

# OXFORD ECONOMICS

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## **The economic impact of Starbucks on the UK economy**

**A report for Starbucks  
June 2013**



**OXFORD  
ECONOMICS**

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## Executive Summary

This report investigates the economic contribution Starbucks' 738 stores and their support operations made to the UK economy in 2011/12. It explores the impact of the firm's own activities, its procurement of inputs of goods and services from domestic suppliers and the effects of its staff spending the wages it pays.

The main points are:

### **Starbucks makes a significant contribution to the UK economy.**

- Starbucks is estimated to support a total gross value added contribution to UK GDP of £338 million. To give a sense of scale, this is about the size of the contribution produced in Teesdale.
- The firm supports about 13,100 people in employment. Of these, it employs 8,810 directly, 3,200 work in its supply chain and 1,100 are in jobs dependent on its staff spending their wage income.

### **Starbucks' own contribution...**

- Starbucks earned £413 million in revenue in 2011/12. On this income, the company made a £119 million gross value added contribution to UK GDP. Its contribution to economic output is similar in size to the footwear manufacturing industry or translation and interpretation activities.
- In 2011/12, Starbucks employed 8,810 people in the UK. Starbucks workforce is young, with 46% of its employees aged under 24 years old. This compares to 30% for retailing and 12% for the whole economy. The opportunities it offers are important for the age group with currently the highest unemployment rate.

### **...purchases significant amounts from UK suppliers**

- An average Starbucks store located on a UK high street served 221,200 cups of coffee and 19,700 cups of tea in 2011/12. With these drinks customers bought 50,100 cakes, muffins and croissants and 22,800 sandwiches, paninis and salads. Many of these products were sourced from UK suppliers.
- Around 21% of Starbucks' expenditure on inputs sourced from UK suppliers was on bakery-related products and nearly 7% on milk. Starbucks' purchased nearly 50 million pints of milk in 2011/12, equivalent to the output of 1 in every 600 of the cows in the UK dairy herd.
- Starbucks' largest expense was on the rental of property for its stores.
- In 2011/12, Starbucks purchased £199 million of inputs of goods and services from domestic suppliers. This expenditure supported a £172 million gross value added contribution to UK GDP and employed 3,200 people.

## **Its payment of wages financed considerable consumer expenditure...**

- Starbucks paid its staff £84 million in wages in 2011/12. The firms in its direct supply chain are estimated to have paid their staff another £91 million. The spending of this wage income at retail and leisure outlets is estimated to support a £48 million contribution to UK GDP and employ 1,060 people.

## **But Starbucks also impacts the UK economy through what it enables...**

### **...contributed to the creation of a coffee drinking culture**

- Starbucks' (along with the other quality coffee retailers) offering has created a coffee drinking culture in the UK. This has created revenue streams other firms: food-based chains, pubs and supermarket restaurants now serve better quality coffee; department stores sell coffee machines, cups and mugs; and supermarkets sell pods, syrups and toppings.
- Starbucks continues to innovate to improve its offering. In 2011/12, a fifth of its revenue came from new products. This percentage is well above the 6% median for the food and beverage sector. As well as increasing its own revenues, the company's innovation will have spillover benefits for other companies. Other coffee shops are likely to imitate successful new coffee and food products or store designs, whilst retailers will benefit from the sale of new coffee machines, equipment and home consumption products.

### **...helps to regenerate the high street**

- The company contributes to the vitality and viability of the high street and other retail areas. A survey of customers in one store found that 6% of those interviewed were on the high street specifically to visit Starbucks, 59.5% had planned to visit the store and 91% felt the store added to the high street's attractiveness.

### **...develops the productive potential of its young workforce**

- Starbucks' workforce is very young. Like many other retailers it serves as a gateway employer, raising the productive potential of its young recruits through the training and skills it imparts. This should enhance the potential output of the economy and the labour market outcomes the staff achieve over their career.
- In September 2012, Starbucks committed to employing 1,000 new Level 2 apprentices over the next two years. Academic studies suggest this level of apprenticeship offers a wage premium of 16% and raises the likelihood of being employed over a person's working lifetime by 2.7%.

# 1 Introduction

## 1.1 Purpose of report

The objective of this report is to investigate the economic contribution of Starbucks to the UK economy.

This contribution is quantified in terms of impacts from:

- The operation of Starbucks in the UK;
- The supply chain effects created by Starbucks purchases of inputs from elsewhere in the UK economy.
- The consumer expenditure of Starbucks' staff and those employed directly in its supply chain spending their wage income.

The report also discusses aspects of Starbucks UK operations that are likely to play a more diffuse role in supporting the performance of the overall economy and the localities in which Starbucks has a presence.

The report comprises six chapters as follows:

- **Chapter 2** focuses on the economic contribution to value added and the number of people employed by Starbucks operations in the UK.
- **Chapter 3** explores the impacts on the economy, again in terms of value added and employment that Starbucks purchases from its UK supply chain creates and its staffs' spending their wage income.
- **Chapter 4** aggregates these operational, supply chain and wage consumption effects to provide an overall quantification of the impact on the UK economy from Starbucks activities.
- **Chapter 5** discusses the wider, 'catalytic' contributions that Starbucks makes to the UK economy.

