Starbucks Corporation - 2009

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A. Case Abstract

Starbucks Corporation (www.Starbucks.com) is a comprehensive strategic management case that includes the company's Fiscal year-end September 28, 2008 financial statements, competitor information and more. The case time setting is the year 2009. Sufficient internal and external data are provided to enable students to evaluate current strategies and recommend a three-year strategic plan for the company. Headquartered in Seattle, Washington, Starbucks Corporation is traded on the New York Stock Exchange under ticker symbol SBUX.

B. Vision Statement (Actual)

To inspire and nurture the human spirit—one person, one cup, and one neighborhood at a time.

C. Mission Statement (Actual)

Our Coffee
It has always been, and will always be, about quality. We're passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. We care deeply about all of this; our work is never done.
Our Partners
We're called partners, because it's not just a job, it's our passion. Together, we embrace diversity to create a place where each of us can be ourselves. We always treat each other with respect and dignity. And we hold each other to that standard.
Our Customers
When we are fully engaged, we connect with, laugh with, and uplift the lives of our customers—even if just for a few moments. Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that. It's really about human connection.
Our Stores
When our customers feel this sense of belonging, our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life—sometimes slow and savored, sometimes faster. Always full of humanity.

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Our Neighborhood
Every store is part of a community, and we take our responsibility to be good neighbors seriously. We want to be invited in wherever we do business. We can be a force for positive action—bringing together our partners, customers, and the community to contribute every day. Now we see that our responsibility—and our potential for good—is even larger. The world is looking to Starbucks to set the new standard, yet again. We will lead.
Our Shareholders
We know that as we deliver in each of these areas, we enjoy the kind of success that rewards our shareholders. We are fully accountable to get each of these elements right so that Starbucks—and everyone it touches—can endure and thrive.

Mission Statement (Proposed)

Our Coffee
It has always been, and will always be, about quality. We're passionate about ethically sourcing the finest coffee beans, roasting them with great care, and improving the lives of people who grow them. We care deeply about all of this; our work is never done.(2, 7)
Our Partners
We're called partners, because it's not just a job, it's our passion. Together, we embrace diversity to create a place where each of us can be ourselves. We always treat each other with respect and dignity. And we hold each other to that standard, ensuring the latest technology is implemented for producing superior products to our loyal customers. (4, 8, 9)
Our Customers
When we are fully engaged, we connect with, laugh with, and uplift the lives of our customers—even if just for a few moments. Sure, it starts with the promise of a perfectly made beverage, but our work goes far beyond that. It's really about human connection. (1)
Our Stores
When our customers feel this sense of belonging, our stores become a haven, a break from the worries outside, a place where you can meet with friends. It's about enjoyment at the speed of life—sometimes slow and savored, sometimes faster. Always full of humanity. (6)
Our Neighborhood
Every store is part of a community, and we take our responsibility to be good neighbors seriously. We want to be invited in wherever we do business. We can be a force for positive action—bringing together our partners, customers, and the community to contribute every day. Now we see that our responsibility—and our potential for good—is even larger. The world is looking to Starbucks to set the new standard, yet again. We will lead. (3)
Our Shareholders
We know that as we deliver in each of these areas, we enjoy the kind of success that rewards our shareholders. We are fully accountable to get each of these

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elements right so that Starbucks—and everyone it touches—can endure and thrive. (5)

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

D. External Audit

CPM – Competitive Profile Matrix

		Starbucks		McDonald's		Dunkin Donuts	
Critical Success Factors	**Weight**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**	**Rating**	**Weighted Score**
Advertising	0.06	2	0.12	4	0.24	3	0.18
Top Management	0.07	3	0.21	4	0.28	2	0.14
Customer Service	0.08	4	0.32	2	0.16	3	0.24
Technological Advances	0.07	3	0.21	4	0.28	2	0.14
International Market Sales	0.10	3	0.30	4	0.40	1	0.10
Global Expansion	0.10	3	0.30	4	0.40	1	0.10
Financial Position	0.12	2	0.24	4	0.48	3	0.36
Customer Loyalty	0.10	4	0.40	2	0.20	3	0.30
Market Share	0.09	2	0.18	4	0.36	1	0.09
Product Quality	0.08	4	0.32	2	0.16	3	0.24
Marketing	0.05	3	0.15	4	0.20	2	0.10
Price Competitiveness	0.08	1	0.08	4	0.32	2	0.16
Total	**1.00**		**2.83**		**3.48**		**2.15**

