Czech University of Life Sciences Prague

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Bachelor Thesis

Effect of Advertising and Economic Factors on Company's Sales: Case Study of Starbucks

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Faculty of Economics and Management

BACHELOR THESIS ASSIGNMENT

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Business Administration

Thesis title

Effect of Advertising and Economic Factors on Company's Sales: Case Study of Starbucks

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Objectives of thesis

The author's objective lies in understanding if marketing or advertising has a significant impact on the market capitalization and revenues of the company chosen by the author for her research – Starbucks, an international corporation based in the USA specializing in the sale of coffee-containing beverages and snacks. The author also analyzes weak points in the company's operations and identifies potential risks that might endanger the company's position in the market.

Methodology

The author incorporates a series of different methods that represent two primary approaches – quantitative research and qualitative research.

As for the quantitative research, the author focuses on creating a recursive linear regression model that will help the author to describe the main factors influencing the price of the stock of Starbucks and Starbucks' revenues at the same time, as well as the author will quantify this effect.

For the qualitative analysis, the author relies on a SWOT analysis that will help to identify and examine internal factors (strengths and weaknesses) and external (opportunities and threats), Porter's Five Forces or Five Diamond Model and finally, a PESTLE analysis that will identify a series of additional factors influencing Starbucks from different perspectives.

The proposed extent of the thesis

30 – 40 pages

Keywords

Starbucks, sales, marketing, advertising, linear regression analysis, external factors, internal factors, market capitalization, competition

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Recommended information sources

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Expected date of thesis defence

2022/23 SS – FEM

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Electronic approval: 28. 2. 2023

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Prague on 12. 03. 2023

Declaration

I declare that I have worked on my bachelor thesis titled "Effect of Advertising and Other Factors on Company's Sales: Case Study of Starbucks " by myself and I have used only the sources mentioned at the end of the thesis. As the author of the bachelor thesis, I declare that the thesis does not break any copyrights.

In Prague on 15.03.2023   _____

Acknowledgement

I would like to thank Ing. Olga Regnerová, Ph.D. and all other persons, for their advice and support during my work on this thesis.

Effect of Advertising and Other Factors on Company's Sales: Case Study of Starbucks

Abstract

The author's goal lies in understanding if marketing or advertising has a significant impact on the market capitalization and revenues of the company chosen by the author for her research – Starbucks, international corporation based on the USA specializing on the sale of coffee containing beverages and snacks. In addition to the main goal, the author also analyzes weak points in the company's operations and identified potential risks that might endanger the company's position on the market.

As for the the quantitative research, the author focuses on creating a recursive linear regression model that will help the author to describe the main factors influencing price of stock of Starbucks and Starbuck's revenues at the same time, as well as the author will quantify this effect. For the qualitative analysis, the author relies on a SWOT analysis that will help to identify and examine internal factors (strengths and weaknesses) and external (opportunities and threats), Porter's Five Forces or Five Diamond Model and finally, a PESTLE analysis that will identify a series of additional factors influencing Starbucks from different perspectives.

All in all, the author is able to conclude the fact that based on the linear regression analysis, it turns out that the effect of advertising expenses on the company's sales is rather low with just 13 million US dollars increment for each 1 million spent on marketing. Also, the effect of marketing is low on the change in price of share – just 0.07 US dollars per 1 million increments in the marketing expense.

In addition to that, the author concludes that the company's biggest threat is its inability to comply with ever-changing green agenda and constantly emerging new environment-protection laws. Another threat is the fact that the price of inputs will be driven up and the company's products will become less accessible to particular customer groups.

Keywords: Starbucks, sales, marketing, advertising, linear regression analysis, external factors, internal factors, market capitalization, competition

Vliv reklamy a dalších faktorů na tržby společnosti: Případová studie Starbucks

Abstrakt

Cílem autora je pochopit, zda má marketing nebo reklama významný dopad na tržní kapitalizaci a výnosy společnosti vybrané autorkou pro její reaearch – Starbucks, mezinárodní Korporace založená na USA specializující se na prodej kávy obsahující nápoje a občerstvení. Vedle hlavního cíle autor analyzuje také slabá místa v činnosti společnosti a identifikuje potenciální rizika, která by mohla ohrozit postavení společnosti na trhu.

Pokud jde o kvantitativní výzkum, autor se zaměřuje na vytvoření rekurzivního lineárního regresního modelu, který autorovi pomůže popsat hlavní faktory ovlivňující cenu akcií Starbucks a výnosy Starbucku současně, stejně jako autor bude kvantifikovat tento efekt. Pro kvalitativní analýzu se autor opírá o SWOT analýzu, která pomůže identifikovat a prozkoumat vnitřní faktory (silné a slabé stránky) a vnější (příležitosti a hrozby), Porterův Model pěti sil nebo pěti diamantů a nakonec PESTLE analýzu, která identifikuje řadu dalších faktorů ovlivňujících Starbucks z různých perspektiv.

Celkově lze říci, že autor je schopen dospět k závěru, že na základě lineární regresní analýzy se ukazuje, že vliv reklamních nákladů na tržby společnosti je poměrně nízký s přírůstkem pouhých 13 milionů amerických dolarů za každý 1 milion vynaložený na marketing. Vliv marketingu je také nízký na změnu ceny akcií-pouhých 0,07 USD za 1 milion přírůstků marketingových nákladů.

Kromě toho autor dochází k závěru, že největší hrozbou společnosti je její neschopnost dodržovat neustále se měnící zelenou agendu a neustále se objevující nové zákony na ochranu životního prostředí. Další hrozbou je skutečnost, že cena vstupů bude poháněna nahoru a produkty společnosti budou méně přístupné konkrétním skupinám zákazníků.

Klíčová slova: Starbucks, prodej, marketing, reklama, lineární regresní analýza, vnější faktory, vnitřní faktory, tržní kapitalizace, konkurence

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1 Introduction

The author's personal devotion to the brand as well as her long-standing relationship with the company, which has been going on for over seven years at this point, is the primary motivation for focusing on Starbucks, the world's largest coffeehouse network, which has over 30,000 shops located in over 60 countries on six continents.

In light of current events and Starbucks' final decision to stop operating in the author's home nation, it has become rather intriguing to investigate the components of Starbucks' income and the variables that have an impact on those revenues. In addition to that, the author's own interest in the field of marketing acts as a further motivator that serves as an extra driving force that engaged the author in such a research.

2 Objectives and Methodology

2.1 Objectives

The author's goal lies in understanding if marketing or advertising has a significant impact on the market capitalization and revenues of the company chosen by the author for her research – Starbucks, international corporation based on the USA specializing on the sale of coffee containing beverages and snacks.

In addition to the main goal, the author also analyzes weak points in the company's operations and identified potential risks that might endanger the company's position on the market.

2.2 Methodology

When it comes to the main methodology of the author's study, it is wise to say that the author incorporates a series of different methods that represent two primary approaches – quantitative research and qualitative research.

As for the the quantitative research, the author focuses on creating a recursive linear regression model that will help the author to describe the main factors influencing price of stock of Starbucks and Starbuck's revenues at the same time, as well as the author will quantify this effect.

