CASE STUDY: Starbucks

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Market Analysis - Starbucks

Starbucks is an American global multi-national coffee chain, founded in 1973 by Gordon Bowker, Jerry Baldwin, Zev Siegl. In Q1 2020, Starbucks reported an active footprint in 80 countries with more than 32 000 stores globally. Rapid expansion in the East has been spearheaded by a targeted 600 new stores in China for 2021.

Vietnam is currently home to 46 Starbucks outlets, operating in a highly competitive market with a deep rooted coffee culture. Vietnamese coffee production and consumption carries significant cultural and economic overlays, given the nation's status as the second largest coffee producing nation globally.

https://www.starbucks.co.uk/about-us
https://e.vnexpress.net/news/business/companies/starbucks-struggles-to-beat-vietnamese-coffee-chains-4168281.htm
https://www.starbucks.co.th/about-us/starbucks-in-thailand/

Market Analysis - Starbucks

To date, Starbucks has had mixed fortunes in Vietnam, experiencing a difficult market entry post launch and struggling to gain substantial traction, mirroring the experience of other international F&B entities, most notably McDonalds. This has been attributed by market commentators to be due to a combination of:

- Western-centric pricing models and cuisine choices
- Strong competition from entrenched local offerings
- No comparative speed advantage
- Initial supply chain hurdles

However, the brand continues to iterate and grow, fluctuating between being the second or third largest chain nationally. Measured on a pre-pandemic basis, 2019 revenue up 32% year-on-year to VND780 billion.

Market Analysis - Starbucks

Fundamentally, the Starbucks presence in Asia creates substantial scope for global supply chain efficiencies and rapid innovation in value added products and services creating a defensible competitive advantage through cost efficiencies and widespread market uptake:

- This track record is reflected well with close neighbour Thailand home to some 409 stores nationwide.
- The largest challenge to any franchise model - namely the maintenance of high quality standards - is addressed through exclusive franchise licensing to Maxim's Caterers, a reputable Hong-Kong based multi-brand restaurant company as licenced custodians of Starbucks Coffee in Vietnam.

https://prezi.com/p/axa7wpth053s/starbucks-coffee-entry-to-vietnam-presentation/
https://www.researchgate.net/publication/342752547_Analysis_of_Starbucks'_entry_strategy_into_Vietnam_market
https://gendal.me/2014/08/09/a-simple-explanation-of-fees-in-the-payment-card-industry/

The STARBUCKS Customer

Understanding the customer

Understanding the Audience - Starbucks

The core target market consists of aspirational customers willing to pay considerably more than the abundant street-side local offerings. A typical customer has a higher-than-average disposable income and an estimated age around 18-40, considered to be in the upper LSM (living standard measures) brackets of 7-10.

According to IAMs study of coffee habits, 65% of Vietnamese coffee drinkers consume some form of coffee every day of the week.

Understanding the Audience - Starbucks

Critically, Starbucks suggests an important social sophistication signal - store formats offer a social setting and experience for customers, resplendent with low lighting, edgy table formats and carefully curated ambiance, appealing strongly to the professional class and the young digitally proficient population:

- ● This is supported by key store locations (often in the heart of the central business district within a city), providing an element of exclusivity and differentiation among customers, an important and often contagious aspect of global coffee culture.

This is supported by a wider adoption of aspirational American brands in Vietnam (such as Nike).

THE OPPORTUNITY

THE ZaloPay x Starbucks OPPORTUNITY

Preface: *The response below is based on an understanding of other merchant payment arrangements, not specifically ZaloPay. Generally, in my experience, direct applicability will require an intimate understanding of the existing POS integration, centered around the following key principles:*

- *If the POS does not enable any kind of interoperable platform, it will require significant development work by the POS*
- *If the POS already has a generic QR code, or other open payments API integration methods, then the work will sit predominantly on ZaloPay side.*

THE ZaloPay x Starbucks OPPORTUNITY

In evaluating future retail chain integrations, any integration projects undertaken will have direct relevance to ZaloPay's future expansion to other merchants, given the likely applicability of Starbuck's existing POS system.

Any mutually beneficial partnership requires an intelligent and forward thinking POS solution and software capabilities to grow the partnership.

Partnership value to ZaloPay:

Key Points:

- Revenue via transaction fees
- Mobile wallet integration
- Margin
- Network Effect/Ecosystem Play

THE ZaloPay x Starbucks OPPORTUNITY

Revenue via transaction fees: If ZaloPay enabled 'pay with linked card', the margins will be slim, as card not present acquiring fees are typically higher than card present fee. Therefore, ZaloPay transactions will be more expensive than a consumer swiping a card at point of sale. However, in the event of substantial volume, there is revenue potential to enabling pay-with-a-card via app.

Mobile wallet integration: Digital integration via ZaloPay mobile wallet can be funded via a wallet using a direct bank transfer or another low cost transaction method, then ZaloPay can enable payments at POS for less than the bank charges to process a card transaction.

THE ZaloPay x Starbucks OPPORTUNITY

Margin: Merchants in Vietnam pay approximately 2-3% of total transaction value. Direct funding via a wallet would be highly beneficial, so ZaloPay can therefore charge a low transaction fee with a high margin.

Network effect / ecosystem play: Increased distribution via a socially influential consumer-base will grow ZaloPay's relevance, growing the network effect and B2B negotiating power of ZaloPay with other merchants going forward.