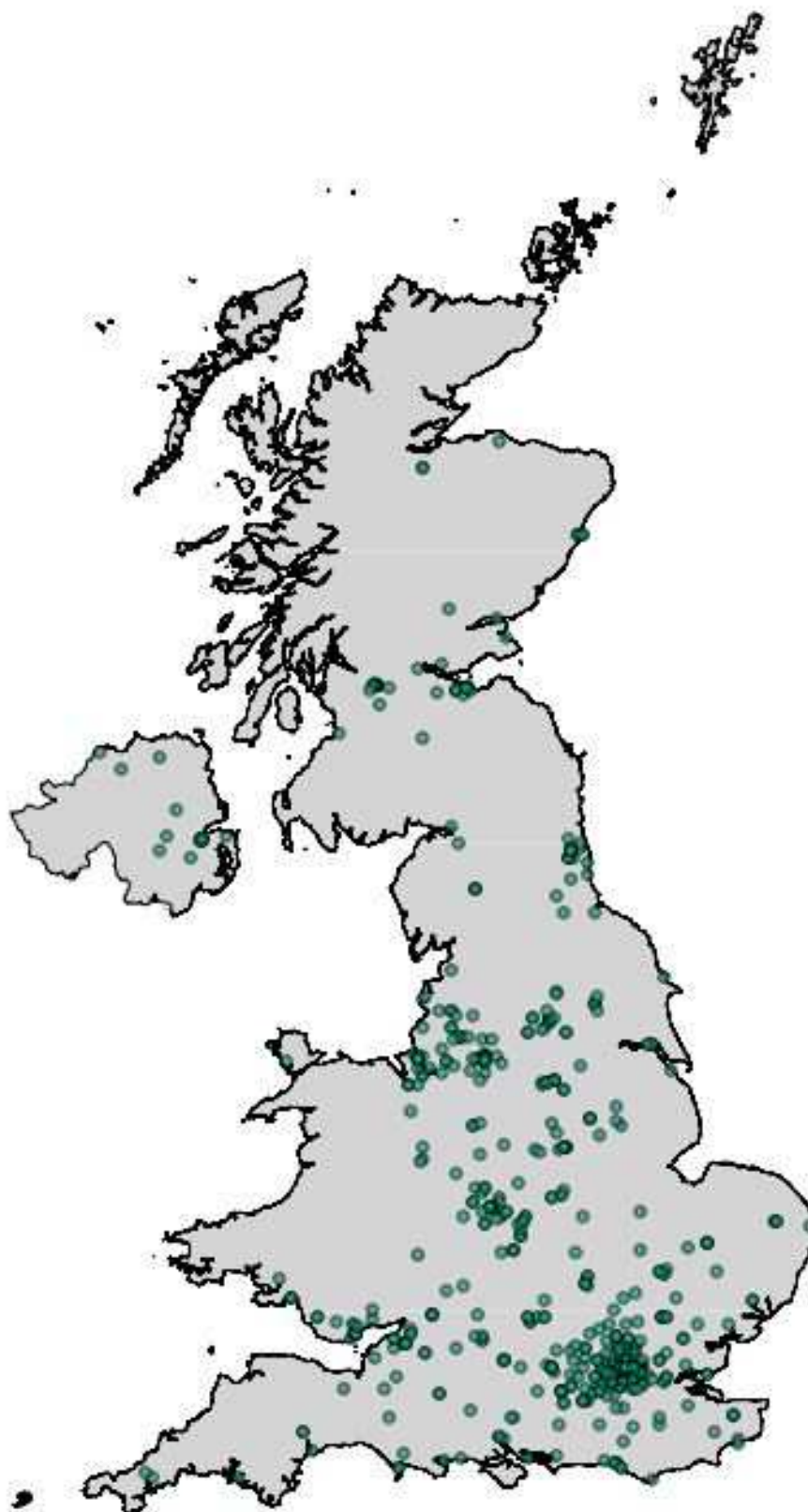
First, the report provides an overview of Starbucks operations in the UK and an introduction to economic impact analysis.

## 1.2 Introduction to Starbucks

The first Starbucks coffee shop opened in Seattle in 1971, developing into an Italian coffeehouse inspired chain of outlets in the US in the mid-1980s. Part of this vision was the creation of a place for conversation and a sense of community, sometimes termed a third place between work and home. Today Starbucks sees its mission to inspire and nourish the human spirit, one person, one cup, and one neighbourhood at a time. Today, Starbucks operates 15,000 stores in 50 countries.

Starbucks opened its first shops in the UK 14 years ago and now has 738 outlets nationwide, covering all the main centres of population in the UK (Figure 1.1).

Figure 1.1: The location of Starbucks outlets at end 2012



## 1.3 An introduction to economic impact analysis

A standard economic impact assessment identifies three channels of impact that stem from an activity:

- The *direct effect* encompasses the economic activity generated at Starbucks stores' and other operational locations in the UK.
- The *indirect effect* encapsulates the activity supported in Starbucks' UK-based supply chain as a result of its procurement of inputs of goods and services. It should be noted that this supply chain impact relates to current expenditures only. In Starbucks case this channel of impact includes the supply chain behind the operation of its outlets in the UK, plus the inputs UK suppliers sell into other parts of Starbucks' global business.
- The *induced effect* captures the impact of staff employed as a part of the direct and indirect effects spending their wages. This supports activity at the retail and leisure outlets they visit and their supply chains.

## 1.4 The metrics of economic impact

In accordance with standard economic impact assessments, the scale of Starbucks' impact is measured using two key metrics:

- *Gross value added* – Gross value added (GVA) is the contribution an institution, company or industry makes to Gross Domestic Product (GDP).<sup>1</sup> GVA is most simply understood as turnover (i.e. value of sales) minus the cost of bought-in goods and services used up in the production process.
- *Employment* – Employment is measured in terms of headcount rather than full-time equivalence. This enables comparisons to be made with ONS statistics, which are recorded on a headcount basis.

The results are reported in gross terms. This means that the quantification does not seek to take into account what would happen if Starbucks did not have a presence in the UK and did not buy UK inputs for its global operations.

Nor does this report look at displacement from Starbucks, where economic activity is reduced elsewhere as a result of its existence. This may happen at Starbucks competitors.

Thus quantifying net, as opposed to gross effects, is challenging, particularly as it requires assumptions to be made about consumer preferences if Starbucks did not exist.

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<sup>1</sup> GDP is the main 'summary indicator' of economic activity in the UK economy. References to the rate at which the UK economy is growing (or when it enters recession) are made using GDP.

## 2 The economic impact of Starbucks' UK operations

This chapter highlights the scale of Starbucks' UK operations, its contribution to UK GDP and the number of people it employs.

### Key points

- In 2011/12, Starbucks earned £413 million in revenue. Of this income, 27% was earned by its outlets on the high street, 16% from premises it licenses to sell its product and 14% from its outlets located in offices.
- On the income it earned, Starbucks made a £119 million gross value added contribution to UK GDP in 2011/12.
- In 2011/12, Starbucks employed 8,810 people in the UK. Of these, 89% were employed in sales and customer facing roles.
- Starbucks workforce is young, with 46% of its employees aged under 24 years old. This compares to 30% for retailing and 12% for the whole economy. The opportunities it offers are important for the age group with currently the highest unemployment rate.

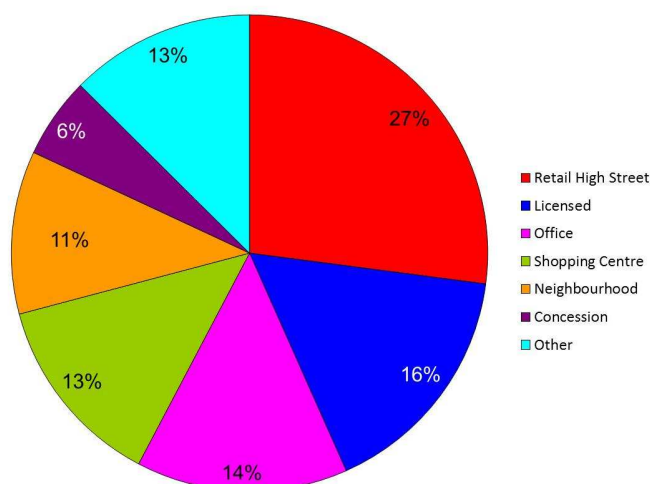
### 2.1 Direct contribution of Starbucks to the UK economy

#### 2.1.1 Revenues

Starbucks' UK generated £413 million of revenues in 2011/12, a rise of 3.9% on the previous year. Of this, 78% was generated in store by sales of coffee, tea, and fresh food items.

Starbucks operates outlets in a number of different settings, including high street shops, office coffee bars, shopping centres, in-supermarket concessions and in a range of other locations, including travel hubs and retail parks. Chart 2.1 shows the breakdown of sales by outlet type in 2011/12.