For the qualitative analysis, the author relies on a SWOT analysis that will help to identify and examine internal factors (strengths and weaknesses) and external (opportunities and threats), Porter's Five Forces or Five Diamond Model and finally, a PESTLE analysis that will identify a series of additional factors influencing Starbucks from different perspectives.

3 Literature Review

3.1 Starbucks Coffee

3.1.1 History and Market Segment

Starbucks is a coffeehouse chain originally created in the United States of America with the first house opened in the city of Seattle, Washington state in 1971 thus marking the company's age to be approximately 51 years. Clearly, the fact that the company was able to maintain its presence and also reach multinational markets and create a well-distinguished brand in the 21st century serves as a piece of evidence to support the claim that Starbucks is not just a successful company, but one of the best in the segment in which it operates (Volle, 2021).

Figure 1, Starbucks logo

Source: Britannica, 2022

The United States of America is a country in which the coffee culture is really strong, and coffee plays a significant part in the daily lives of ordinary Americans, which paved the way for the United States to get into the top countries according to per capita consumption of coffee and related products. Nevertheless, it is essential to understand the context behind

the creation of the first Starbucks coffeehouse. The United States of America is a country in which the coffee culture is really strong. It is very clear that the culture did not originate from any one location in the 21st century, but this particular pattern of consumption continued throughout the whole of the 20th century. The United States of America was one of the least sober countries in the world, and drinking was a serious problem for American society. As a result, the government of the United States issued high excise taxes and, at some points in history, even prohibited the sale of alcohol-containing spirits and drinks. This is one of the primary reasons why coffee has become so immensely popular in recent decades. It is almost inevitable that whenever something similar happens, consumers will find something else that will temporarily soothe them and provide them with the comfort that they are missing. As a result, the popularity of coffee increased, and ordinary Americans could not be imagining their lives without the revitalizing drink. It should not come as a surprise that greater demand will always result in more attention on the part of businesspeople, who will promptly begin to foray into the expanding industry (Voigt, 2017).

Jerry Baldwin, Zev Siegl, and Gordon Bowker, the founders of Starbucks, saw a great opportunity in the business. However, rather than initially planning and developing a concept of a coffeehouse, they focused on a small coffee bean shop instead. It wasn't until they took a business trip to Milan, a place where coffee culture is also strong, that they realized that operating a coffeehouse might prove to be an even more profitable and successful startup. This realization led to the establishment of Starbucks. After launching its first coffeehouse, the firm pursued a strategy of rapid development by building other locations around the West Coast of the United States very immediately after consolidating its operations to the greatest extent possible in the city of Seattle, where it had its headquarters. A short time later, Starbucks became public, and as of the year 2022, the company's shares are being traded openly on the stock exchanges in the United States (Simon, 2011).

Figure 2, Starbucks' first branch

Source: Starbucks Archive, 2022

Shortly after continuing its expansion across the United States of America, Starbucks ventured into a completely different country yet relatively similar – Canada by opening its first stores in Vancouver in the 1980s. Although Canada is a completely different country than the United States of America, there are many similarities between the two. After that, the firm became public in the year 1992, and by the end of the 1990s, its sales had reached around 100 million dollars, which at the time represented an exceptional level of success. The expansion continued to other markets, including those in Western Europe and in other developed countries, until the middle of the 2000s, when the company began to set foot in the markets of the developing world and countries in transition, such as Russia, where the company opened its first branch in Moscow in 2007. In addition, the expansion continued to other markets in other developed countries. When discussing the operations of Starbucks outside of the United States and Canada, however, it is important to note that the company is run using the franchise model. This indicates that Starbucks sells the right to act as an official representative of the brand in a particular setting to third parties who purchase the franchise from Starbucks (Plog, 2005).

The corporation was forced to liquidate around 600 underperforming branches in 2008 as a result of the Great Recession, which cast a shadow over its formerly illustrious history of success. Under the circumstances of an economic crisis, it is obvious that the firm would not be able to afford to keep operating underperforming branches. This is particularly true when one considers the fact that liquidity is the quality that is required the most in times like these. After the Great Recession, the business was essentially faced with the same challenges as any other major American corporation of its size. The economic downturn and bad luck for the firm continued in 2009, when it was forced to shut down further shops as a result of the economic climate. The company finally overcame all of its problems and started the recovery process in 2011-2012 (Koehn, 2014).

Figure 3, time series of Starbucks' stores
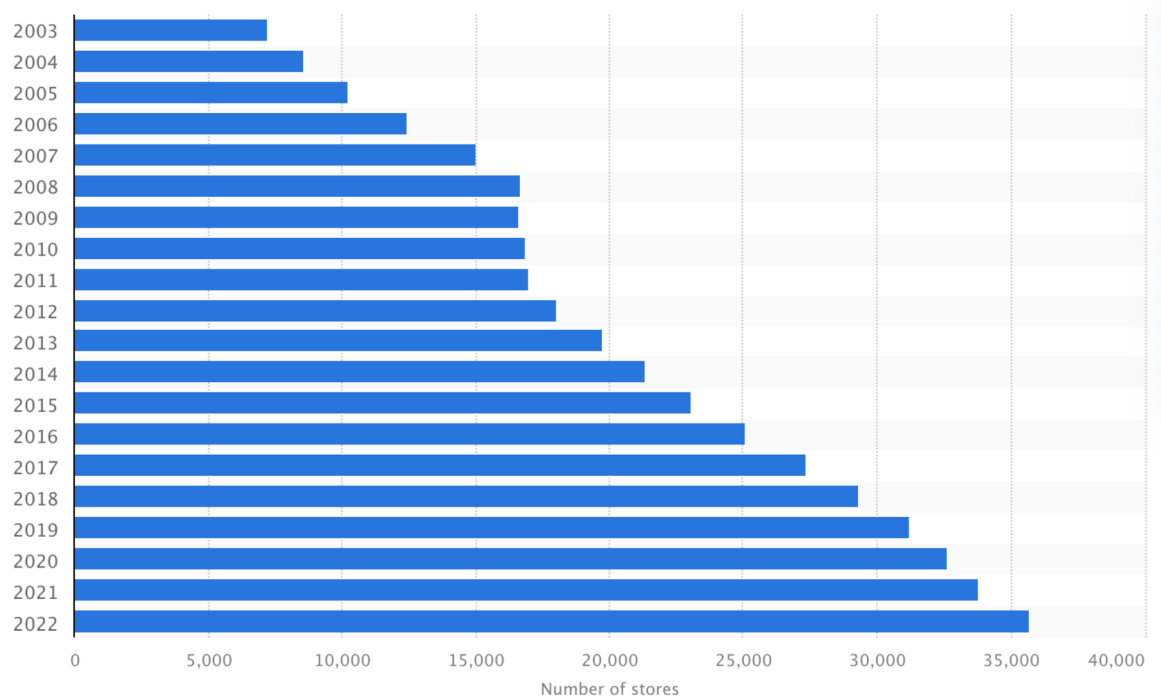
Source: Statista, 2022

The years between 2012 and 2020 may be characterized as a period of modest expansion for the corporation, as seen by the establishment of new locations while simultaneously eliminating those that did not meet the standards set by the organization. However, the worst was yet to come for Starbucks in the year 2020. At that time, the company was forced to deal with a situation in which customers were unable to visit their physical locations. This undoubtedly had a significant impact on the company's profitability, performance, and financial position. Moreover, the company was forced to close a number of its stores. The year 2020 was one of the worst years in Starbucks' history, and the toll was so terrible that

Starbucks requested landlords for a temporary cut in the rent because, otherwise, the firm would face major issues. If the rent wasn't temporarily decreased, the company would face serious problems. However, just like any other forward-thinking and prosperous company, Starbucks was able to partially compensate a portion of their unanticipated losses by opening new locations that operate on the concept of "pick-up only." In these locations, the operating expenses are lower, and customers will still be able to retrieve coffee even if the store is locked down (Lombardi, 2021).

