ISSN 2959-6130

Financial Performance and Competitor analysis: Evidence on Starbucks

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Abstract:

This research mainly studied and analysed all aspects of Starbucks finance, focussed on investigating the development trend of Starbucks in 2022 and 2023, conducted a brief study and discussion on the company's finances, and obtained several important conclusions through a series of data. Several vital data show some characteristics of the company's operation and management, which brings a lot of meaningful utilisation value and is worth learning from and thinking about. In the years after the COVID-19 pandemic, Starbucks was able to quickly restore and develop its economic system thanks to its stable system and management system. This article will also study the economic benefits brought by the management system. In addition, the article also collects data from two competitors in the same industry as Starbucks and reflects the advantages and disadvantages of Starbucks in the industry through comparison. Among them, the most noteworthy is the research on several economic methods carried out by Starbucks, which shows Starbucks' stable economic system and management methods.

Keywords: Starbucks, Financial analysis, investment suggestion, financial statement analysis

1. Introduction

A well-known coffee chain is Starbucks. Its headquarters are in Seattle, Washington, and it was founded in 1971. From its inception, Starbucks has insisted on using unique marketing methods and cultivates a distinctive, enduring, and high-value brand that is inextricably linked to its "experience culture." [1]. Starbucks goods are more than just coffee; coffee is merely a vehicle. Furthermore, it is via this career that customers learn about coffee, Starbucks' unique, exquisite lifestyle, and attitudes. Starbucks coffee consumption is primarily an emotional, cultural consumption. In a "Starbucks" coffee shop, the emphasis is no longer on coffee, but on experience, culture, and education. Starbucks' environmental culture has the potential to infect customers and provide a fantastic engaging experience for them. [1]. To better understand the company's financial position, this paper analyses the income statement and balance sheet both horizontally and vertically based on the data of Starbucks Inc. for the years 2022 and 2023. In addition, this paper compares the company's key financial ratios with those of two close competitors, Luckin Coffee and Blue Mountain Coffee, to better understand and analyse the financial situation of different companies.

2. Notes to financial statements

There are several important notes in Starbucks' financial statements.

First, the same methodology used to create segment information is used by Starbucks management when reviewing financial data to guide operational decisions. Starbucks restructured its operating division reporting structure and made specific adjustments to its management team in the fourth quarter of fiscal 2021. Starbucks reorganized its fully licensed markets in the Americas, the Caribbean, and Latin America into its International operating segment. The Americas operating segment of Starbucks was rebranded as the North American operating segment because it includes both company-operated and licensed Starbucks locations in the United States and Canada. Insignificant adjustments have also been made by Starbucks to its corporate, international operating segment, and other areas. These modifications had no effect on net earnings per share, operating income, total operating expenses, or consolidated net revenues. [2].

Second, management must make estimates and assumptions that have an impact on the reported quantities of assets, liabilities, revenues, and expenses in order to prepare financial statements in accordance with generally accepted accounting principles in the United States of America.

Third, Starbucks classifies credit card receivables for sales to consumers at their company-operated shops as cash equivalents, along with any highly liquid securities with maturities of three months or less at the time of purchase, which settle in two to five business days on average. Starbucks has more cash on hand and equivalent balances in banks than the maximum amounts permitted by government insurance. These amounts have not resulted in any losses for them, and the business views credit risk as minimal.

Banks that have more outstanding checks than cash balances on their consolidated balance sheets report book overdrafts as accrued liabilities. All primary bank disbursement accounts receive these checks, which are funded by Starbucks' cash management system and sent for payment every day. [2].

3. Income statement analysis

3.1 Horizontal Analysis

This introduces the details of the year-over-year financial growth of Starbucks Inc., with a particular focus on the revenue and net income for 2022 and 2023. Among them, global transactions can increase by 8% in-store sales, 3% more comparable transactions and a 5% increase in average tickets—a crucial component of net income growth—are to blame.

3.2 Vertical Analysis

The vertical analysis in the composition of Starbucks Inc.'s revenue. The gross margin was calculated at 68.32% in 2022 and 68.15% in 2023, indicating the percentage of total revenue retained after incurring the direct costs associated with the production of the services provided, which would mean that Starbucks's ability to control the cost of goods sold and efficiently manage its production expenses relative to its revenue. The operating margin is reported at 26% in 2022 and 27% in 2023 [2], reflecting the efficiency of the company's management in generating profit from operations. Lastly, the profit margin is determined to be 14.4% in 2022 and 16.3% in 2023, showcasing the company's ability to translate sales into net income.

4. Balance sheet analysis

Table 1. Starbucks Inc's Balance sheet for 2022 and 2023 (in millions)

Current assets	2023	2022
total assets	$29,445.5	$27,978.4

From Table 1, Starbucks Inc's total assets revealed an upward trend, increasing from $27978.4 million to $29445.5 million, an increase of 5.2 percent between 2022 and 2023. The increase in total assets for Starbucks can be attributed to several factors. Starbucks continues to open new stores globally, increasing its physical assets and real estate holdings. The company invests in technology infrastructure and digital platforms to enhance customer experience and operational efficiency [3]. Starbucks may acquire other businesses or brands, adding their assets to its balance sheet. Rising inventory levels, including raw materials and products, can increase total assets. Investments in new equipment, store renovations, or purchasing new properties can also increase total assets.