**Chart 2.1: Starbuck revenues by outlet type in 2011/12**



Source : Starbucks



Starbucks' high street presence accounted for over 27% of UK revenues in 2011/12. Sales in outlets operated by licensees, typically located in locations such as airports, colleges or hotels where Starbucks cannot operate a wholly-owned store generated 16% of revenues, followed by outlets in office blocks with 14% of total turnover.

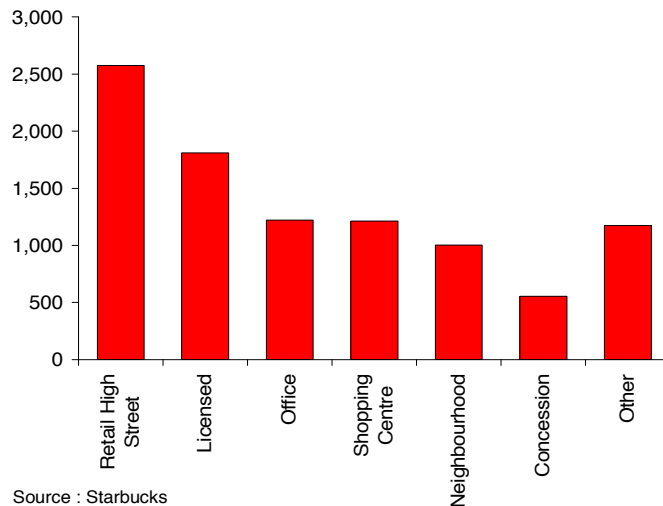
## 2.1.2 Gross value added (GVA)

Starbucks direct gross value-added contribution to the UK's GDP is equivalent to the sum of its employment costs plus profits<sup>2</sup> generated in the UK. In the financial year 2011/12 this contribution amounted to £119 million. To give a sense of scale its contribution is similar in size to footwear manufacturing<sup>3</sup> and translation and interpretation activities which contributed £118 million and £111 million to UK GDP, respectively.

## 2.1.3 Employment

Starbucks' total UK headcount in 2011/12 stood at 8,810, up 0.4% from the year before. To give a sense of scale this is slightly more than are employed in the sound recording and music publishing industry or the sawmilling and planing of wood industry which both employed 8,000 people.<sup>4</sup> By location, the greatest concentration of its staff work in stores located on the high street (27%). Premises licensed to sell its products (19%) and outlets in offices (13%) rank second and third in importance (Chart 2.2).

**Chart 2.2: Starbucks employment by location in 2011/12**



Consistent with the split of staff between stores and head office and support roles, the bulk of Starbucks' employees work in Sales and customer sales occupations. As shown in Chart 2.3 over 89% for Starbucks employees are involved in jobs that involve sales and interacting

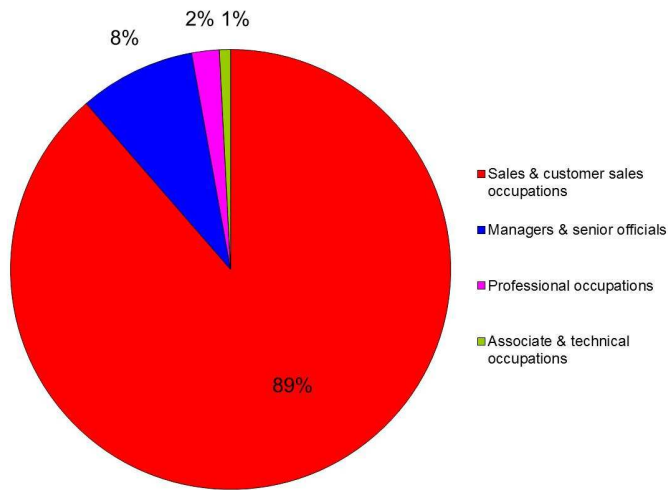
<sup>2</sup> Formally earnings before interest, tax, depreciation and amortisation (EBITDA) expenses.

<sup>3</sup> Data for Manufacture of footwear (Standard Industry Classification (SIC) 15.2 and Translation and interpretation activities SIC 74.3 from ONS (2012), 'Annual Business Survey 2011', 15 November.

<sup>4</sup> Data for Sound recording and music publishing SIC 59.2 and Sawmilling and planing of wood SIC 16.1 from ONS (2012), 'Annual Business Survey 2011', 15 November.

with customers. The next biggest occupational type of job offered by the company involves Manager and senior officials type tasks.

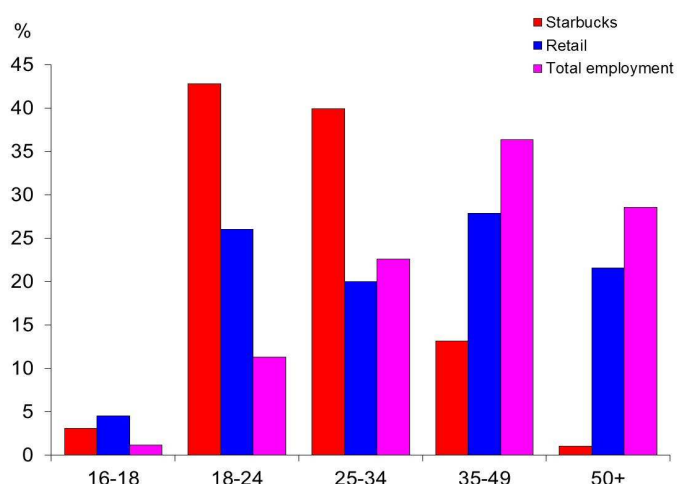
**Chart 2.3: Starbucks – employee occupational classification in 2011/12**



Source : Starbucks

Starbucks has a very young workforce, with 46% of employees aged under 24. This compares with the share of under 24 year-olds in total employment in the UK of 12%. Even in terms of retailing, which has a much younger workforce than the average across the economy, Starbucks' employees are more heavily weighted to younger age groups. In 2009 just over 30% of employees in retailing were under 24, considerably below the Starbucks share of 46% (Chart 2.4). Thus, Starbucks employment profile is focussed on the age groups in the UK labour market currently facing the highest unemployment rates. ONS data for end 2012 show the unemployment rate for 16 to 24 years olds is 20%, relative to 8% for

**Chart 2.4: Starbucks employees by age in 2011/12 relative to total employment and retail employment**



Source : Oxford Economics, ONS and Starbucks

all people in the labour force between 16 and 64 years old.<sup>5</sup>

Jobs at Starbucks are largely full time. In 2011/12, 85% of the 8,810 workforce were employed on a full time basis. This compares to 73% of people employed across the whole UK.<sup>6</sup> Full time employment allows people to accumulate productivity enhancing skills and expertise more rapidly due to the greater length of time they spend at the workplace.

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<sup>5</sup> ONS, (2013), 'Labour market statistics: A05 - Labour market status by age group', 23 January. Data for September to November.

<sup>6</sup> ONS, (2013), 'Labour market statistics summary data tables AO1', April.