The firm was able to make a partial recovery in 2021, and it is anticipated that Starbucks would return to its pre-covid statistics in 2022, however this prediction has not been verified in the company's most recent annual financial report. The history of Starbucks is continuing as of the year 2022, and it is anticipated that the corporation will reach the number of around 55,000 shops globally by the year 2030 (Sliwinski, 2021).

3.1.2 Competitors

As in any industry, there are numerous competitors present in the company's environment and when talking about them, it is wise to consider two companies as the biggest competitors what constantly fight for the market share with Starbucks – Dunkin Group and notably their Dunkin Donuts chain, and the second biggest competitor is Costa Coffee. When talking about the US/Canada market, it is essential to understand that Starbucks' main competitor there is Dunkin Group, which originally specialized in the sale of donuts and other typical American pastries (Schmidt, 1999). However, the company saw a great opportunity in coffeehouses as coffee is a kind of product with a relatively high margin, so the two are constantly competing against each other but as of 2022, Starbucks seems to be an evident winner in the competition. However, coffeehouse industry is a constant sum game, so both of them – Starbucks and Dunkin Donuts enjoy net income, which is a positive sign for those companies (Castrodale, 2019).

Figure 4, Starbucks and Dunkin' Donuts logos

Source: Castrodale, 2019

However, as Starbucks ventured into new markets overseas, they started to compete with local companies and local coffeehouse chains. In Europe, the biggest competitor and the most serious one is Costa Coffee, a UK-based chain of coffeehouses. Apart from those two companies, Starbucks is also competing with smaller coffeehouses usually owned privately by families, but after all, it is wise to consider those as a separate segment since people preferring them are not likely to venture into Starbucks and vice versa (Wojciechowska, 2015) .

Figure 5, Costa Coffee logo

Source: Costa Coffee, 2022

Apart from companies specializing exclusively in the sale of coffee and related complements that are consumed alongside the main product, it is also wise to say that there are more competitors of Starbucks, but they specialize in a slightly different segment – MacDonald's, KFC and other big fast-food chains. Notably, out of all of them, MacDonald's can actually be considered as a direct competitor to Starbucks due to the fact that the chain started to develop a relatively fresh concept of McCafés that can be found almost anywhere today. Yet, when talking about them and similar kinds of cafés, it is still possible to say that that focus on a slightly different segment than Starbucks as the latter focus on people willing to spend more (Wright, 2007).

3.2 Marketing

3.2.1 Essence

Marketing in general is a very important discipline, whose ascension happened in the 20th century with the rise of mass media and telecommunications since they both helped companies to reach and target larger audiences and basically connect lives of ordinary people to their favorite brand who were present literally anywhere. All in all, it is essential to first start by mentioning the definition of the very concept itself – marketing refers to activity or set of activities related primarily to the process of promoting or selling product or services. In other words, marketing is any advertising done with the goal of boosting the sales of a given company up and allowing companies to grasp a bigger target audience (Baker, 2007).

Of course, the definition might not sound so complicated, but the process of marketing entails additional practices, and it also consists of additional concepts that are integral to the original broader concept of marketing. For instance, when talking about marketing, it is almost certain that analysts or researchers analyse something that is called a marketing mix or 4Ps – combination of price, product, place and promotion. Price refers to the price set on a given product as well as the logical justification for a given price; product refers to the commodity or service being sold, its unique features and traits; place refers to the distribution of the product, how the product will reach its customers and finally, last but not the least – promotion refers to the technique of persuading customers to buy this or that exact product (Borden, 1964).

Apart from the very essence of marketing and some basic characteristics of the marketing process, it is essential to mention that there might be various techniques of promotion, such as an aggressive marketing where companies share a distinct bold message whose boldness attracts customers; business-to-business marketing or sale of goods to other businesses and one of the most important ones used today – digital marketing and social media marketing with the second being just a sub-category of a broader digital marketing concept. As it might be obvious from its definition, digital marketing refers to practices of promotion exercised with the help of digital platforms, and they are only made possible

thanks to the high degree of digitalization of communities. Social media marketing is just one of various techniques incorporated in the digital marketing (Bala, 2018).

3.2.2 Role for Modern Society

Marketing serves as a tool that attracts customers to particular goods and helps building a good customer base for firms. However, there is something else which is very important about marketing, and it is the role that marketing can play in particular trends and tendencies. In other words, marketing can make one trends attractive and popular, which is often exercised by big companies such as Starbucks that create different trends and special features of their products that are advertised in such a way that people will consider them as an integral part of any product. Obviously, good marketing campaigns can shift the way how matters stand entirely in a given market, but this particular function of marketing can also change other companies that were not the first ones to catch a new trend (Kaplan, 2009).

One of the best examples for that is the sustainability movement, which started to be exercised by a small number of firms that were to a greater extent pushed towards this movement by governments and international organizations, which believe that once big organizations will start to focus more on sustainability and green future of the planet, it will inevitably increase the degree to which people practice sustainable patterns of consumption. Yet, whenever a given company focuses on sustainability, they do not do it subtly without reporting or specific marking on their products for a very simple reasons – companies found a great opportunity in the push given by governments towards sustainability and this opportunity lies in the image that it creates for their companies. In other words, companies all over the world are focused on using sustainability as an attribute that will help to increase the number of sales because customers will believe that they are doing good by purchasing from such a company. In that regard, Starbucks is not the only one and it is just one of numerous practices exercised by Starbucks in their marketing strategy (McDonagh, 2014).

Yet, the company was recently accused of not being fully sustainable as they claim, which practically means that Starbucks were recently accused of greenwashing – promotion or advertising that persuades consumers that a given company is sustainably when it is not when pursuing the goal of increasing sales. All in all, the bottom line of this chapter is pretty clear – marketing has long ago become not just a tool of increasing sales but marketing also

became something that shapes the world and social preferences, as well as consumption tendencies and trends (Gallicano, 2011).

3.3 Marketing Analysis

3.3.1 Porter's Five Forces

Marketing analysis is a complex field where numerous techniques can be applied. However, Porter's Five Forces or Porter's Five Diamonds is something that is almost inevitably applied in every case before developing a particular marketing strategy because this analysis created by a prominent Harvard professor Michael E. Porter in 1979 offers a good overview of the external forces that surround a particular company (Grundy, 2006). Five forces are related to five external domains, which are:

Threat of New Entry

This domain refers to the threat that is present in a particular industry or a market segment associated with an entry of new players (firms and companies) to the existing industry or market. The threat is considered to be high when there are almost no barriers to entry or they are not really strong, and a low starting capital is needed to start the business.

