

THE ECONOMICS OF STARBUCKS

HOW STARBUCKS OPERATES LIKE A BANK WHILE SERVING COFFEE

If you've ever ordered something at Starbucks, chances are high that you have probably loaded one or more of their cards. Between October and December of last year, Starbucks has had about \$3 billion of value loaded onto these cards. So much money in fact, that if Starbucks was a bank, it would rank as the 385th biggest in the US. This is money that Starbucks gets to use upfront as revenue before a single product is even purchased.

In 1971, the first Starbucks, a small unassuming cafe opened in Seattle's downtown. Fast forward 50 years, and that store is still in operation. Only McDonald's is bigger than Starbucks when it comes to market caps. This establishes them as powerhouses in the restaurant industry. In its early years of operation Starbucks expanded slowly and only within Seattle. It wasn't until 1987 when the original owners sold the company to its then marketing director, Howard Schultz, that the modern Starbucks took off.

Schultz began expanding Starbucks outside of the city and introduced Americans to what was then a little-known Italian drink, the espresso. They were founded on this coffee house culture that they make each beverage by hand according to order. Over time, that has since changed as they now make more than 170,000 different variety of drinks. These beverages can be complex to prepare consuming time and different ingredients.

The company's early investment in espresso has transformed to many different signature drinks from the creation of the Frappuccino to the launch with a pumpkin spice latte. Another evolution in Starbucks is the cold beverages which have become much more important to the company boosting sales even when Frappuccino sales tend to slow down.

In part due to the company's Seattle founding, technology has played a large role in the change dominance. A key moment of that was the founding of its mobile app in 2009, which was very early for one of these kinds of apps. At the end of 2021, mobile orders accounted for nearly a quarter of all Starbucks transactions in the US. Many of those purchased through a virtual Starbucks gift card, which was previously the only way a customer could order on their phone.