### 3 Starbucks' indirect and induced impacts

Starbucks' purchases of inputs and the spending of wages earned both in Starbucks outlets and in companies supplying Starbucks add to the company's economic footprint in the UK.

#### Key points

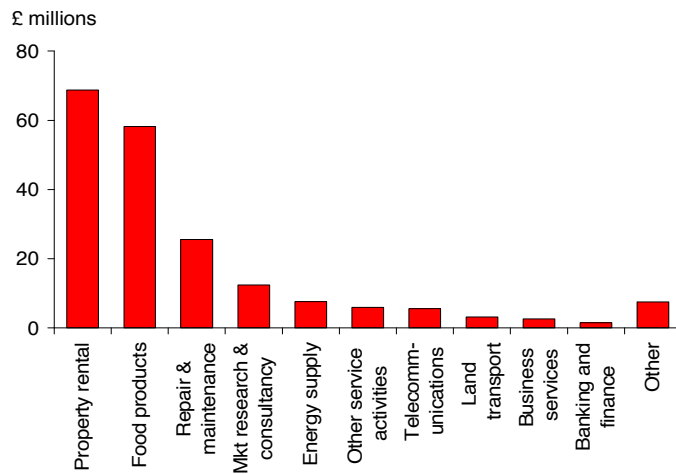
- In 2011/12, Starbucks purchased £199 million of inputs of goods and services from UK suppliers. Major items of spend were rent (34%), food products (29%) and repairs and maintenance (13%).
- Starbucks' UK operations bought inputs from nearly 970 different domestic suppliers. They were located in 237 (or 58%) of the UK's local authorities. By region, Starbucks spent the most (46% of total) on suppliers located in London.
- Starbucks' procurement generated economic activity in its supply chain that supported a £172 million gross value added contribution to UK GDP and employed 3,200 people.
- In 2011/12, Starbucks paid its staff £84 million in wages. The firms in its direct supply chain are estimated to have paid their staff another £91 million. The spending of this wage income is estimated to support a £48 million contribution to UK GDP and employ 1,060 people.

#### 3.1 Starbucks' procurement from UK suppliers

Starbucks operations in the UK rely on suppliers spread across the country and internationally. In 2011/12, Starbucks procured £199 million of inputs of goods and services from around 970 different UK businesses.

The purchases made by Starbucks to undertake its operations in the UK come from a wide range of industries. Chart 3.1 shows the categories of Starbucks current expenditure in the UK in 2011/12. About 63% of spending on inputs is accounted for property expenses (£67 million) and food products (£58 million). Construction costs (largely maintenance) make up a further 13% (£26 million) of bought-in costs. Other important suppliers to Starbucks include consultancy businesses, energy providers, IT companies, logistics and cleaning businesses.

**Chart 3.1: Starbucks purchases of inputs of goods and services from UK suppliers in 2011/12**



Source : Oxford Economics and Starbucks

Starbucks renting of property is widely spread across property companies in the UK. Out of the 116 property companies for whom Starbucks is a customer, there are 13 with which Starbucks spent over £1 million in 2011/12, while there are a further 17 where the annual spend is over £0.5 million.

Starbucks expenditure on food includes purchases of sandwiches<sup>7</sup>, salads, muffins, cookies, pastries and milk. Around 21% of Starbucks spend is on bakery-related products, while nearly 7% is on milk. Starbucks is an important client of both these industries. For example, Starbucks purchased the equivalent of nearly 50 million<sup>8</sup> pints of milk in 2011/12. This is equivalent to nearly 0.2% of the output of the UK dairy herd – or put another way the milk produced by nearly 1 in every 600 of the UK's dairy herd is consumed by Starbucks' customers.<sup>9</sup>

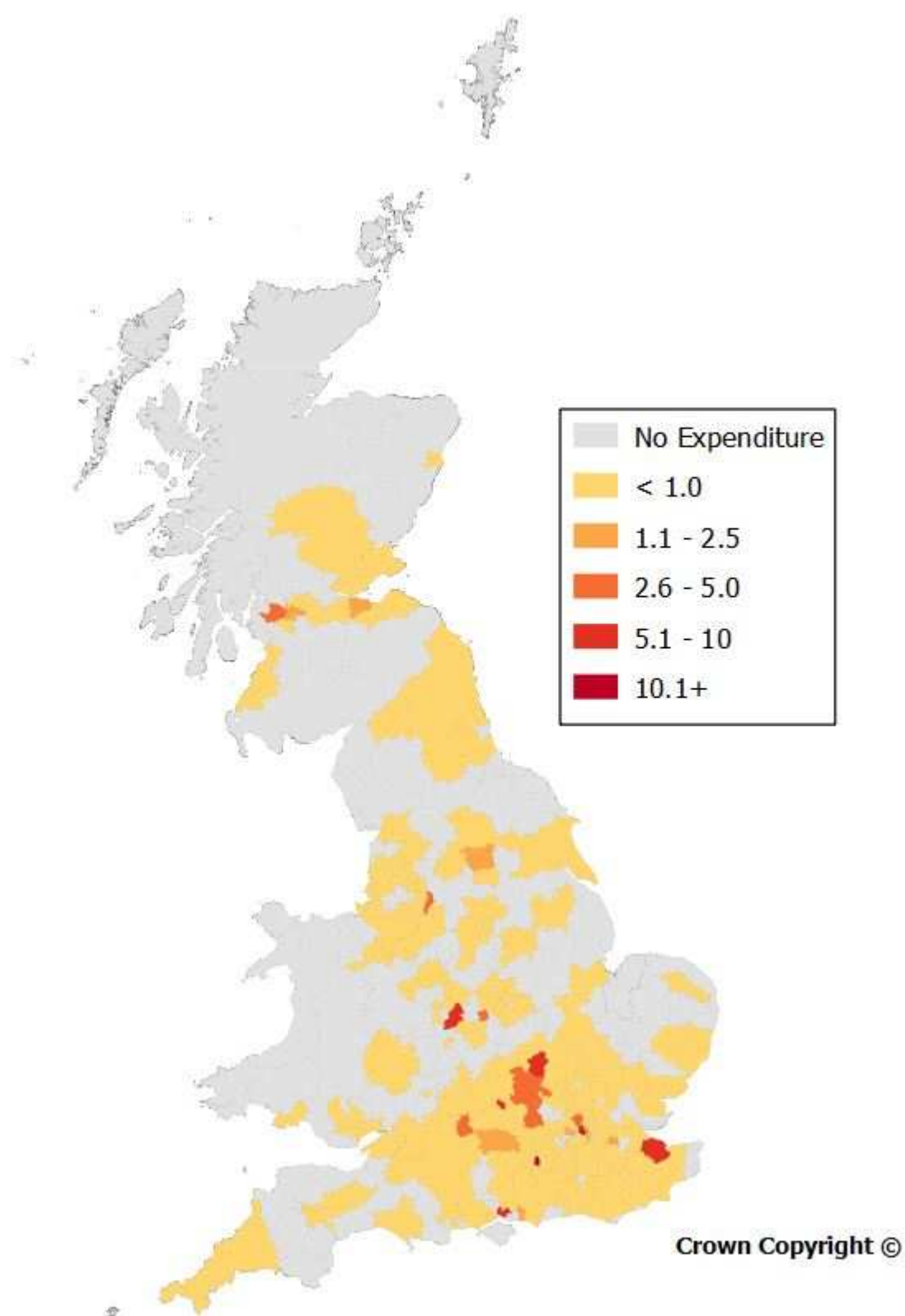
The map in Figure 3.1 shows Starbucks sources its inputs from suppliers which are widely spread across the UK. Analysis of its procurement suggests 46% of its expenditure went to firms located in London. Firms located in South East (28%) and West Midlands (7%) ranked second and third (Chart 3.2), respectively.