Threat of Substitutes

This domain refers to the threat of substituting the existing good with cheaper or better alternatives in terms of having more functionalities to offer comparing to the existing primary product offered by the analyzed company. Threat is considered to be high when there are various possibilities of diversifying the current product by either improving it or completely creating a new one with similar functionalities and benefit to consumers.

Power of Consumers

This domain is related to the influence which consumers have over producers. Power of consumers is considered to be high when they are not easily substituted and when targeting a new audience seems relatively hard or completely impossible.

Power of Suppliers

This domain is related to the influence that suppliers have over producers. Power of suppliers is high when suppliers are unique and when they cannot anyhow be substituted, so they are the ones that invent the rule of the industry.

Industry Rivalry

This domain explores the rivalry and distribution of market shares between competitors. Rivalry is high when there are many firms producing similar products who occupy either a bigger market share or has a wider production possibility frontier (Dobbs, 2014).

3.3.2 PESTLE Analysis

PESTLE analysis is another tool used to address external factor affecting a given company. Compared to Porter's Five Forces analysis that focuses on factors related closely to organizations such as competitors, suppliers and customers, PESTLE analysis takes a slightly different approach and addresses wider range of factors that are beyond company's reach, which are:

P

Political factors or factors related mostly to the political agenda of the environment where a given company operates, these are usually decisions of the domestic government, etc.

E

Economic factors which are traditionally associated with the changes in business cycles and particular macro and microeconomic situations of environment where a given company is situated.

S

Social factors are structural changes in customer preferences, such as changes in the lifestyle and attitude towards products and companies, which are prone to change with changes in generations.

T

Technological factors are factors related to the change in distribution, production and promotion of different products and these changes are usually driven by innovation and research and development.

E

Environmental factors are factoring whose importance is growing day by day, especially in the light of the sustainability movement. These factors are related to the protection of environment.

L

Legal factors are factors related to legislation of particular countries and subjects of international law, they are usually related to employment regulation and other financial legislation (Perera, 2017).

3.3.3 SWOT Analysis

SWOT analysis is a tool used mostly for a summarization of a given author's findings as it provides a good overview of the company's internal and also external situation in terms of its:

Strengths

This is an internal aspect that highlights the company's strong points from the internal point of view, such as good organizational structure and stable performance over the course of recent history.

Weaknesses

This is the second and the last internal aspect of the analysis. It serves as a summarization for internal difficulties and weak points that a given company has, such as bad investment decisions and inadequate price-setting mechanism to just mention a few.

Opportunities

This is an external component, and it refers to possibilities of improving the current state of affairs of a given business such as venturing into a new environment or cooperating with another company.

Threats

The last component is external and it describes threats that can pose a serious problem for the company in the future, such as a pandemic or economic recession, which are often hard to predict (Gurl, 2017).

4 Practical Part

4.1 Market Capitalization

In the very first chapter of her practical part, the author estimates the market capitalization of Starbucks and compares its development over time with the development of the same indicator of the biggest competitor of the corporation – Dunkin Group. The following table figure presents information about Starbucks' market share over time.

Figure 6, market capitalization of Starbucks and Dunkin Group

Year	Starbucks Market Capitalization in billion US Dollars	Dunkin Group Market Capitalization in billion US Dollars
2011	34.5	3
2012	40.16	3.52
2013	59.3	5.14
2014	61.57	4.46
2015	89.18	3.94
2016	80.89	4.81
2017	81.09	5.82
2018	80.06	5.29
2019	103.26	6.25
2020	125.56	8.77

Source: Companiesmarketcap, 2022

Undoubtedly, even without conducting a trend or any other kind of analysis related to the market capitalization of two companies, it is already visible that Starbucks's market capitalization exceeds the one of Dunkin Group by a significant number. In the next figure, the visual representation of trends of Starbucks and Dunkin Group are presented.

Figure 7, market capitalization: Starbucks vs. Dunkin group
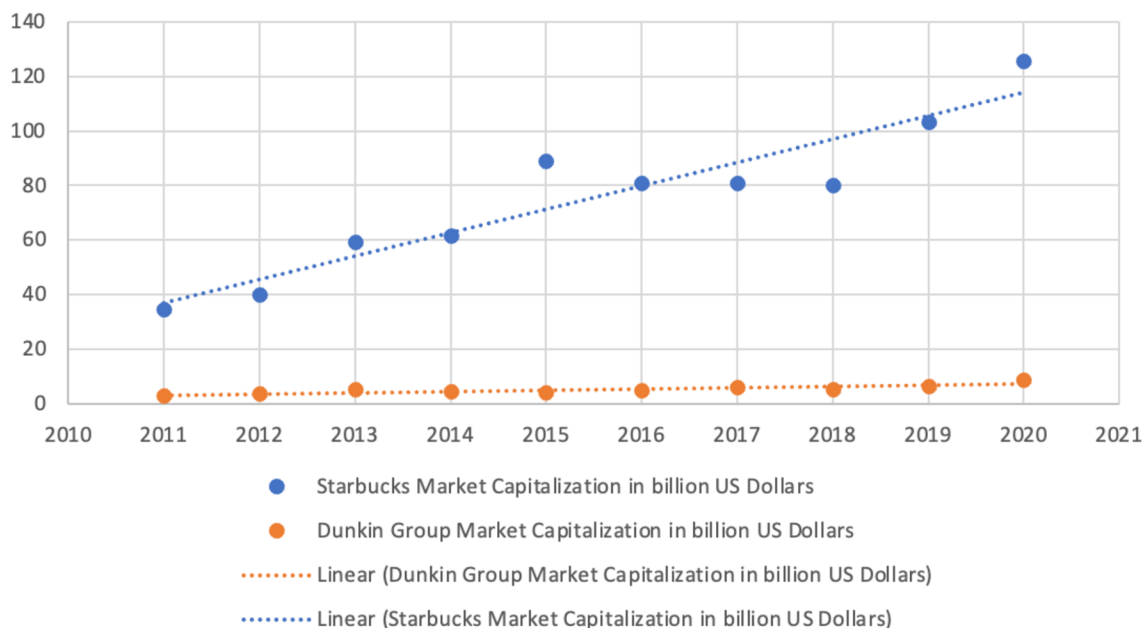
Source: own processing based on Companiesmarketcap, 2022

Of course, a vast gap between the market capitalization of Starbucks and Dunkin Group is visible even more on the following figure. Now, the author will put the trend function estimated for each coffeehouse networks:

Figure 8, Starbucks trend

```
Model 1: OLS, using observations 1–10
Dependent variable: StarbucksMarketCapitalization

              coefficient   std. error   t-ratio    p-value
  ----------------------------------------------------------------
  const        28.3800       7.08786      4.004      0.0039   ***
  time          8.57764      1.14231      7.509      6.87e-05 ***

Mean dependent var    75.55700   S.D. dependent var   27.75133
Sum squared resid    861.2181    S.E. of regression   10.37556
R-squared              0.875748   Adjusted R-squared    0.860217
F(1, 8)               56.38532    P-value(F)            0.000069
Log-likelihood       -36.46820    Akaike criterion     76.93640
Schwarz criterion     77.54157    Hannan-Quinn         76.27253
```

Source: own processing based on Companiesmarketcap, 2022

$$y1 \ = \ 28.38 \ + \ 8.57t$$

24

Figure 9, Dunkin group trend

```
Model 2: OLS, using observations 1-10
Dependent variable: DunkinGroupMarketCapitalizat

               coefficient   std. error   t-ratio   p-value
      --------------------------------------------------------------
      const       2.54200      0.603694     4.211    0.0030    ***
      time        0.465091     0.0972942    4.780    0.0014    ***

Mean dependent var    5.100000    S.D. dependent var    1.636161
Sum squared resid     6.247662    S.E. of regression    0.883718
R-squared             0.740688    Adjusted R-squared    0.708274
F(1, 8)              22.85084     P-value(F)            0.001390
Log-likelihood      -11.83750     Akaike criterion     27.67499
Schwarz criterion    28.28016     Hannan-Quinn         27.01112
```

Source: own processing based on Companiesmarketcap, 2022

$$y2 = 2.54 + 0.46t$$

All in all, it is possible to conclude that the overall tendency for both companies is positive, since they both have a yearly increment. However, this increment is significantly different: Starbucks experiences a yearly increment in the market capitalization of 8.47 billion US, while Dunkin group experiences an increment of just 0.46 billion US.