Opportunities

1. Gourmet coffee consumption rose with the drinker's educational level. Those who finished college bought 49 percent more gourmet coffee on average, and those with some postgraduate education bought 71 percent more

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2. Sixteen percent of the U.S. adult population consumed specialty coffee on a daily basis, whereas 63 percent indulged occasionally
3. The growth in popularity of specialty coffees has increased, as only 13 percent and 59 percent of people reported daily and occasional consumption, respectively, in 2002
4. Another trend that has surfaced in the past decade has been consumer requests for organic coffees, and more emphasis was placed by retailers on the growing environment of the beans
5. Consumers are becoming more health conscious and are looking for sweats and snacks that are low in carbs / sugar and calorie
6. International market has a stronger economy and accordingly, consumers would be able to pay premium price for specialty or gourmet coffee

Threats

1. The 2007–2009 global recession negatively affected the specialty coffee industry
2. Recent trends have shown that some of the consuming public is concerned about the nutritional value of such products as those offered by the specialty coffee sector and have even challenged the correctness of the labeling and calorie information posted on the products available at retail outlets.
3. Volatility in the stocks and coffee price could impact the purchasing power for the buyers
4. Smaller competitors are expanding their markets as well as their product line offerings
5. Competitors such as McDonald's and Dunkin Donuts are becoming stronger in offering specialty coffee along with other complementary products

External Factor Evaluation (EFE) Matrix

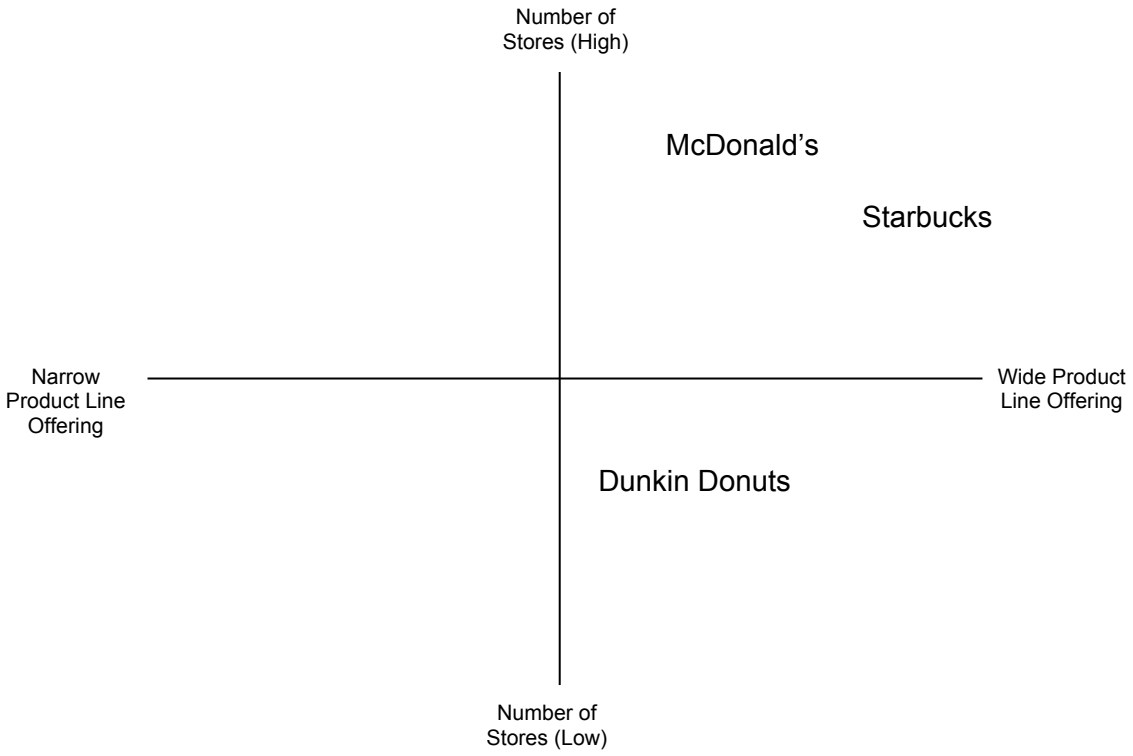
Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Gourmet coffee consumption rose with the drinker's educational level. Those who finished college bought 49 percent more gourmet coffee on average, and those with some postgraduate education bought 71 percent more	0.1	3	0.3
2. Sixteen percent of the U.S. adult population consumed specialty coffee on a daily basis, whereas 63 percent indulged occasionally	0.08	4	0.32