<sup>7</sup> Used here as a generic term for sandwiches, panini's and bistro boxes

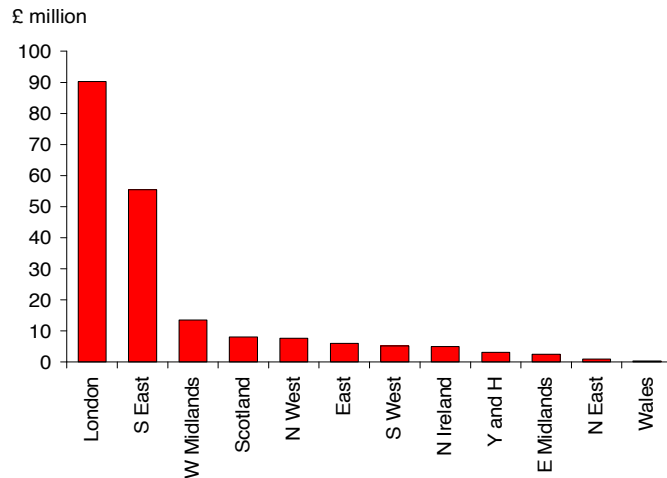
<sup>8</sup> On the basis of average milk prices for supermarket purchases sourced from Dairy Co, <http://www.dairyco.org.uk/market-information/milk-prices-contracts/milk-calculator-and-contracts/league-tables/> accessed on Friday 15<sup>th</sup> February 2013.

<sup>9</sup> Calculated using DEFRA data from <http://www.defra.gov.uk/food-farm/food/food-industry/milk-industry/> accessed on Friday 15<sup>th</sup> February, 2013.

Figure 3.1: Geographic spread of Starbucks UK purchases of inputs in 2011/12 (£ million)



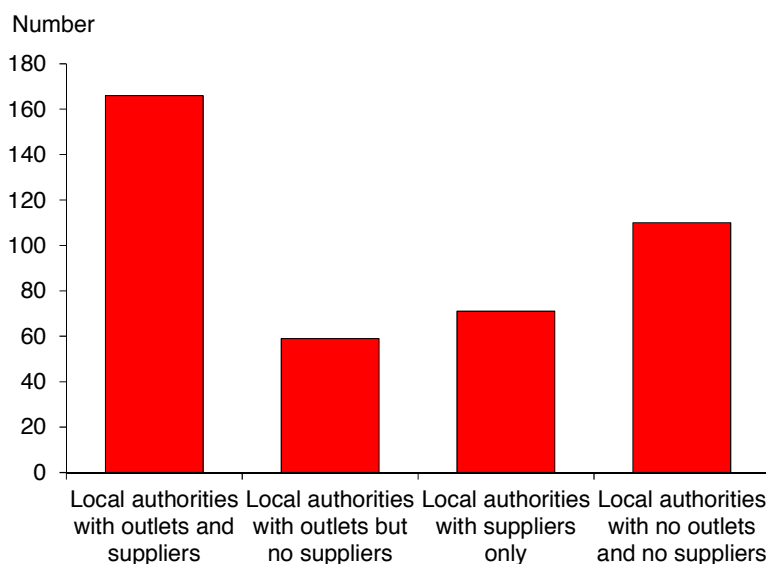
**Chart 3.2: Starbucks' expenditure on inputs of goods and services by location of the supplier in 2011/12**



Source : Starbucks

The presence of a Starbucks' outlet increases the likelihood the company will purchase inputs of goods and services from suppliers in the locality generating economic activity and employment. Starbucks procured inputs from suppliers in 166 (or 74%) of the local authorities in which it had outlets (Chart 3.3). This is because some inputs (for example, cleaning, taxis and repairs to facilities, etc) are typically sourced from firms in close proximity.

**Chart 3.3: Location of Starbucks UK suppliers versus their outlets in 2011/12**



Source : Oxford Economics and Starbucks

## 3.2 Indirect economic impact

These purchases translate into a value-added contribution to the UK economy and supporting employment from the immediate suppliers to Starbucks, and from further down the supply chain as the suppliers themselves purchase the inputs they require to deliver the goods and services they sell to Starbucks. The input-output tables produced by the ONS show these inter-linkages in terms of purchases among sectors of the economy.<sup>10</sup> This allows Starbucks' indirect economic contribution to gross value added to be calculated. ONS data on average labour productivity in each industry is used to estimate the scale of employment generated by Starbucks procurement.<sup>11</sup>

On this basis, Starbucks procurement of inputs of goods and services from other UK businesses in 2011/12 supported a value-added contribution to GDP of £172 million and 3,200 people in employment.<sup>12</sup>

## 3.3 Starbucks' induced impact

In 2011/12, Starbucks employed 8,810 people directly and supported 3,200 people in jobs through its purchases of intermediate inputs from other UK businesses. These jobs generated wage income of £84 million within Starbucks itself and an estimated £91 million of wages across its supply chain.<sup>13</sup> This wage income funds spending across a broad basket of consumer goods and services. These purchases will support further activity in the businesses meeting this consumer demand and in the supply chains to these businesses. This effect – known as the induced effect – is captured by the UK input-output table, which maps the industries that benefit from consumer spending and the domestic supply chains for these industries. Again, ONS data on labour productivity by industrial sector have been used to estimate the induced impact on employment.

In 2011/12, the 12,000 people whose employment was supported by Starbucks generated a further value-added contribution of £48 million to the UK's GDP from their consumer spending. This induced effect added a further 1,100 to the total number of jobs supported by Starbucks.

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<sup>10</sup> ONS, (2011), 'Input-output analytical tables, 2005 edition', 2 August.

<sup>11</sup> ONS, (2012), 'Annual business survey, 2011 provisional results', 15 November.

<sup>12</sup> ONS (2011), 'Input-output analytical tables, 2005 edition', 2 August.

<sup>13</sup> The estimate of the total wages paid to the people who work in Starbucks direct supply chain is calculated by estimating the impact of their spend on employment in each industry in the UK (using multiplier analysis) and sectoral productivity estimates. The employment numbers for each industry are then multiplied by annual earnings data for that industrial sector sourced from the ONS, (2012), 'Annual survey of hours and earnings, 2012 provisional results', 22 November.