Nevertheless, now the author will test if the company's success has really something to do with advertising and marketing.

4.2   Linear Regression Analysis

4.2.1   Assumptions

Figure 10, data used for estimation

Year	Starbucks Revenue, billion US	Price per share, USD per 1 share	Marketing expense in million US	Number of stores worldwide, thousands	Earnings Per Share, USD
	y1t	y2t	x1t	x2t	x3t
2011	11.7	18.92	198	17	0.81
2012	13.27	25.63	264	18.066	0.9
2013	14.86	33.71	274	19.767	0.01
2014	16.44	37.78	289	21.366	1.35
2015	19.163	53.25	351.5	23.043	1.82
2016	21.316	56.59	378.7	25.085	1.9
2017	22.387	57.27	282.6	27.339	1.97
2018	24.72	57.5	260.3	29.324	3.24
2019	26.509	81.44	245.7	31.256	2.92
2020	23.518	82.33	258.8	32.66	0.79
2021	29.061	112.05	305.1	33.833	3.54

Source: Statista, 2022

The author's logic lies in creating a recursive linear regression model that will help to describe the quantitative effect of various exogeneous factors at the same time on two different dependent variables. The recursive model alongside the two equations to be estimated by the author are presented below:

$$\begin{pmatrix} y1t = \beta10 + \beta11x1t + \beta12x2t + \ Error\ 1 \\ y2t = \ \beta20 + \gamma1y1t + \beta21x3t + \ Error\ 2 \end{pmatrix}$$

Each variable represents:

- Y_{1t} = Starbucks revenue in billion *US dollars*.
- Y_{2t} = Price per share, *USD*
- X_{1t} = Marketing expense in million *USD*
- X_{2t} = Number of Starbucks stores worldwide, *thousands*
- X_{3t} = Earnings per share, *USD*

It is assumed that there is no multicollinearity, two equations are BLUE (best linear unbiased estimator), meaning that there is no autocorrelation, heteroscedasticity and error is normally distributed.

It is assumed that signs of all parameters are positive.

Consequently, a reduced form of the model will be created from the structural form estimated using the two-stage least squares method in Gretl. The estimation is based on the time series data covering 11 observations (T=11) from 2011 to 2021.

4.2.2 Multicollinearity

Assumption for multicollinearity: $|R|$ $(X_{1...j})$ < 0.8 (correlation between exogeneous variables is less than 0.8). This is verified with the help of correlation matrix from Gretl.

26

Figure 11, correlation matrix
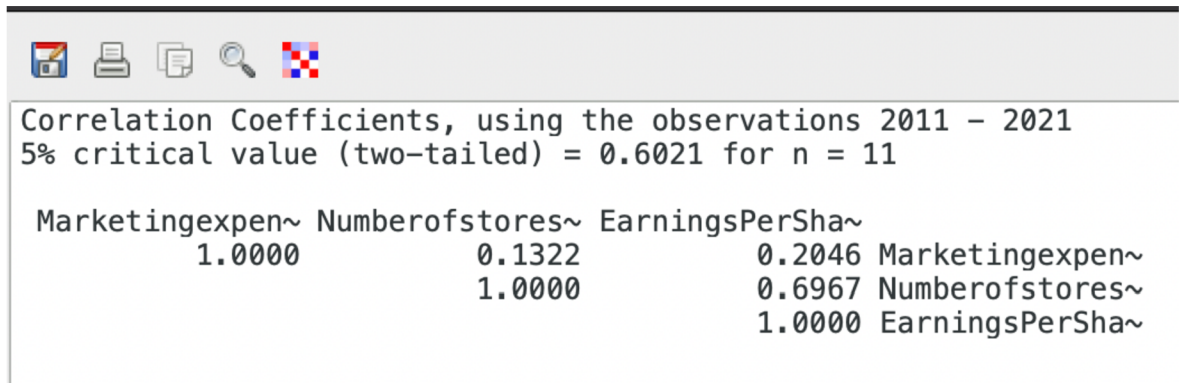
Source: own processing based on Statista, 2022

There is no multicollinearity in this dataset. The highest correlation is between the number of stores and earnings per share, but the strength of their relationship is not enough to conclude that there is multicollinearity ($0.69 < 0.8$).

The next step is model identification.

4.2.3 Model Identification

K = number of exogeneous variables in the model (3).

G = number of endogenous variables in the model (2).

For the first equation, it is possible to construct the following identification procedure:

K – K' = 2-1

3-2 = 1

1 = 1 (the first equation is exactly identified).

For the second equation, it is possible to construct the following identification procedure:

K – K' > 2-1

4-1 > 1

3 > 1 (the second equation is over-identified)

It is possible to proceed to the model estimation using TSLS method.

4.2.4 Parameter Estimation

Figure 12, first equation parameters

```
Model 4: TSLS, using observations 2011–2021 (T = 11)
Dependent variable: StarbucksRevenuebillionUS
Instruments: const MarketingexpenseinmillionUS Numberofstoresworldwidetho
  EarningsPerShareUSD

                      coefficient  std. error  t-ratio   p-value
  ---------------------------------------------------------------
  const                −6.59953     2.78318     −2.371    0.0452   **
  Marketingexpense~     0.0138095   0.00836810   1.650    0.1375
  Numberofstoreswo~     0.906306    0.0695396   13.03     1.14e−06 ***

Mean dependent var    20.26764    S.D. dependent var    5.654572
Sum squared resid     13.50258    S.E. of regression    1.299162
R-squared              0.957770   Adjusted R-squared    0.947213
F(2, 8)               90.72027    P−value(F)            3.18e−06
Log-likelihood       −16.73574    Akaike criterion     39.47148
Schwarz criterion     40.66517    Hannan−Quinn         38.71903
rho                   −0.359206    Durbin−Watson         2.638303

Sargan over−identification test −
  Null hypothesis: all instruments are valid
  Test statistic: LM = 8.79441
  with p-value = P(Chi-square(1) > 8.79441) = 0.00302154
```

Source: own processing based on Statista, 2022

$$y1t = -6.59953 + 0.013x1t + 0.90x2t + \ Error\ 1$$

- When marketing expense rises by 1 million US dollars, Starbucks' revenues increase by 0.013 billion US dollars. The assumption is satisfied.