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3. The growth in popularity of specialty coffees has increased, as only 13 percent and 59 percent of people reported daily and occasional consumption, respectively, in 2002	0.09	4	0.36
4. Another trend that has surfaced in the past decade has been consumer requests for organic coffees, and more emphasis was placed by retailers on the growing environment of the beans	0.1	3	0.3
5. Consumers are becoming more health conscious and are looking for sweats and snacks that are low in carbs / sugar and calorie	0.08	4	0.32
6. International market has a stronger economy and accordingly, consumers would be able to pay premium price for specialty or gourmet coffee	0.09	3	0.27
Threats			
1. The 2007-2009 global recession negatively affected the specialty coffee industry	0.1	2	0.2
2. Recent trends have shown that some of the consuming public is concerned about the nutritional value of such products as those offered by the specialty coffee sector and have even challenged the correctness of the labeling and calorie information posted on the products available at retail outlets.	0.09	2	0.18
3. Volatility in the stocks and coffee price could impact the purchasing power for the buyers	0.07	2	0.14
4. Smaller competitors are expanding their markets as well as their product line offerings	0.1	2	0.2
5. Competitors such as McDonald's and Dunkin Donuts are becoming stronger in offering specialty coffee along with other complementary products	0.1	2	0.2
Total	**1.00**		**2.79**

Positioning Map

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E. Internal Audit

Strengths

1. Starbucks expects to add approximately 20 net new stores to its global store base in fiscal
2. 2009 by closing approximately 425 company-operated stores in the United States and adding of approximately 60 company-operated stores internationally
3. The company plans to open approximately 65 net new licensed stores in the United States and approximately 320 net new licensed stores internationally
4. Capital expenditures for fiscal 2009 are expected to remain unchanged, at approximately $600 million.
5. Licensing revenues increased primarily due to higher product sales and royalty revenues as a result of opening 438 new licensed retail stores in the last 12 month
6. Strong marketing and promotional campaign such as product placement in major TV series
7. Starbucks also provides electrical outlets and, in some stores, wireless access, for customers who might need to use their MP3 players or laptop computers

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8. Starbucks' products can be found in convenience stores, grocery stores, department stores, movie theaters, businesses, schools, and even airports
9. Starbucks is rated by *Fortune* as one of the best top 10 places to work
10. Starbucks also encourages the use of its Web site where customers are able to register their Starbucks' cards, receive nutritional information about Starbucks' products, shop online, search for careers, and much more

Weaknesses

1. 47 percent drop in earnings in one year (2008)
2. For the 26 weeks ending March 2009, Starbucks' revenues decreased 7 percent to $4.95 billion and net income decreased 72 percent to $89.3 million
3. Moody's Investors Service recently downgraded Starbucks' credit ratings
4. The U.S. company operated retail business continued deteriorating trends
5. For the second quarter of fiscal 2009, U.S. total net revenues were $1.8 billion, a decline of $131.5 million, or 6.8 percent, due to decreased revenues from company operated retail stores
6. Many of Starbucks' International operations are in early stages of development that require a more extensive support organization relative to the current levels of revenue and operating income in the United States
7. International total net revenues were $433.7 million for the 13 weeks ended March 29, 2009, down $59.7 million, or 12.1 percent, compared with the same period last year, primarily due to the impact of a stronger U.S. dollar relative to the British pound and Canadian dollar
8. Global Consumer Products Group (CPG) total net revenues decreased by 2 percent to $94.8 million for the second quarter of fiscal 2009, due primarily to lower margin on sales of packaged coffee as a result of discounting, as well as lower volume to the trade