## 4 Starbucks' total economic contribution

The total quantifiable economic contribution to the UK economy is made up of the sum of the direct, indirect and induced effects identified in Chapters 2 and 3.

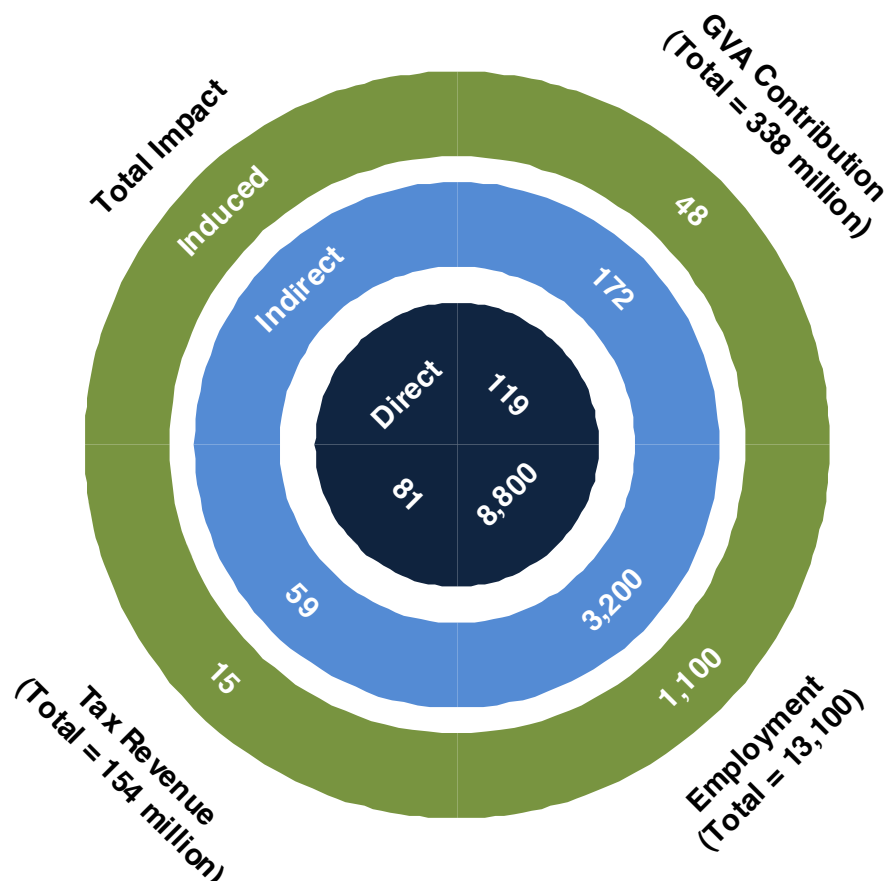
### Key points

- In 2011/12, Starbucks is estimated to support a gross value added contribution to UK GDP of £338 million.
- For each £1 Starbucks contributes to the British economy, such as through paying wages to its employees, the economy in total is £2.90 better off.
- Starbucks is estimated to support 13,100 people in employment in 2011/12. Of these, it employs 8,810 directly, 3,200 work in its supply chain and 1,100 are in jobs dependent on its staff spending their wage income.

### 4.1 Total quantifiable impact

The aggregate contribution of Starbucks' operations in the UK to GDP is estimated at £339 million (Figure 4.1). This is made up of a direct contribution to value added from its own activities of £119 million, plus supply chain effects of £172 million and induced value added of £48 million from the spending of Starbucks employees and by employees in the Starbucks supply chain.

Figure 4.1: Estimate of Starbucks' total economic impact in 2011/12



For every £1 Starbucks contributes directly to UK GDP, it supports another £1.9 elsewhere in the economy. The value of its output multiplier (defined as the ratio of its direct, indirect and induced contribution relative to its direct contribution) is therefore said to be 2.9. This compares to a multiplier of 2.19 for the whole retail sector calculated from ONS (2011) and a mean average of 2.26 for all industries in the UK economy.<sup>14</sup> Starbucks therefore supports a 28% and 32% greater contribution to UK GDP in its supply chain and due to wage-financed consumption impacts than the average industry and the whole retail sector respectively, for every £1 million it contributes in gross value added.

Starbucks operations in the UK support 13,100 jobs, made up Starbucks own employment of 8,810 and 3,200 jobs supported by its procurement of inputs of intermediate goods and services from its supply chain and the spending of employees of both Starbucks and the businesses in its supply chain. It has an employment multiplier of 1.5, so for every 10 people it employs itself, a further 5 people are employed elsewhere in the economy.

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<sup>14</sup> Multipliers calculated from ONS, (2011), 'Input-output analytical tables, 2005 edition', 2 August.

## 5 Catalytic impacts

This chapter looks at the economic activity Starbucks enables (known as the firm's 'catalytic' impacts). They are split into two types. Supply-side catalytic effects boost the productive potential of the economy in some way, for example, Starbucks' innovation or Apprenticeship scheme. Demand-side catalytic effects alter consumer or investment behaviour, for example, Starbucks' contribution to the creation of a coffee drinking culture in the UK.

### Key points

- Starbucks' (along with other retailers of quality coffee) offering has created a coffee drinking culture in the UK. This has created revenue streams for firms that were previously not selling quality coffee (for example, motorway service station and pubs), department stores selling coffee machines, cups and mugs and supermarkets selling pods, syrups and toppings.
- Starbucks continues to innovate to improve its offering. In 2011/12, a fifth of its revenue came from new products. This percentage is over three times greater than the 6% median for the food and beverage sector.
- The company contributes to the vitality and viability of the high street and other retail areas by the location of its stores, increasing footfall by attracting customers and increasing dwell time.
- Starbucks' workforce is very young: with 46% under 24 years old. Through the training and skills it imparts it raises their productive potential. This will enhance the capacity of the economy and the labour market outcomes they achieve over their career.
- In September 2012, Starbucks committed to employing 1,000 new Level 2 apprentices over two years. Academic studies suggest this level of apprenticeship offers a wage premium of 16% and raises the likelihood of being employed over a person's working lifetime by 2.7%.

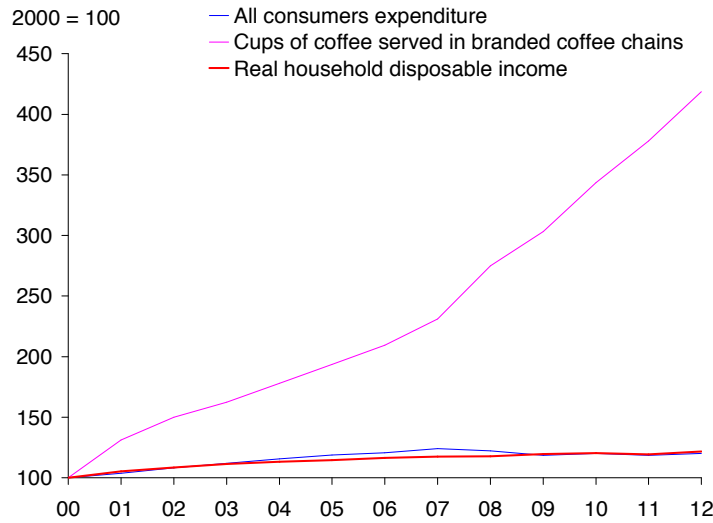
### 5.1 Innovation

In recent years there has been a stream of innovation in the availability, serving and range complementary products associated with the coffee market. This has seen both a marked expansion of the coffee market and developments of new coffee-shop centred products.