- When number of stores increases by 1 thousand, Starbucks' revenues increase by 0.9 billion US dollars. The assumption is satisfied.

Figure 13, second equation parameters

```
Model 5: TSLS, using observations 2011-2021 (T = 11)
Dependent variable: PricepershareUSDper1shar
Instrumented: StarbucksRevenuebillionUS
Instruments: const MarketingexpenseinmillionUS Numberofstoresworldwidetho
  EarningsPerShareUSD

                        coefficient    std. error   t-ratio   p-value
  ---------------------------------------------------------------------
  const                  -48.2144       13.2267      -3.645    0.0065   ***
  StarbucksRevenue~        5.71762       0.926476     6.171    0.0003   ***
  EarningsPerShare~       -6.64321       4.65023     -1.429    0.1910

Mean dependent var     56.04273    S.D. dependent var     27.60416
Sum squared resid     699.0172     S.E. of regression      9.347574
R-squared               0.908347   Adjusted R-squared      0.885434
F(2, 8)                39.86157    P-value(F)              0.000069
rho                     0.576848   Durbin-Watson           0.869408

Hausman test -
  Null hypothesis: OLS estimates are consistent
  Asymptotic test statistic: Chi-square(1) = 0.833026
  with p-value = 0.361399

Sargan over-identification test -
  Null hypothesis: all instruments are valid
  Test statistic: LM = 0.00714346
  with p-value = P(Chi-square(1) > 0.00714346) = 0.932644

Weak instrument test -
  First-stage F-statistic (2, 7) = 131.598
  Critical values for desired TSLS maximal size, when running
  tests at a nominal 5% significance level:

     size       10%      15%      20%      25%
     value     19.93    11.59     8.75     7.25

  Maximal size is probably less than 10%
```

Source: own processing based on Statista, 2022

$$y2t = -48.21 + 5.71y1t - 6.64x3t + Error\ 2$$

- When Starbucks' revenues increase by 1 billion US dollars, Starbucks' price of share increases by 5.7 US dollars. The assumption is satisfied.

- When the earnings per share of Starbucks rise by 1 US dollar, Starbuck's price decreases by 6.64 US dollars. The assumption is not satisfied but as long as this variable is not significant, its impact on the predictor is rather low, so this problem can be overlooked.

4.2.5 Verification

4.2.5.1 Mathematical

Assumption: *mean observed = mean fitted*

For the first equation: 20.26 = 20.26 (satisfied)

For the second equation: 56.04 = 56.04 (satisfied)

4.2.5.2 Statistical

R square:

For the first equation: 0.94 or 94% explained, which indicates that the equation is quite precise and contains a desired number of variables.

For the second equation: 0.88 or 88% explained, which indicates that the second equation is quite precise, but still lacks some explanatory variables.

F test:

For the first equation:

Ho: Model is not significant

Ha: Model is significant

P = 0.01

0.01 < 0.05 => Ho is not rejected (the equation is significant)

For the second equation:

Ho: Model is not significant

Ha: Model is significant

P = 0.01

0.01 < 0.05 => Ho is not rejected (the equation is significant)

T tests:

For the first equation:

Out of 2 predictors, the null hypothesis about no statistical effect of marketing expense is not rejected (0.13 > 0.05). The second predictor (number of stores) has been confirmed to be significant at 0.01 < 0.05.

For the second equation:

Out of 2 predictors, the null hypothesis about no statistical effect of earnings per share expense is not rejected (0.19 > 0.05). The second predictor (revenues) has been confirmed to be significant at 0.01 < 0.05.

4.2.5.3 Econometric

Figure 14, econometric tests for the first equation

```
Pesaran-Taylor test for heteroskedasticity -
  Null hypothesis: heteroskedasticity not present
  Asymptotic test statistic: z = 1.14274
  with p-value = 0.253145

LM test for autocorrelation up to order 1 -
  Null hypothesis: no autocorrelation
  Test statistic: LMF = 1.11382
  with p-value = P(F(1, 8) > 1.11382) = 0.326312

Test for normality of residual -
  Null hypothesis: error is normally distributed
  Test statistic: Chi-square(2) = 7.81908
  with p-value = 0.0200497
```

Source: own processing based on Statista, 2022

For the first equation:

Autocorrelation:

Ho: no autocorrelation

Ha: there is autocorrelation

P = 0.32

0.32 > 0.05 => Ho is not rejected.

Heteroscedasticity:

Ho: no heteroscedasticity

Ha: there is heteroscedasticity

P = 0.25

0.25 > 0.05 => Ho is not rejected.

Normality:

Ho: error is normally distributed

Ha: there is no normality

P = 0.02

0.02 < 0.05 => Ho is rejected.

Figure 15, econometric tests for the second equation

```
Pesaran–Taylor test for heteroskedasticity –
  Null hypothesis: heteroskedasticity not present
  Asymptotic test statistic: z = 2.25485
  with p-value = 0.0241425

LM test for autocorrelation up to order 1 –
  Null hypothesis: no autocorrelation
  Test statistic: LMF = 2.82463
  with p-value = P(F(1, 8) > 2.82463) = 0.136716

Test for normality of residual –
  Null hypothesis: error is normally distributed
  Test statistic: Chi-square(2) = 3.77346
  with p-value = 0.151567
```

Source: own processing based on Statista, 2022

Autocorrelation:

Ho: no autocorrelation

Ha: there is autocorrelation

P = 0.13

0.13 > 0.05 => Ho is not rejected.

Heteroscedasticity:

Ho: no heteroscedasticity

Ha: there is heteroscedasticity

P = 0.25

0.02 < 0.05 => Ho is rejected.

Normality:

Ho: error is normally distributed

Ha: there is no normality

P = 0.15

0.15 > 0.05 => Ho is not rejected.

There are minor problems with the model (no normality in the first equation and presence of heteroscedasticity in the second one) but given the illustrative nature of the study, those problems can be overlooked as they are likely to result in a minor quantitative difference in the effect of individual factors.

4.2.6 Reduced Form Calculation

Calculation is performed according to the following formula:

$M = -\text{ß}^{-1} * \Gamma$, where:

- M = reduced form of the model.
- ß = matrix of endogenous parameters.
- Γ = matrix of exogenous parameters.

Based on the structural form of the model, the author calculates reduced form. Calculations are available in the figure below:

Figure 16, reduced form calculation

Γ	const	x1t	x2t	x3t
	6.59	-0.013	-0.9	0
	48.21	0	0	6.64

ß	y1t	y2t
	1	0
	-5.71	1

Inverse of ß	y1t	y2t
	-1	0
	-5.71	-1

M	const	x1t	x2t	x3t	
	-6.59	0.013	0.9	0	y1t
	-85.8389	0.07423	5.139	-6.64	y2t

Source: own processing based on Statista, 2022

The following model are used for predicting two endogenous variables at the same time:

$$Y1t = -6.59 + 0.013x1t + 0.09x2t + V1$$

$$Y2t = -85.8389 + 0.07423x1t + 5.139x2t - 6.64\,x3t + V2$$

4.3 PESTLE Analysis

Then, the author uses PESTLE analysis that will help her to identify the most important external factors influencing the company's revenues. The following figure contains the brief overview of the factors identified by the author:

Figure 17, PESTLE analysis

P	E	S	T	L	E
Tax policy	Inflation	Consumer preferences	Innovations	New licenses	Ban on plastic
Employment laws	Exchange rates	Change in lifestyle	3D Print	Nutrition regulations	Carbon footprint regulations
Sanctions		Demographic change	Agrarian breakthrough		

Source: own research

Political: potential changes in corporate tax rates are something that will inevitably affect the corporation, especially given its wide range of different locations; employment laws might force the company to pay more to their employees or hire specific groups of people, which might be rather harmful to the company's revenues; sanctions that are imposed on particular states, e.g. Russia, is something that might indirectly force the company to leave a given environment out of fear for their reputation and potential damage to their public image.