Financial Ratio Analysis (December 2009)

Growth Rates %	**Wells Fargo**	**Industry**	**S&P 500**
Sales (Qtr vs year ago qtr)	-3.70	0.70	-4.80
Net Income (YTD vs YTD)	23.90	18.20	-6.00
Net Income (Qtr vs year ago qtr)	2,677.80	1,832.10	26.80
Sales (5-Year Annual Avg.)	13.05	14.11	12.99
Net Income (5-Year Annual Avg.)	0.10	4.34	12.69
Dividends (5-Year Annual Avg.)	NA	NA	11.83

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Price Ratios	Wells Fargo	Industry	S&P 500
Current P/E Ratio	44.2	37.4	26.7
P/E Ratio 5-Year High	65.4	4.8	68.0
P/E Ratio 5-Year Low	16.1	1.5	9.9
Price/Sales Ratio	1.75	1.93	2.25
Price/Book Value	5.62	5.24	3.48
Price/Cash Flow Ratio	18.40	17.30	13.70

Profit Margins %	Wells Fargo	Industry	S&P 500
Gross Margin	20.7	19.9	38.9
Pre-Tax Margin	5.7	9.0	10.3
Net Profit Margin	4.0	5.9	7.1
5Yr Gross Margin (5-Year Avg.)	22.3	21.2	38.6
5Yr PreTax Margin (5-Year Avg.)	8.6	11.4	16.6
5Yr Net Profit Margin (5-Year Avg.)	5.6	7.5	11.5

Financial Condition	Wells Fargo	Industry	S&P 500
Debt/Equity Ratio	0.18	0.20	1.09
Current Ratio	1.3	1.4	1.5
Quick Ratio	0.9	1.1	1.3
Interest Coverage	NA	9.3	23.7
Leverage Ratio	1.8	1.7	3.4
Book Value/Share	4.10	5.77	21.63

Adapted from www.moneycentral.msn.com

	Avg P/E	Price/ Sales	Price/ Book	Net Profit Margin (%)
09/09	24.50	1.51	4.84	4.0
09/08	43.70	1.07	4.42	3.0
09/07	36.10	2.14	8.47	7.1
10/06	45.60	3.47	11.56	7.5
10/05	43.50	3.21	9.20	7.8
10/04	40.70	3.67	7.60	7.3

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09/03	36.60	2.91	5.62	6.5
09/02	40.10	2.54	4.73	6.4
09/01	45.00	2.22	4.13	6.8
10/00	67.80	3.55	6.56	4.3

	Book Value/ Share	Debt/ Equity	Return on Equity (%)	Return on Assets (%)	Interest Coverage
09/09	$4.10	0.18	12.8	7.0	14.4
09/08	$3.39	0.51	12.7	5.6	9.4
09/07	$3.09	0.55	29.4	12.6	27.6
10/06	$2.95	0.32	26.1	13.1	106.4
10/05	$2.72	0.13	23.7	14.1	NA
10/04	$3.11	0.00	15.7	11.5	NA
09/03	$2.63	0.00	12.8	9.6	NA
09/02	$2.22	0.00	12.3	9.5	NA
09/01	$1.81	0.00	13.1	9.8	NA
10/00	$1.53	0.01	8.2	6.3	NA

Adapted from www.moneycentral.msn.com

Internal Factor Evaluation (IFE) Matrix

Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Starbucks expects to add approximately 20 net new stores to its global store base in fiscal	0.06	4	0.24
2. 2009 by closing approximately 425 company-operated stores in the United States and adding of approximately 60 company-operated stores internationally	0.05	4	0.2
3. The company plans to open approximately 65 net new licensed stores in the United States and approximately 320 net new licensed stores internationally	0.07	4	0.28
4. Capital expenditures for fiscal 2009 are expected to remain unchanged, at approximately $600 million.	0.06	3	0.18
5. Licensing revenues increased primarily due to higher product sales and royalty revenues as a result of opening 438 new licensed retail stores in	0.07	4	0.28

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