#### 5.1.1 Creation of a coffee drinking culture

In the 1970s, the typical venue serving coffee was a 'Greasy Spoon' café. Through the enhancement of their stores, the quality and variety of the coffee on sale, Starbucks and other coffee retailers have helped to create a new coffee-drinking culture in the UK. This has led to a marked increase in the consumption of coffee: between 2000 and 2012 the number of cups served increased fourfold (Chart 5.1). This over a period when real household disposable income rose by just 22% and total consumer spending rose by 20%.

**Chart 5.1: Number of coffee cups sold, real household disposable income and consumer spending<sup>15</sup>**



Source : Allegra (2012) and ONS

The creation of this taste for coffee has led to a number of spillover benefits that have positively impacted revenue streams for other parts of the economy. Most obviously, better quality coffee now also forms part of the offer for food-based chains, pubs, and supermarket restaurants. Department stores and their websites sell coffee machines, cups and mugs, tumblers, etc. Supermarkets and other retailers sell the coffee pods, syrups and toppings that enable customers to enjoy better quality coffee at home.

The employment and gross value added that flow from the manufacture, distribution and retail of these additional sales of coffee and coffee-related products are partly due to the creation of this coffee-culture in the UK. It is impossible to discern how much of this extra demand for coffee is due to the quality and innovation of Starbucks offer relative to other chains or independents stores. But the number of Starbucks' stores has grown from 161 in 2000 to 738 in 2012, so it can lay some claim.

## 5.1.2 Starbucks continues to lead market innovation

Innovation is a key driver of markets and competition that leads to better products for customers and gains in productivity. The coffee market in the UK has seen a flow of new products, and as in other sectors, successful innovations have spilled over to competitors who have imitated and developed their own versions of new product ideas. Starbucks has a strong reputation for innovation in the coffee market.

Measuring the innovativeness of a company is challenging. Attempts tend to focus on the inputs into innovation (expenditure on R&D etc), outputs (number of patents, etc) and impacts (new products and processes). Two metrics used in the service sector are the

<sup>15</sup> Allegra Strategies Limited, (2012), 'Project Café12, UK Coffee Shop Market – Strategic Analysis', December.

number of product innovations and the share of total revenues accounted for by new products.<sup>16</sup>

In total, 32 new products were introduced across the company's beverage; fresh food; packaged food and ready to drink; and retail lobby offering (Table 5.1). These new products generated nearly £84 million of revenues over the course of the year, a fifth of Starbucks revenues in the UK. This share is well above the average found in a study of new product revenues in the food and beverage sector globally. A Deloitte's (2009) Global Benchmarking Center report<sup>17</sup> finds that, on average, the food and beverages industry derives 6% of its revenues from new products, with only a quarter of the companies surveyed reporting a new product revenue share in excess of 17% (Chart 5.2). On this metric Starbucks scores highly as an innovative company. This delivers benefits to its customers and other firms. Other coffee shops will be able to imitate successful new coffee and food products or store designs, whilst retailers will benefit from the sale of new coffee machines, equipment and home consumption products.

**Table 5.1: Starbucks revenues from new products in 2011/12**

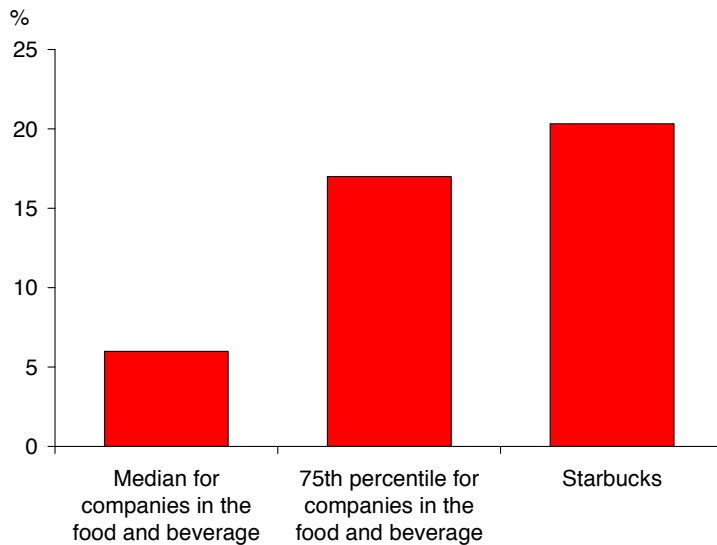
Season	Beverage	Fresh Food	Package food & ready to drink	Retail Lobby including coffee	Revenues £m
<b>Xmas</b>	Gingerbread Latte Egg Nog Latte Toffee Nut Latte Praline Mocha Launch	Mince pies Turkey Panini	Apple Juice (core) Candy Canes Mini Waffles return	Via Christmas blend	8.8
<b>Winter</b>	Vanila Spice Latte	Banana Loaf Cake		Guatamala CapiCielo 250g wholebean Starbucks reserve 227g wholebean	1.8
<b>Spring</b>	2-shot Tall Latte			Blonde wholebean Blonde VIA	51.9
<b>Summer 1</b>	Mocha Cookie Crumble Frappuccino	Red, white & blue twizzle stick British bacon in buttie and breakfast panini	Olympic / Golden Smoothie	Tribute wholebean Tribute VIA 2 x new city mugs (Glasgow, Manchester)	7.7
<b>Summer 2</b>	Refresha	Muffin relaunch - 12 new muffins		Emma Bridgewater special x 2 mugs	10.9
<b>Autumn</b>	Pumpkin Spice Latte Salted Caramel Hot Chocolate	Pumpkin Spice Loaf	Superfood smoothie	Anniversary Blend wholebean	2.4
<b>2011-12 Total</b>					<b>83.6</b>

Source: Starbucks

<sup>16</sup> Shapiro, A, (2006), 'Measuring Innovation: Beyond revenue from new products', Research-Technology Management, Volume 49, Number 6, November-December.

<sup>17</sup> Deloitte's (2009), 'Using supply chain benchmarking to bolster enterprise value: The 2009 supply chain book of metrics', Global Benchmarking Center, May.

**Chart 5.2: Revenue from new products as a percentage of total revenue in the food and beverage segment**



Source : Deloitte (2009), Starbucks

## 5.2 High Street sustainability and urban regeneration

It is widely recognised that the traditional 'High Street' is under pressure. In announcing Mary Portas' independent review, the Prime Minister, David Cameron, commented "it is vital that we do all that we can to ensure they thrive".<sup>18</sup> The Deputy Prime Minister, Nick Clegg, said "It is vital therefore that we examine what steps can be taken to revitalise and reinvigorate high street shopping centres across the country".

