

Starbucks Vs Dunkin Donuts

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Executive Summary

The Starbucks Corporation is a prominent retailer of specialist coffee. It operates in 29000 coffee shops in the US and about 29000 in 62 countries. (Corporation of Starbucks). Dunkin Brands Group, Inc. is a franchisor of fast-serving coffee and baking products and ice cream shops. The firm had 11,300 outlets in the USA and 8,500 in foreign countries by December 2020. This article comprises of a financial analysis and comparisons to evaluate which business is the best investment decision. Other criteria will be considered when deciding whether a firm is worth spending our human and intellectual resources as employees.

1.Introduction

- **Starbucks**

Starbucks Corporation, founded as a Washington corporation in 1985, buys and roasts high-quality whole bean coffee (together with its subsidiaries, Starbucks or the company) with a variety of supplementary food products, including fresh, rich brewing coffee, Italian espresso drinks and cold mixing drinks. In addition to these cafes, coffee accessories and equipment, a range of premium teas and a line of compact records are used mostly via retail companies.

Starbucks also manufacture and sell bottled Frappuccino® and Starbucks DoubleShot™ coffee beverages and a range of luxury ice creams through other channels, through its equity investors. The "special operation" of these non-retail channels is called collectively. The aim of the company is to make Starbucks the world's most recognizable brand (Starbucks, 2020).

- **Dunkin Donuts**

Dunkin' Donuts was founded in 1950 and is the most popular American all-day stop for baked and coffee products every day. The hot regular/decaf / flavor coffee, iced coffee, doughnut, bagel and muffins are a market leader in Dunkin' Donuts. For 10 years Dunkin' Donuts has obtained No. 1 in the coffee category for customer loyalty by Brand Keys. It has almost 11,900 restaurants globally in 44 countries. Dunkin' Donuts, based in Canton, Mass., is a member of Dunkin' Brands Group, Inc (Cobo, 2020).

who has been and who is the superior competitor? Why?

The two major U.S. cafe specialty restaurant chains are Starbucks Corp. (SBUX) and Dunkin' Brands (DNKN). Both firms provide comparable coffee selections, but they offer distinct alternatives for meals. With more than 30,000 stores worldwide, Starbucks has a bigger presence compared with the 13,000 sites of Dunkin' Brands. In the US, Starbucks operates at over 15,000 sites compared with almost 9,600 sites in Dunkin' Donut.

Starbucks is the superior competitor of the Dunkin in the market. Dunkin's prices might put them as a leader in the market, allowing them to capture 70% of purchases against Starbucks at 20% and other competitors combining to 10% in this theoretical situation. In a market of 1000

people Dunkin would have 700, Starbucks would have 200, and the other competitors would have 100. Say that at 2.79 per coffee, Dunkin's margin is 1.25 of **bottom-line profit** per coffee sold. At Starbucks, priced at 4.15 per coffee and with a slightly higher average COGS, Starbucks makes 2.75 of bottom-line profit per coffee sold. In this market, Dunkin's profit would be \$875 which leads Starbucks significantly, who trails at only \$550 in this market. Starbucks trails in profit by about 60%, which is quite small considering that Dunkin has 3.5 times more Market Share than they do.

Starbucks leads at 39 percent, far ahead of Dunkin at 22 percent. with an approximate 2x market dominance as well as a 3x location dominance and a 2.5x Margin superiority, Starbucks pushes ahead to a whopping ~15x advantage to their business strategy (Seybert, 2020).

2.Financial Statements-Starbucks

- **Summary Of Income Statement**

From 2019 to 2020, net revenues of Starbucks Corp. have fallen substantially. The operational revenue of Starbucks Corp. fell markedly from 2019 and 2020. From 2019 to 2020 the operating profits of Starbucks Corp. fell. From 2019 to 2020 Starbucks Corp's net earnings from Starbucks have fallen.

- **Summary Of Balance Sheet**

The current assets of Starbucks Corp subsequently grew significantly between 2019 and 2020. The property, plant and equipment of Starbucks Corp. declined significantly between 2019 and 2020. Long-term assets of Starbucks Corp. rose between 2019 and 2020. Total assets of Starbucks Corp. rose over 2018 from 2019 to 2020. Cash and cash equivalents of Starbucks Corp. grew significantly between 2019 and 2020. The short-term investments of Starbucks Corp. have grown over the 2018 level from 2019 to 2020. The net accounts receivable of Starbucks Corp. grew between 2019 and 2020. The inventory of Starbucks Corp. grew between 2019 and 2020.

