorating effect on the company's brand image and customer loyalty. Yet, maintaining these qualities presents a challenge as the company faces fierce competition and a squeeze in profit margins due to rising costs. The company must strike a balance of adhering to new customer needs, while being mindful of emerging competition and maintaining its brand identity. **As automation, digitization and customer preferences shift, what must Starbucks do to maintain its profitability and market dominance in multiple regions and prevent its customers from defecting in favor of more progressively digital coffee brands?**

Appendix

STEER Analysis

Category	Factors	Impact
Sociocultural	<p>Changing customer preferences toward healthier options</p> <p>Shift to virtual work</p> <p>Growing middle class</p> <p>Perceptions of corporations</p> <p>Demand for superior grade beans</p>	<ul style="list-style-type: none"> • Younger generations with increasing purchasing power are opting for healthier drink and snack options, which may impact the products Starbucks sells. • Since the COVID-19 pandemic, the population working virtually has increased, meaning more people may opt to work at locations like coffee shops since the world has reopened. • Globally, the world is experiencing a rising population of middle class households, increasing the expendable income customers have to spend on luxury items like coffee. • A younger, more liberal population is demanding more from corporations in terms of ESG, and corporations are scrutinized more heavily for perceived greed and their role in social issues. Starbucks had its own inclusion concerns when it refused to allow a black man to use its restrooms several years ago. • Customer preferences are shifting to higher quality ingredients, including the quality of beans used for coffee, which impacts the sourcing for Starbucks products.
Technological	<p>Automation</p> <p>Digitization / rise of e-commerce</p> <p>Improving home coffee technology (in-home espresso makers, etc)</p> <p>Customer desires for product and process innovation</p>	<ul style="list-style-type: none"> • Automation of processes is increasing across industries. In the coffee industry, robotic coffee stands have been introduced at locations like airports and malls. Automation of coffee service impacts competition in the market and profit margins for the company. • Global digitization and the rise of e-commerce are driving out retail stores in favor of online retail. This has caused Starbucks to adopt a mobile app for ordering ahead. It has also caused the company to fall to the number two spot for market share in China, one of its most important markets, for failure to adopt delivery technology quickly enough. • Improving in-home coffee technology, like in-home espresso makers, is making it more affordable for consumers to have high-end coffee beverages from their home for cheaper. This is creating more competition for Starbucks. • Increasingly, customers are desiring greater product and process innovation from companies, especially from the Millennial generation who is known to be adventurous. This is causing the industry to be constantly seeking new products and ways to delight customers. To address this, Starbucks has introduced its "Treyer Center," a place for flavor and process innovation.
Economic	<p>Inflationary pressures</p> <p>Growth in developing markets</p> <p>Employment / labor</p>	<ul style="list-style-type: none"> • Globally, extreme inflation is adding pressures to all industries, causing rising costs in all facets of operations. These include consumer retail costs, business-to-business costs, supply costs, labor costs, and foreign exchange rates. This is impacting profits margins and ability to remain price competitive. • The ascendancy of the Global Middle Class is creating a larger market for high-end coffee products. • With ongoing threats of unionization and labor

		shortages, costs of employment are on the rise for companies like Starbucks.
Ecological	<p>Customer interest in corporate sustainability</p> <p>Climate change</p> <p>Water supply constraints</p> <p>Global carbon reduction efforts</p>	<ul style="list-style-type: none"> • Customers are taking a larger interest in corporate sustainability practices, such as reduction of single use plastics and the proactiveness of companies offsetting their total carbon footprint. This is causing Starbucks to seek opportunities for reusable / bring-your-own cups, among other initiatives. • Climate change is causing rising global temperatures, more intense storms and natural disasters, and increasing drought in prone regions. Low volume of rainfall in key coffee producing regions, as well as increasing wildfires, scorching temperatures and devastating storms are threatening crops and reducing crop output, thereby reducing available supply and driving up costs for supply to make coffee. • As droughts worsen across the world, water supply availability is increasing concerning and causing constraints for businesses. Today, it takes 149 liters of water to produce the equivalent of one eight ounce cup of coffee. As constraints lead to policy change or unavailability of resources, companies like Starbucks must consider new ways of creating their product.
Political	<p>Fair trade</p> <p>Unionization Efforts / Dept of Labor</p> <p>Import practices / tariffs</p>	<ul style="list-style-type: none"> • Policy for fair trade practices in the coffee industry limit the available supply and sourcing for the company. • Threats and potential for unionization are on the rise. Potential unionization will increase the policy applied to Starbucks employment terms and the costs to serve its customers. • Import policies and rising conflicts globally are impacting supply chains. As import tariffs change, this impacts Starbucks ability to control costs and obtain raw materials in a timely fashion.

Figure 1: Starbucks Key Financials

Key Financials

(In USD as of 01/01/2023)

Income Statement

Revenue	32,914m
Net Income	3,321m
EPS from Continuing Operations	2.87
EPS - Net Income - Diluted	2.87
Revenue per Share	28.66

Balance Sheet

Total Assets	28,256m
Total Liabilities	36,930m
Shareholders' Equity	-8,674m
Total Assets per Share	24.60
Net Assets per Share	-7.55

Cash Flows

Cash from Operations	4,120m
Cash from Investing	-2,025m
Cash from Financing	-2,677m
Capital Expenditures	1,941m
Cash Flow per Share	3.57

Figure 2: Business Level Strategy 2x2 Matrix



Figure 3: Total Return to Shareholders Analysis

Dividends Paid 2018 thru 2022	\$ 5.78
Stock Price Opening 2018	\$ 57.95
Stock Price Closing 2022	\$ 99.20
Total Return to Shareholders (TRS)=	181.16%

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Tasks 1-5 will be completed and submitted in a written report. The written report shall be single-spaced, in 12pt font, with 1" margins. It may be no longer than 10 pages, with an additional cover page and separate page for references. **All work must be fully cited using in-text footnotes.** Only one member of your team should submit your completed presentation to Canvas.