Economic: soaring worldwide rates of inflation are something that inevitably leads to the drop in the purchasing power of different groups of people, so it might decrease the number of customers for Starbucks; exchange rates are also another interesting point, especially given the fact that the country with the highest number of Starbucks shops in Europe is Turkey, in the light of recent fluctuations with the domestic currency, it is probable that Starbucks will have to increase the price on their products there by a significant amount, which will inevitably affect domestic population.

Social: potential change in trends might significantly hit the company but yet, it is quite unlikely that there might be something that will change the coffee culture in the United States, the corporation's main target country; consumer preferences is another aspect strongly related to the one discussed earlier; demographic change and ageing population in developed countries, the ones which are extremely important for Starbucks is a big concern due to the fact that older people are less willing to consume coffee due to their health condition and other medical recommendations.

Technological: inability to cope with innovations and technological trends can easily put Starbucks on the verge of existence, especially given the fact that companies are given just a little time to adjust to those changes before they are outplayed by their competitors; introduction and active utilization of 3D print is something that might change the way how the whole supply chain of Starbucks is actually organized; agrarian breakthrough and new innovations related to the way how coffee is extracted and produced is downright important for Starbucks.

Legal: potential regulations related to nutrition policies might change the actual taste and ingredients used by Starbucks, so it is essential to consider this aspect; new licenses needed that might be introduced in the EU union for the sale of beverages is a crucial change that might happen in the nearest future, especially given the current trend of environmentalism in the EU-27.

Environmental: ban on plastic is an interesting point to mention, especially given the fact that the company has not yet fully got rid of plastic for the sale of beverages, only in communities where this element was banned; carbon footprint regulations might increase the cost of transportation and the cost of other elements located on supply chain of Starbucks, thus eventually leading to the increase in the price of products.

4.4 Porter's Five Forces Analysis

The following figure contains a quick overview of the Porter's Five Forces analysis done by the author:

Figure 18, Porter's Five Forces
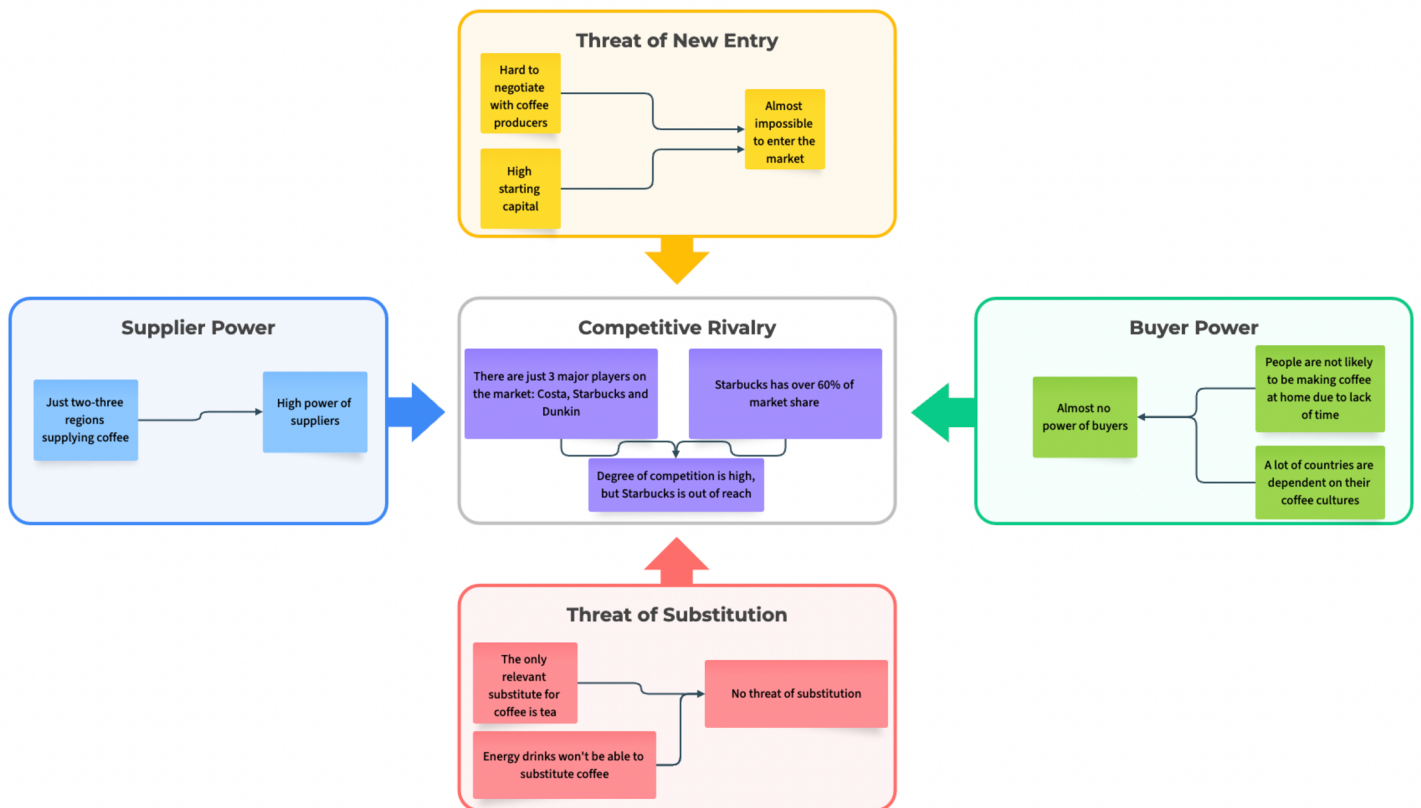
Source: own research

Threat of new entry: new coffeehouses would have to negotiate with just a couple of major suppliers of coffee beans who have a long-term contracts with major coffeehouse networks, so it is unlikely that they will succeed in that regard; the starting capital to initiate this kind of business even if they succeed in negotiating with coffee suppliers is quite high, so it is unlikely due given high interest rates around the globe that someone will decide to enter the market in the nearest future. *The threat is low*.

Buyer power: a lot of people prefer Starbucks due to quick service and their lack of time, so it is unlikely that they will be focusing on making coffee at home due to their physical inability to do so because of busy schedule. Also, a lot of countries have a strong coffee culture from which they cannot anyhow refrain. *The buyer power is low*.

