

Starbucks: Coffee Shop or Unregulated Bank?

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Abstract: In America and many other countries, when you think coffee, you think Starbucks. Such is the impact of Starbucks on the global beverage market. While it only started as a premium coffee bean shop in the early 1970's, a few brilliant decisions and decades later it is now the biggest coffee chain the world and some might even say an unregulated bank. In this study we aim understand the loyalty rewards system of Starbucks and how 10% of the company's revenue depends on it.

Keywords: Starbucks, Howard Schultz, unusual bank, unregulated bank, coffee, green mermaid.

1. Introduction

Starbucks was started by the trio, Jerry Baldwin, Zev Siegl, and Gordon Bowker with Alfred Peet as their mentor. This was 1971 in Seattle and Starbucks mainly sold coffee beans. Then enters Howard Schultz who liked Starbucks and lobbied the founders to hire him as Director of Sales and Marketing. Then on a visit to Milan, Italy Howard Schultz decided to make Starbucks a coffee shop rather than a coffee beans store but the founders were not excited about the idea. In the year 1985–86 Howard and his investors purchased Starbucks and thus began the Starbucks we know today.

Within five years Starbucks had grown to around 140 locations and filed paperwork to go public in 1992. By the year 1999, Starbucks had all but 2500 stores. But with all this growth the brand experience and consistency of coffee around the stores were well maintained which was the primary key of the company's success. By 2007 the chain boasted more than 15,000 locations worldwide but was foundering, it seemed that Starbucks' Green Mermaid (or Siren) had lost her soul. The 2008 Stock Market Crash had an adverse effect on the stock price of Starbucks. So in 2008, Howard Schultz returned as the CEO of Starbucks. He started restoring the Green Mermaid (or Siren) to its founding principles of product quality and customer experience. In 2016, Howard Schultz resigned as CEO after bringing the company to the previous glory. The world's largest Starbucks, a Starbucks Reserve Roastery, opened in Chicago in 2019. In 2021 Starbucks had a presence in dozens of countries around the globe and operated over 32,000 stores.

The first logo in 1971 is the brown siren. It was changed in 1987 due to the criticism that it is sensational. Since then, the green logo we know has finally appeared and covered her chest with her long hair. In 1992, the sirens came forward and the navel is disappeared. Since then, the Starbucks logo has been transformed again in 2011. The brand name has disappeared,

leaving only Siren.



Fig. 1.

2. Starbucks Mobile Application

“No single competency is enabling us to elevate the Starbucks brand more than our global leadership in mobile, digital, and loyalty. Starbucks is a clear leader in mobile payments and we are encouraged by how consumers have embraced mobile apps as a way to pay.”

-Howard Schultz, 2013

On a nice spring day early in 2009, Starbucks launched its mobile card app in 16 stores. It was so successful it rapidly expanded the program nationwide by allowing consumers to pay by letting patrons display a barcode to be scanned at the point of sale.

A recent study found that Starbucks has the most regularly used loyalty rewards app (48%) among a list of major restaurant chains. Why is the app so popular? What is it that keeps users coming back for more?

US Proximity Mobile Payment Users, by Platform, 2017-2022

millions

	2017	2018	2019	2020	2021	2022
Starbucks	20.7	23.4	25.7	27.6	28.8	29.8
Apple Pay	19.9	22.0	24.0	25.5	26.6	27.5
Google Pay	9.3	11.1	12.4	13.4	14.3	14.9
Samsung Pay	8.4	9.9	11.0	11.9	12.7	13.2

Note: ages 14+; mobile phone users who have made at least one proximity mobile payment transaction in the past 6 months
Source: eMarketer, May 2018

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www.eMarketer.com

Fig. 2.

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The Starbucks Rewards program is a prime example of how to get customers to utilize a mobile app. Simply put, the more you spend at Starbucks, the more rewards points (or “stars”) you earn. These stars can then be used later for rewards, like free drinks.

One innovative feature of the Starbucks app is giving the user a similar experience to visiting the store. Many people standing in line at Starbucks thinking, “I should get a gift card for (insert person/occasion).” The Gift menu brings up a variety of gift cards for nearly every occasion, and even suggests cards for upcoming holidays.