Current liabilities of Starbucks Corp. have risen between 2019 and 2020. The long-term liabilities of Starbucks Corp. have been raised between 2019 and 2020. Total liabilities of Starbucks Corp. rose between 2019 and 2020. Equity (deficit) of Starbucks Corp. has declined between 2019 and 2020.

- **Summary Of Cash Flow Statement**

From 2019 to 2020, Starbucks Corp.'s operational net cash declined. The net cash utilized in investment business by Starbucks Corp has fallen from 2019 till 2020. The net money given by (used in) financing activity of Starbucks Corp. rose from 2019 to 2020.

3. Financial Statements of Dunkin Donuts

- **Summary of Income Statement**

Revenues of Dunkin Brands Group Inc. fell from 2019 to 2020. Net revenue declined 12% to. This reflects revenues. Dunkin Donuts U.S. – Operating From 2019 to 2020 have fall in Store sales percent -Dunkin Donuts-Int. Net income includes a drop of \$2.12 million in net income.

- **Summary of Balance Sheet**

The current assets of Dunkin Donuts rise from 2019 in 2020. But the total assets for the company decreases in the year 2020 as compared to 2019. Current & long term liabilities of Dunkin Donuts decreases from the years 2020. Means that the company is managing its assets in well manner so the company is also repaying its debt obligations. The stockholder equity and total liabilities altogether decreases and company faces loss in the year 2020.

- **Summary of Cash Flow Statement**

In 2020 the firm's net cash from operating activities decreases as compared to 2019. The net cash utilized in investment business by Starbucks Corp has fallen from 2019 till 2020. The net money given by (used in) financing activity of Starbucks Corp. rose from 2019 to 2020.

4. Financial Ratio Comparison

Liquidity Ratios

The current ratio shows that during the next 12 months, the firm will have the capacity to fulfil its short-term debt commitments. The current ratio is more than 1 between Starbucks and Dunkin's Donuts, which implies that they are able, and better than the industry average, to pay their debt commitments. It should be noted that the present ratio of Dunkin' Donut is raised while Starbucks is down.

The quick ratio shows the company's capacity, using its most liquid assets, such as cash, to pay its short-term obligations. The table above shows that Dunkin Donuts is in the best state since its rapid ratio is more than 1 whereas Starbucks' fast ratio is better than the industry, but still less than 1.

The cash ratio of the three cash ratios is the most conservatory since it examines liquid assets of the shortest period. So having a cash ratio less than one is not always a bad thing for a firm like Starbucks, because holding significant sums of cash for the payment of their liabilities is not practical.

All these ratios suggest that Dunkin Donuts is more positioned for payment of its existing liabilities than Starbucks, but that they may also not invest enough and lie about the business. Although Starbucks and Dunkin's donuts are obvious from the table, enough liquid.

Long-term debt paying ability

In order to determine how much leverages the firm utilizes, the obligation ratio compares the entire indebtedness of a company to its total assets. A small proportion implies that the firm relies less on others. The bigger the risk, the more risky, yet experienced firms may move the liability proportion to high numbers without getting into difficulty.

The debt ratio for Starbuck is higher than 0.5 and the majority of its assets funded by debt whereas the debt ratio for Dunkin Donuts is higher than 0.5 and this implies that the majority of its assets are financed with debt. This means that Starbucks is ready to lend money to Starbucks, because they are in strong financial position and are likely to redeem them fully. The debt ratio of 1.27 is far better than the sector average of 0.40.

The debt/equity of Starbuck has risen to 4,76% yet it remains below the average industry that demonstrates a solid business balance sheet. Dunkin Donuts, meanwhile, relies on a very leveraging approach that has an 8.29 percent debt-to-equity ratio and deteriorates more from its 7.66 value, showing that Starbucks is considerably better at this.

The interest-ratio in time is a statistic used to assess how often a firm can pre-tax profit pay its interest expenses. With value below 1 it may have difficulty paying interest on borrowings, but with value below 1 it is regarded sufficient, but with an excess of 1 the firm pays the most of its profits for debt rather than invest it more.

In general, Starbucks has a lower debt/equity ratio than Dunkin Donuts, demonstrating that it relies more on equity finance; Starbucks finances more through shareholders than Dunkin Donuts finances via creditors. In terms of the attention gained several times over Dunkin Donuts, Starbucks is well ahead. The temporal interest ratio of Starbucks is an indication of their well-formedness compared to Dunkin Donuts and the industry.

Profitability

In order to assess the profit of an organisation in relation to expenses and other costs, the profitability ratios are computed.

