Brand Doctor

Brand Check-up

Starbucks

As of August 27, 2024

Status: Needs attention

A loved brand with a worse visit: higher prices and crowded mobile counters are costing U.S. visits, and sales in China are falling amid a price war.

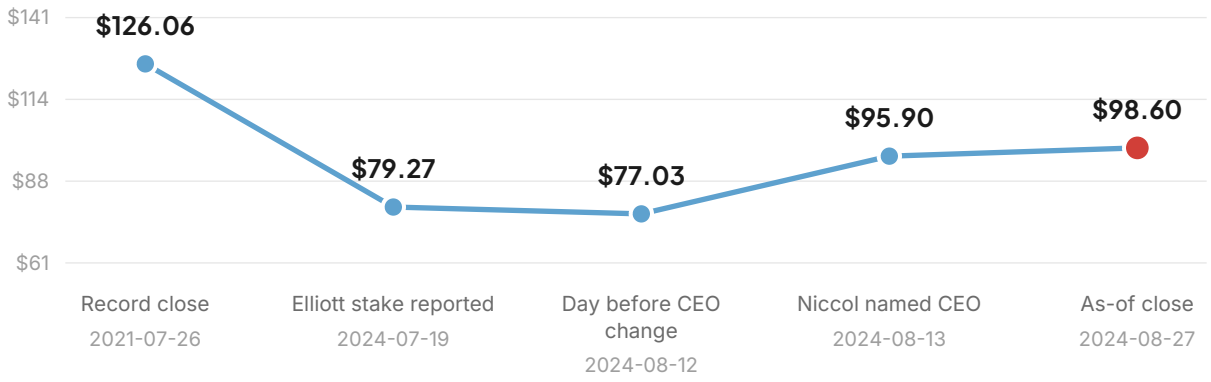
About this check-up

Brand Doctor reviews well-known brands the way we review a client's marketing: symptoms, diagnosis, treatment. This check-up uses public information available on August 27, 2024. It is brand and marketing analysis, not investment advice. Sources are listed at the end.

Vital signs

Share price

USD, at the dates shown [2, 9, 1]



Share price

$98.60

Close, August 27, 2024 [1]

Versus record close

About 22% below

Record close $126.06, July 26, 2021 [1, 2]

Move on CEO news

+24.5%

August 13, 2024; best day since the 1992 listing [8, 7, 1]

Fiscal 2023 revenue

$36.0 billion

Record; year ended October 1, 2023 [5]

U.S. comparable transactions

-6%

Q3 fiscal 2024, after -7% in Q2 [3, 4]

China comparable store sales

-14%

Q3 fiscal 2024, after -11% in Q2 [3, 4]

Timeline

2021-07-26 Shares set a record close of $126.06. [2]

2023-11-02 Starbucks reports record fiscal 2023 revenue of $36.0 billion and global comparable store sales up 8%. [5]

2024-02-23 Luckin Coffee reports 2023 revenue of about 24.9 billion yuan, passing Starbucks in China annual sales for the first time. [11, 16]

2024-04-30 Q2 fiscal 2024: global comparable sales fall 4%, U.S. transactions 7% and China comparable sales 11%; mobile orders reach 31% of U.S. transactions. [4, 12]

2024-05-05 Howard Schultz writes that U.S. operations are the primary reason for the company's fall from grace. [15]

2024-07-19 Reports say Elliott Investment Management has built a sizable stake; shares close up nearly 7% at $79.27. [9, 1]

2024-07-30 Q3 fiscal 2024: global comparable sales fall 3%, U.S. transactions 6% and China comparable sales 14%. [3]

2024-08-09 The Wall Street Journal reports that Starboard Value has taken a stake. [10]

2024-08-13 Brian Niccol is named chairman and CEO from September 9 and Laxman Narasimhan steps down; shares rise 24.5%, their best day since the 1992 listing. [6, 8, 1]

2024-08-27 Shares close at $98.60. [1]

Symptoms

- Global comparable store sales fell 4% in Q2 and 3% in Q3 of fiscal 2024.
- U.S. transactions fell 7% and then 6% while the average ticket rose 4%.
- China comparable sales fell 11% and then 14% after Luckin passed Starbucks in China sales.

- A mid-teens percent of started mobile orders went uncompleted, with long waits among the reasons.
- Two activist stakes were reported and the chief executive stepped down and a successor was named within four weeks.

Diagnosis

1 Value gap with occasional customers

U.S. transactions fell 7% in Q2 and 6% in Q3 while the average ticket rose 4% in both quarters. Narasimhan said occasional customers are making choices based on economic pressure, and one customer told The Wall Street Journal each cup now costs him more than $6. [4, 3, 12, 13]

2 Mobile success overloaded the stores

Mobile Order & Pay reached 31% of U.S. transactions, and the company said it had a challenge meeting peak morning demand. A mid-teens percent of started mobile orders went uncompleted, and the Journal reported that cafes that once averaged 1,200 orders a day are often now trying to make 1,500. [12, 13]

3 The third place traded for throughput

Schultz built Starbucks as a third place between work and home, but CNBC reported that more customers now prefer not to linger. Schultz described a crowded Chicago store as a mosh pit and called U.S. operations the primary reason for the company's fall from grace. [14, 15]

Diagnosis, continued

4 Premium position squeezed in China

China comparable sales fell 11% and then 14%. Luckin passed Starbucks in China annual sales in 2023 with more than 16,200 stores against 6,975 for Starbucks at the end of December. Reuters reported that Luckin often sells lattes for 9.9 yuan with a coupon against 33 yuan at Starbucks, and Starbucks said it chose not to join the price competition. [4, 3, 11, 16, 17, 18, 12]

Prognosis

As of August 27, 2024, the problem is traffic. Loyal members are still growing and fiscal 2023 revenue was a record. Brian Niccol starts on September 9 with investor goodwill and two activist funds on the shareholder register. What to watch: U.S. transaction counts in the fiscal fourth quarter, whether peak-hour congestion in U.S. stores eases, whether value offers bring back occasional customers without training them to wait for discounts, and whether China comparable sales stop falling against cheaper local rivals. The brand has room to recover, but the store experience has to earn it back.

Treatment

- Separate mobile pickup from the cafe line at peak hours and give honest wait times, so app orders stop crowding out walk-in customers.
- Win back occasional customers with clear everyday value on the core menu instead of a rotating set of app-only discounts.
- Give people a reason to stay again, with seating, calmer counters and service that makes a visit feel worth more than the cup.
- In China, hold the premium position on quality and experience rather than chase a mass-market price war.

Lessons for growing companies

Growth channels can wear down the core

A channel that wins orders can damage the experience that earned them. Measure what a new channel does to your existing customers, not only to sales.

Count visits, not only revenue

Price increases can hide falling traffic for several quarters. Track transactions and visit frequency next to revenue.

Know which customers you are losing

Starbucks kept its loyal members and lost occasional ones. Find out who is leaving before you choose the fix.

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About Brand Doctor

Brand Doctor is a marketing strategy consultancy founded by Cliff K. F. Lin. He has spent 17 years in marketing and managed more than $30 million in spend for SaaS, tech and lead-generation companies.

A Brand Check-up applies the method we use with clients to a well-known brand: the symptoms you can see from outside, the root causes behind them, and the treatment we would prescribe. For your own company, we look at six areas (positioning, messaging, customer journey, channel mix, budget and spend, and measurement) and rank what to fix first.

$30M+	135+	8×	17
In marketing spend managed	Campaigns treated	Growth achieved	Years in marketing

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