Supplier power: there are just a few companies and few regions supplying coffee beans in large quantities, so whenever they decide to cooperate and start earning more, companies

like Starbucks won't have any other choice but to agree because finding an alternative in the nearest future is quite complicated. *The supplier power is low.*

Threat of substitution: there is just one substitute for coffee – tea, but in countries traditionally consuming coffee, it is quite unlikely that they will switch to coffee due to consumer preferences and traditions. Energy drinks might be considered as a substitute, but just for particular groups of people, so it is unlikely that those refusing to consume coffee will start consuming energy drinks. *The threat of substitution is low.*

Competitive rivalry: the international market is primarily split between just 3 major coffeehouse networks – Starbucks, Dunkin Donuts and Costa, which partially indicates that the market is somewhat oligopolistic. In this quite narrow and closed market with significant barriers to entry, Starbucks has over 60% of market share. *A certain degree of competition is present, but Starbucks's competitors are lagging behind the company.*

4.5 SWOT Analysis

The following figure contains the overview of the author's SWOT analysis:

Figure 19, SWOT analysis

	Strengths	Weaknesses
Internal	Good public image Impeccable reputation High margins Stable growth	High overturn of employees Not effective marketing Focus on upper class customers
	Threats	**Opportunities**
External	Cooperation between suppliers Further markets to be abandoned Nutrition policies Decrease in purchasing power	New markets to explore New positions in the menu Diversification of service

Source: own research

Strengths: good public image is something that will always keep customers returning and new ones coming; impeccable reputation and almost no serious problems over the course of the company's history is another important strong point; high margins on products and

still a high number of customers that always keep returning; stable growth, as it was observed in the chapter 4.1 is another important strength of the company.

Internal:

Strengths: good public image is something that will always keep customers returning and new ones coming; impeccable reputation and almost no serious problems over the course of the company's history are another important strong point; high margins on products and still a high number of customers that always keep returning; stable growth, as it was observed in the chapter 4.1 is another important strength of the company.

Weaknesses: high overturn of employees and constant need to reinstruct new comers is quite costly to the company; as it became clear, the company's marketing strategy does not really significantly contribute to the organization's success and it is a major weakness; Starbucks is primarily focused on high-upper middle class customers, so their target group is rather narrow.

External:

Threats: potential agreements between suppliers might drive prices of inputs up; following Russia, there might be new markets that will be abandoned by Starbucks out of fear for their reputation; nutrition policies might force Starbucks to change its ingredients and it is costly; decrease in the purchasing power followed by soaring inflation is also a serious threat.

Opportunities: while Starbucks might be forced to leave some markets, the company can start to explore new ones; new positions in the menu might help the company to expand the audience and also attract people interested in having meals; diversification of service and potentially new domains are something that might be considered by Starbucks to increase their sales.

5   Results and Discussion

5.1   Role of Marketing for Starbucks

To begin the interpretation of the results, it is worth starting with the results of the recursive model created by the author. As it came out, the marketing expense does not really contribute significantly to the company's accumulation of revenues over time. Yet, the quantitative effect that marketing has on Starbucks is described as follows:

- *When marketing expense rises by 1 million US dollars, Starbucks' revenues increase by 0.013 billion US dollars.*

Of course, the value of 0.013 billion US dollars or 13 million US dollars might seem quite vast to some people but in the context of almost 50 billion US dollar revenues to which the company is slowly approaching seems as rather not significant. Henceforth, it is possible to say that the author's findings are somewhat similar to the findings of another author who believes that marketing for such large companies as Starbucks does not really serve as a primary tool for increasing its sales but rather as a reminder for old customers that it is finally time to visit their favorite coffee house.

Yet, when it comes to the most important factors contributing to the commercial success of Starbucks, it is found out that the most important factor is number of stores, as for each one thousand new stores opened by Starbucks, the company experiences an augmentation of 900 million US dollars in equivalent of their revenues.

At the same time, it is important to mention that the company's revenues directly contribute to the price of stock, as it was estimated:

- *When Starbucks' revenues increase by 1 billion US dollars, Starbucks' price of share increases by 5.7 US dollars.*

Therefore, it is essential to understand that the company's revenues are a direct explanation of the company's rise in the market capitalization from around 34.5$ billion US dollars. to over 100 billion US dollars.

At the same time, it is possible to model the potential effect of 1 million increment in the marketing expense on revenues and consequently, on the price of one share:

If marketing expenses increase by 1 million US dollars, revenue go up by just 0.013 billion US dollars; Henceforth, it leads to an increment of just 0.07 USD (0.013*5.7). Clearly, the effect of marketing is low not just on the company's revenues, but also on the increment in price of stock. Of course, if comparing with relevant authors, it does not really come as a surprise, because big companies more keen on generating higher revenues when they set their foot into new markets (Masiero, 2017).

5.2 Prognosis

In addition to that, it is wise to consider the potential development of Starbucks in the nearest future that is primarily based on the set of internal and external forces. As the author has identified it through the Porter's Five Forces analysis, the company's position is rather safe, as there are significant barriers to entry, so there is almost no threat of new entry; buyers have no alternative and neither do they have any real power; there is no real threat of substitution and competition is not intense. However, at the same time, there is a real concern related to the buyer of suppliers – there are just a few of them and they can drive prices up any time soon, which might be the consequence of inflation and other political changes around the globe and especially in the regions supplying coffee to Starbucks – Africa and South America, notably Brazil, which is on the verge of a political change and Colombia, a country that has recently faced a change in the president, so there might be some problems related to supply of coffee from those countries.

Of course, this will inevitably drive prices high, but it is yet not critical for Starbucks, because its main focus is on the high-upper middle class, who will continue buying coffee regardless. Yet, there is a real concern about the accessibility of products to lower class and lower middle class, but as the other author points it out, Starbucks has never ever been focusing on making their goods accessible in other parts of the world apart from the US, and

US consumers are not likely to be significantly hit by an increase in the price of coffee as their financial situation is still much better than the one of consumers in the EU and other countries, especially given recent circumstances (Khan, 2018).

At the same time, if the company won't be able to comply with changing trends on sustainability, it is likely that more and more consumers will prefer the company's competitors who do not underestimate the power of green movements and environmental protection laws. Yet, the company's market position is relatively safe, and it is not at all likely that the company will suffer from leaving Russian market. As the other author mentions it in his research, the share of Starbucks in Russia was relatively low and the company will be able to substitute it with new shops opened in other emerging markets (Delkic, 2022).

6 Conclusion

All in all, the author is able to conclude the fact that based on the linear regression analysis, it turns out that the effect of advertising expenses on the company's sales is rather low with just 13 million US dollars increment for each 1 million spent on marketing. Also, the effect of marketing is low on the change in price of share – just 0.07 US dollars per 1 million increments in the marketing expense.

In addition to that, the author concludes that the company's biggest threat is its inability to comply with ever-changing green agenda and constantly emerging new environment-protection laws. Also, another interesting aspect that might endanger not the company's position, but the accessibility of the company's products is potential change in agenda or agreements between coffee producers that will leave Starbucks no other choice but to pay more to them and eventually driving prices for coffee sold by the company even higher, thus making it almost not feasible for lower and lower middle class.

All in all, the company has a strong market position, and it is highly likely that the hegemony of Starbucks in the coffee market will continue in the nearest future, as there are almost no chances that a new major player will enter the market and seize a given market share of Starbucks. Current competitors, such as Dunkin are quite far from even approaching the market position of Starbucks, as the author realized it during the analysis of market capitalization.

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