Table 2. Current ratio of Starbucks in 2022 and 2023

	2022	2023
Current Ratio	0.767	0.781

4.1 Liquidity ratio

4.4.1 Current ratio

For both years, Starbucks' liquidity position was weak, with insufficient liquid assets to cover its short-term liabilities. This may suggest that Starbucks is having trouble meeting its short-term obligations, which could lead to liquidity problems. This might lead to less stable finances, which could have an effect on the company's credit rating and investor confidence. It might also result in more serious financial difficulties or possibly insolvency [4]. (Table 2)

4.1.2 Quick Ratio

Table 3. Quick ratio of Starbucks in 2022 and 2023

	2022	2023
Quick Ratio	0.536	0.589

The quick ratio, sometimes called the acid-test ratio, is a financial ratio used to evaluate a company's ability to pay down short-term debt with its most liquid assets [5]. The liquidity test is more stringent than the current ratio because inventory is not considered when determining current assets.

The company remained in a weak liquidity position without liquid assets greater than twice its short-term liabilities. A low quick ratio indicates higher financial risk, and this could have an impact on the creditworthiness of the business. Investors and lenders may see the company as a riskier investment, which could result in higher borrowing costs or make it more difficult to get new loans. Concerns about the company's capacity to withstand immediate financial strains may exist among investors, which could impact stock values or investor support. (Table 3)

4.1.3 Cash Ratio

With respect to current obligations, this is the most conservative liquidity ratio because it only takes cash and cash equivalents into account. One financial measure that evaluates a company's ability to pay off short-term debt with its most liquid assets—cash and cash equivalents—is the cash ratio. Since it solely takes into account cash and equivalents—accounts receivable and inventory are not included—it is a stricter measure of liquidity than the quick ratio [6]. (Table 4)

Table 4. Cash ratio of Starbucks in 2022 and 2023

	2022	2023
Cash Ratio	0.58	0.63

Starbucks may need to rely on credit lines or other short-term financing, which can affect operations and profitability due to higher interest costs or unfavorable terms.

4.2 Profitability Ratios

4.2.1 Gross Profit Margin

Table 5. Gross profit margin of Starbucks in 2022 and 2023

	2022	2023
Gross Profit Margin	26%	27.4%

The company might have high production costs or pricing issues, leading to lower profitability. It can signal difficulties in sustaining operations, as there may be an insufficient margin to cover other expenses like operating costs and interest [7]. (Table 5)

4.2.2 Operating Margin

Table 6. Operating margin of Starbucks in 2022 and 2023

	2022	2023
Operating Margin	14.26%	16.64%

The company might be incurring losses from its core business activities. Continued operating losses can strain finances, making covering fixed and variable costs challenging. The company may need to cut costs, reduce operations, or find new revenue streams to become profitable [8]. (Table 6)

4.2.3 Net Profit Margin

Table 7. Net profit margin of Starbucks in 2022 and 2023

	2022	2023
Net Profit Margin	11.70%	10.09%

The company may struggle to generate sufficient shareholder returns or reinvest. Low margins can lead to financial challenges and difficulties sustaining operations, especially during economic downturns. (Table 7)

4.3 Solvency Ratio

Table 8. Solvency ratios of Starbucks in 2022 and 2023

	2022	2023
Solvency ratio	0.85	0.84

Debt ratio equals total liabilities divided by total assets; between 2022 and 2023, the debt ratio slightly decreased by 0.011 per cent, representing the proportion of total assets financed by all creditors and debtors decreased in 2023, reducing the risk. (Table 7)

The interest earned was exceptionally high for both years, indicating that Starbucks was able to cover its interest expenses 209.6 times and 273.7 times, respectively. The interest earned multiplied by 64.1 times between 2022 and 2023, suggesting a positive development in the company's capacity to meet its interest expenses through its operating income. Considering that the company showcased efficient debt management, this could be a positive sign for investors.

5. Competitor Analysis

Table 9. Liquidity Ratios of Nescafe and Luckin Coffee in 2023

Company Name	Starbucks	Nescafe	Luckin Coffee
Current Ratio	0.63	0.589	1.9
Quick Ratio	0.83	0.51	0.99

The passage chose two companies, Nescafe and Luckin Coffee, which are strong competitors to Starbucks regarding coffee services. In the passage, Luckin Coffee's current and quick ratios are higher than those of Starbucks and Nescafe. The passage may indicate that Starbucks's current ratio and quick ratio are below 2, which suggests that Starbucks is more likely to have liquidity issues than Luckin Coffee, Nescafe, and other competitors in the coffee industry. Considering the average collection period index, Starbucks is still in the medium range, which means the company can collect accounts receivable quickly to some degree [9].

6. Conclusion

This article used many financial methods to analyse Starbucks in many aspects, such as Current and Cash ratios. It is concluded that Starbucks' assets are increasing at a stable rate. Although there are still some problems, it does not prevent it from becoming a leader in the coffee industry. Although Starbucks' two competitors have their unique advantages, Starbucks's position in the industry cannot be shaken. Excellent goodwill and reputation put its image in the eyes of consumers and put it in a leading position. Becoming the first choice for most consumers is an essential factor for them to stand in the leading position in the industry, helping their economy recover rapidly and steadily improve after the epidemic. Although its asset current rate is low, its efficient management and resource utilisation will not hinder the company's development.[10]

From the data analysed in this paper, the financial analysis of Starbucks shows that the company will grow between 2022 and 2023. In terms of liquidity ratios, although the current ratio increased from 0.767 to 0.771, they still indicate that the company has weak short-term solvency. Profitability ratios show steady growth in gross, operating, and net profit margins, reflecting effective cost control and higher profitability. In terms of solvency ratios, the company maintained a low level of debt, with the Gross Profit

Margin Increasing from 26% to 27.4% and the operating margin increasing from 14.26% to 16.64%, demonstrating strong financial stability. Compared to its competitors, although Luckin Coffee and Blue Mountain Coffee have strengths in specific metrics, overall, Starbucks demonstrates a relatively strong competitive advantage in stability and efficiency. Overall, Starbucks Inc. has demonstrated strong stability in its financial performance, showing the ability and potential to be a leader in the Coffee industry.

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