In return, Starbucks solidifies an instant digital relationship with the 14.2 million active U.S. rewards program members. The loyalty program has seen hefty growth, with an 11% growth in users in Q2 2018. And Starbucks rewards program members in certain places actually spend more, representing 39% of the entire chain’s sales.

3. How is it an Unusual Bank?

Because of Starbucks’ size and customer loyalty, customers are not afraid to keep some of their money in their Starbucks account, as they know they’ll use it someday or other. 41% of U.S. and Canadian users pay with their Starbucks card. At the end of 2019, users held a collective \$1.5 billion in balances. 1.5 billion dollars might not sound like a huge amount, but it’s significant when you consider that more than 3,900 banks across the U.S. have less than \$1 billion in total assets, according to the FDIC.

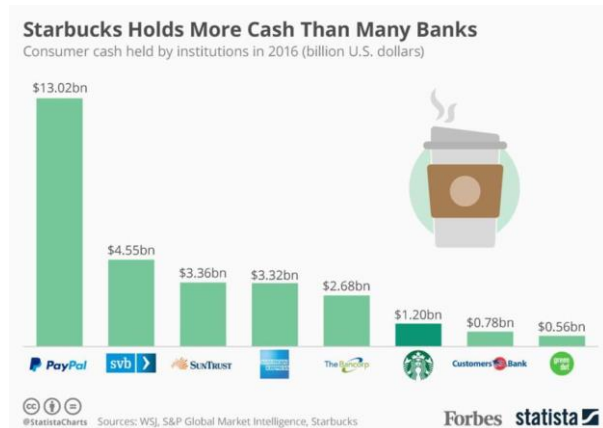


Fig. 3.

In a general Bank, the people who deposit their money can withdraw their money whenever they want, so the Banks need to keep some amount of cash to give money when customers withdraw money This is called Fractional Reserve Banking. But Starbucks doesn't have to keep a certain amount of cash ready in case of mass withdrawals as long as it has enough coffee in the store, it's good to go.

Customers will obviously one-day exchange their money for coffee, but in the meantime, they unknowingly provide Starbucks with a 1.5-billion-dollar loan, at 0% interest. Starbucks may use this money to invest in the market, earning profits for free, or spend on it expanding. Actually, it's even better than it looks. About 10% of this money will be forgotten

or lost therefore never be used — known in the industry as breakage. In fiscal 2019, 2018, and 2017, Starbucks, according to its annual report, recognized breakage income of \$125 million, \$155.9 million and \$104.6 million, respectively. That's plenty of capital when you consider that most start-up banks raise just \$20 million to \$30 million in capital to launch.

In the end, Starbucks' strategy is genius because it gives the company access to cash flow and produces extra revenue. It also generously rewards customer loyalty, so customers don't get offended if they leave a little unspent cash on a gift card somewhere.

4. International Concerns

A growing number of Korean banking groups are showing alarm at Starbucks, describing the U.S. coffeehouse chain as a potential rival that could threaten their survival in the financial market. Hana Financial Group Chairman Kim Jung-tai expressed his concerns over this situation while addressing on the occasion of New Year's Eve.

"Technologies have allowed coffee companies like Starbucks to be our rivals,"

-he said in his New Year's address

Furthermore, he added

"It will be fine to call Starbucks an unregulated bank, not a mere coffee company."

The invitation came as Starbucks began moving into the financial industry based on its investments in blockchain and cryptocurrency.

Experts expect Starbucks will use cryptocurrency to manage its cash prepaid in various currencies.

Furthermore, they say the company will begin the asset management business worldwide via the prepaid cards, expanding its presence in the currency exchange, loan and insurance markets.

"Starbucks have been regarded as a fintech firm, not a coffee company, over the past few years,"

- a bank official said

Furthermore, the official also stated that

"The removal of the word coffee from its signboard also proves this."

Against this backdrop, calls have grown for the financial regulators to put controls on Starbucks.

"Regulations are needed for prepaid service providers to maintain a certain level of capital adequacy ratio."

- Prof. Kim Sang-bong

(Hansung University's professor of economics)

5. Conclusion

Starbucks stubbornness to sticking to its principles from the beginning and now undercutting its quality of coffee for profit, the company's ability to evolve with changing times and accepting it with open arms is what has made it such a great success today.

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