

## Starbucks Corp:

“One person, one cup and one neighborhood at a time.”

**Background:** Starbucks started as a roaster and retailer of whole bean and ground coffee, tea and spices with a single store in Seattle’s Pike Place Market. Today serves millions of customers every day through almost 28,000 retail stores in 70 countries, approximately half company-operated and half licensed. (Revenue from company-operated stores accounted for 79% of total net revenues during fiscal 2017.) Four reportable segments: Americas (70% of revenue), China/Asia Pacific (14%), Europe, Middle East, and Africa (5%) and Channel Development (2%).

Recently began licensing its consumer-packaged goods and foodservice businesses to Nestlé. The two companies will work closely together on the existing Starbucks range of roast and ground coffee, whole beans, single-serve, and instant coffee offerings. Plan is to capitalise on the experience and capabilities of both companies to bring new product offerings globally.

Although Starbucks has been in China for 18 years, for the first 9 years it was a struggle, partly because Chinese were mainly tea drinkers. Over time, though, this has changed (efforts of Starbucks?). Today Starbucks has 3,200 stores and is starting a new store every day with an aim of 5,000 stores by 2021.

Company recently announced a strategic partnership with Alibaba that they believe “will transform the coffee industry in China”. Collaborating across key businesses within the Alibaba ecosystem, the company plans to establish “Starbucks Delivery Kitchens” for delivery order fulfillment and integrate multiple platforms.

Actively buying back shares: recently announced an additional 120 million shares for repurchase.

**Strategy:** Increasing emphasis on applying Big Data and artificial intelligence to its massive database of

customers and sales to boost performance. For instance, using AI they expect to unlock up to 2 to 3 hours daily for store staff to focus on customer connection rather than administrative tasks.

**Success Drivers:** Emphasis on providing services to existing customers to maintain and increase the likelihood of their continuing to frequent Starbucks: rewards programs, etc.

**Company Vision:** States its mission is: to inspire and nurture the human spirit - one person, one cup and one neighbourhood at a time. They translate this into six areas: Coffee; Partners; Customers; Stores; Neighbourhood; Shareholders. According to the 2017 annual report, “Our retail objective is to be the leading retailer and brand of coffee and tea in each of our target markets by selling the finest quality coffee, tea and related products, as well as complementary food and snack offerings.”

**Economic Moats:** Brand name with a deep understanding of the tastes and preferences of customers; global company. In some countries it is a mark of success to visit a Starbucks store.

**Key Future Risks:** Widespread move to more premium coffees. Or the opposite: to lower price coffees such as served in Dunkin’ Donuts; Tries to expand too quickly or open too many stores in newer countries. With the trade war between China and the US, a move against US companies by patrons in China.

ROE	5 Year Growth	
	SPS	EPS
50.9%	12.5%	19.8%

• M’t Cap: US\$84.4b • 10-yr Total Return: 23.1% pa

**Conclusion:** Starbucks knows its customers which ensures high repeat business. (Nov 2018)

*This report is prepared for members of the Conscious Investor Fund. It does not take into account anyone’s personal circumstances. Remember, what happened in the past is not always what will happen in the future.*

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