The challenges facing the high street reflect a number of factors: limited growth in household budgets in the aftermath of the recession, the attractions of out-of-town outlets with dedicated parking, and the rise of 'internet shopping'.<sup>19</sup> This has led to the demise of some national retailers and vacancies rates for shops rising to 14% in early 2013.<sup>20</sup>

Starbucks contributes to the vitality and viability of high streets and other retailing areas in three main ways:

- Nearly 36% of its own stores are located on the high street.<sup>21</sup> These stores enliven and enhance the appearance of the locality, and reduce vacancy rates. (The infographic explores the impact of an average Starbucks' store).
- Increases footfall by attracting customers to the locality. A survey undertaken on the store in Exeter found that 6% of those interviewed were there specifically to visit Starbucks, 59.5% had planned in advance to visit the store and 91% felt the store added to the High Street's attraction

<sup>18</sup> Quotations from David Cameron and Nick Clegg taken from BIS (2011), 'Mary Portas launches independent review into the future of the high street' BIS Press Office, 17 May.

<sup>19</sup> See Mary Portas' review for a more detailed discussion of the problems facing the high street. Portas, M, (2011), 'The Portas Review: An independent review into the future of our high streets', BIS, December.

<sup>20</sup> Local Data Company estimate for February 2013.

<sup>21</sup> Location data for those stores owned by Starbucks as opposed to licensed and concessions.

- Increases dwell time on the high street, as shoppers are able to relax, recuperate, eat and drink, before they return to their shopping activity, rather than returning home to refresh themselves.

Support for Starbucks and other coffee shops positively impacting other retail businesses in the local area comes from an Allegra Strategies (2010) study.<sup>22</sup> The research finds 60% of the local businesses surveyed in close proximity to coffee shops report that footfall had increased as a result of the presence of coffee shops. Moreover, 40% of the local businesses questioned were positive about the impact of coffee shops on their trading performance.

## 5.3 Impact on youth employment

As discussed in Section 2.1.3, Starbucks has a very young workforce with 46% of employees aged under 24 years old, even compared to the rest of the retail sector. As part of their employment, staff will acquire customer service (notably through their World Class Barista programme all instore staff go through), team working and work discipline skills. This training and learned behaviours raises staff's productive potential. As these skills are mostly transferable, they will benefit the individual and other firms in the future, if and when they move to other employers.

In September 2012, Starbucks announced plans to hire an additional 1,000 Level 2 apprentices over the next two years in the UK.<sup>23</sup> This form of apprenticeship is a qualification equivalent to five A-C GCSE grades. In 2013, 200 existing staff will go through Starbucks' Shift Supervisor course. This was piloted last year and is equivalent to a Level 3 apprenticeship. The company is starting to put together a diploma for store managers, which will be mapped to a Level 5 apprenticeship.

There is an extensive academic literature on the economic benefits that flow from education and training.<sup>24</sup> For the individual, the returns to training are a high probability of being employed and the receipt of higher wages. BIS (2011) suggests a Level 2 apprenticeship provides a wage premium of 16% and increases the probability of being employed over a working lifetime by 2.7% relative to someone who only has a Level 1 qualification.<sup>25</sup> Level 3 apprenticeships are estimated to provide a wage premium of 18% and increase the probability of being in employment by 3.8% relative to Level 1 qualifications.

## 5.4 Planned store openings and renovations

Starbucks has plans to open new stores and renovate some of its existing ones. This will enhance the positive impacts it currently has on the high street and on employment.

In 2011/12, Starbucks opened 45 new stores (Chart 5.3). The company budgeted £335,000 for the fit out of each one it opened. This expenditure is likely to make a gross value added

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<sup>22</sup> Allegra Strategies, (2010), 'Role of coffee shops on the high street, Executive summary', March.

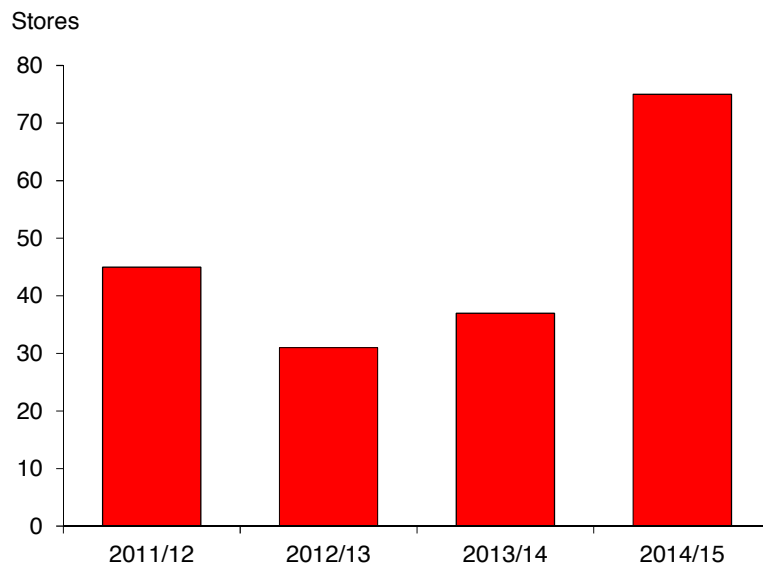
<sup>23</sup> Starbucks, (2012), 'Starbucks to hire 1000-plus apprentices over two years' 12 September.

<sup>24</sup> Stevens, M, (1999), 'Human capital theory and UK vocational training policy', Oxford Review of Economic Policy, Volume 15, No 1, pages 16-32.

<sup>25</sup> BIS, (2011), 'Measuring the economic impact of further education', Research Paper Number 38.

contribution to GDP of £99,000 and employ 2.2 people on a full time equivalent basis in the first round of the supply chain.<sup>26</sup> A further £124,000 contribution to GDP and 1.2 FTE jobs will be supported further down the supply chain and through wage consumption impacts per new store build.

**Chart 5.3: Planned openings of new Starbucks' stores**



Source : Starbucks

<sup>26</sup> In practice, more people will be employed for only part of the year on the store build.



## 6 Conclusion

This report investigates the economic impact Starbucks makes on the UK. In 2011/12, the company employed 8,810 people across its 738 stores and support operations. Some 46% of these were under 24 years old, an age group that currently faces challenges in the labour market. Starbucks also contributed £119 million in gross value added to UK GDP. Starbucks also impacted the economy through its procurement. It spends significant amounts on rent, food items and other inputs. Once the supply chain and wage consumption impacts of Starbucks' UK operations in 2011/12 are considered, the company:

- Supported 13,100 UK jobs.
- Contributed £338 million to UK GDP.

But the company's impact does not stop there. The company's innovation, apprenticeship and training programmes for its staff help enhance the supply-side of the UK economy and the labour market outcomes those people subsequently achieve. Its contribution to the UK's coffee-drinking culture and regeneration of the high street and other retail areas help increase and shape demand.

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