The margin of net profit may be computed by the division by sales of a company's net profit. A greater value indicates that per unit of sale the firm generates more money. It will influence the capacity of the firm to reinvest and pay its shareholders in the company. The profit margins from Dunkin Donuts were far better for the year 2020 than those of Starbucks, possibly because Starbucks had to cover more costs. This tells us that the sales of Dunkin Donuts rise quicker than Starbucks.

The ROA gauges the profitability of a firm against its total assets. That provides us with insight into how the firm uses its assets effectively. Equity Return (ROE) evaluates how many dollars a business earns with every shareholder equity dollar for profit from equity to determine.

Starbucks' ROA and ROE were always better than Dunkin Donuts, which demonstrates Starbucks better to make better use of every dollar invested by the shareholders. In achieving its principal goal, Starbucks is superior, whereas Dunkin Donuts tends to depend on financial leverage. In all three profitability ratios, Starbucks was also better than the industry.

Asset Utilization

Turnover ratios measure how well a company's internal structure manages its assets and liabilities over time. These ratios, similar to the liquidity ratios, demonstrate how effective a firm is in the daily operations of a company.

The company's capacity to achieve sales by dividing net sales by means of average total assets reveals the total asset sales. Increased value indicates the firm generates more turnover per asset dollar.

The inventory turnover is measured by a cost division of products sold per stock, measuring how fast a firm can produce inventory sales. A greater value implies strong sales while an excess of inventory is shown by a low value. Due to large sales and the need to refill stock, this number is often high in the food and beverage business.

The capacity of a firm to collect outstanding debts is measured by account receivables turnover. It's determined by dividing the company's net sales by its account receivables. A higher figure is preferable since it demonstrates that the firm is efficient in recovering outstanding debts.

Starbucks has a higher inventory turnover because they are more successful in selling their brand and turning their stock. Starbucks has a far greater accounts receivable ratio than Dunkin Donuts, indicating that it is much more efficient in collecting money from consumers, although it is still far less than the overall sector. Starbucks' asset turnover ratio demonstrates that they are more effective at generating revenue using their assets. In all of these turnover rates, Starbucks outperforms Dunkin Donuts, but it still falls short of industry standards.

Market Measures

³ The price-to-earnings ratio shows how much money an investor will have to put into a firm in order to obtain one dollar of earnings. It's called a multiple because it reveals how much money investors are prepared to part with each dollar of earnings. Investors expect stronger profits growth if the value is high, and vice versa.

Earnings per share (EPS) is an amount of the profit of each remaining share of the share capital given to the firm. It determines the share price of a firm by the single most significant element.

The dividend payout ratio compares how much money a firm keeps to reinvest, pay debts, or add to cash revenues to how much money it returns to its shareholders.

In this area, Dunkin Donuts scored two times Starbucks with guaranteeing greater returns for its investors. This might be because Starbucks will reinvest most of its revenues, while Dunkin Donuts will mostly return to its shareholders. The Dunkin Donuts P/E ratio fell dramatically between 2019 and 2020 with EPS and dividend payouts much higher than Starbucks whose dividend paid out ratio was actually lower.

5. Stock Price Forecasts

- **Starbucks**

Starbucks Corp has a consensus price target of 135.00 among the 28 analysts that provide 12-month price estimates, with a high estimate of 148.00 and a low estimate of 108.00. The median estimate is up 16.45 percent from the previous price of 115.93.

Recommendation

The current consensus among 33 investment analysts polled is to purchase Starbucks Corp. shares. This rating has been constant since July, when it was upgraded from a buy to a hold.

- **Dunkin' Donuts**

In the previous three months, 16 Wall Street analysts have offered 12-month price goals for Dunkin' Brands. ⁴ With a high prognosis of \$106.50 and a low estimate of \$92.00, the average price

goal is \$104.04. The average price forecast is down -2.29 percent from the previous price of \$106.48.

6. Conclusion & Recommendations

As Starbucks is clearly the larger of the two firms, investors may be led to believe that Dunkin Donuts has more opportunity to expand and is thus a superior investment. A closer analysis shows that Starbucks grows considerably more quickly and has also a more ambitious aim. In the 12-month trailing period, Starbucks' growth rate is roughly double that of Dunkin's brands. Starbucks anticipates year-round revenues to rise by 10%, while Dunkin Brands expects them to expand from 4% to 6%. In combining with their respective future perspectives, if we analyze recent growth, though Dunkin Donuts' outlook looks promising, Starbucks' growth rate seems far more compelling, combined to make its future sales much more predictable, as it is a more stable brand with a larger and well planned distribution network. Starbucks is the best buy for all these variables and the financial analysis.

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