Partnership value to Starbucks:

Key Points:

- Increase payment channels
- Digital relevance
- Marketing traffic via discounts
- Integration (loyalty programs)
- Customer data / insights
- Efficiency

THE ZaloPay x Starbucks OPPORTUNITY

Increase payment channels: Possible lower transaction fees than card - based on ZaloPay low cost transaction methods. Given Vietnamese merchants avoid cards due to high fees, this will be of interest to Starbucks in catering to a wider consumer audience

Digital relevance: Customer experience is imperative for merchants like Starbucks therefore enabling customers' "preferred" method of payment is critical

Marketing traffic via promos: ZaloPay has a large digital ecosystem of active customers in the Starbucks target segment, and are well positioned to benefit from any marketing specific efforts to entice new customers. Specific marketing activations via promo codes and related efforts are able to be tracked, traced and geolocated, allowing for iterable improvement in relevant advertising spend.

THE ZaloPay x Starbucks OPPORTUNITY

Integration with existing consumer loyalty program: Possible opportunity to integrate with existing Starbucks loyalty program, via one-tap payment option through to ZaloPay app, further enhancing the customer experience and generating valuable data for both parties on preferred payment channels:

- Experimentation in this brand loyalty alliance could be a method to broker forward looking opportunities to understand effective repeat-reward behaviour, encouraging loyalty and incentivising referral consumers.

Customer data / insights: Depending on Vietnamese regulations, ZaloPay has a huge amount of valuable data about who (demographically, not individually) shops at Starbucks vs competitors allowing a key competitive advantage in understanding shifting consumer habits.

Efficiency: The safety, convenience and speed of ZaloPay are attractive for businesses and customers. The transaction can be completed within 2 seconds and can only be confirmed with personal 6 digit pins or Face ID/fingerprint.

THE BUSINESS CASE

Financial Performance Opportunities

THE BUSINESS CASE

Preface: *The business case below is based on a hypothetical scenario with a number of assumptions. I have split the analysis into two separate components, namely market sizing and profit and loss analysis. I have also built an excel model in which existing assumptions can be further refined as required.*

SIZING THE MARKET

I made the following baseline assumptions about the size of the market:

VND/USD exchange rate	23,053
Average working days per month	29.5
Number of Vietnam stores	46
Days open per week	7
Hours open per day	15.5
Hours open per week	108.5

SIZING THE MARKET

Then, I assumed the following footfall assumptions and split of high performing, emerging and underperforming stores:

Footfall / occupancy (measured in # of customers)	per day	per hour	per week
High performing stores	275	17.74	1925
Emerging stores	200	12.90	1400
Underperforming stores	120	7.74	840
Store split - total	%	# of stores	
High performing stores	30%	14	
Emerging stores	30%	14	
Underperforming stores	40%	18	
CHECK: TOTAL		46	

SIZING THE MARKET

Finally, I assumed the following average revenue per snack:

Average revenue per user			VND	USD
Coffee			95,000	4.12
Snack			120,000	5.21

SIZING THE MARKET

This led me to the conclusion of the total size of the current Starbucks market in Vietnam:

Pre-financial output	Coffee	Coffee & snack	Total VND	USD conversion
Revenue per day: High performing	144,210,000	489,555,000	633,765,000	27,492
Revenue per day: Emerging	131,100,000	296,700,000	427,800,000	18,558
Revenue per day: Underperforming	125,856,000	189,888,000	315,744,000	13,697
Total			1,377,309,000	59,747

THE BUSINESS CASE – Starbucks

Taking all of the above assumptions into account, and based on an assumed three-factor growth rate flex of **1% (bull-case), 0.50% (mid-point) and -1% (bear-case)**, I have estimated that Starbucks would be generating in the region of **$19 and $25 million USD per annum**, with a **midpoint of $23.6 million USD**.

USD23.6M

Estimated Revenue Generated By Starbucks

IMPLICATIONS FOR ZALOPAY

Following on from the market sizing analysis above, I made the following assumptions of a full scale Zalopay integration:

Merchant / vendor fee	2.99%	
Initial ZaloPay adoption rate at Day 1	20%	
12-month consumer adoption rate	60%	
24-month consumer adoption rate	80%	
Cost of system installation (USD)	150,000	
Salvage value (USD)	10,000	
Amortization period (years)	5	**60**
Interest rate	7.5%	**0.6%**
Ongoing costs per month (USD)	20,000	
Ongoing cost escalation rate per month	0.8%	**9.6%**

THE BUSINESS CASE – ZaloPay

The inputs above have been assumed on a best-guess estimate, without a deep understanding of the ZaloPay integration model.

To the extent that ZaloPay has established vendor integration products and post-market service, initial cost of installation will drop substantially. Ongoing costs per month of $20 000 have been assumed for a small team, but a centralised costing model may affect this charge substantially.

Furthermore, the analysis assumes a fully-debt funded solution with a normalised interest rate and a five year depreciation period, which will need to be assessed against local accounting laws to ensure the most efficient accounting treatment.

PROFIT/LOSS FOR ZALOPAY

Off the back of a revenue forecast for Starbucks, I built a simple P&L for Zalopay assuming the medium-case revenue assumptions and user adoption growth building from 20% - 60% over the course of the year:

	Apr-21	May-21	June-21	July-21	Aug-21	Sept-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22
Starbucks revenue	52,700	52,963	53,228	53,494	53,761	54,030	54,300	54,572	54,845	55,119	55,395	55,672	55,950	56,230
Zalopay % of revenue	20%	23%	27%	30%	33%	37%	40%	43%	47%	50%	53%	57%	60%	62%
Zalopay revenue	10,540	12,358	14,194	16,048	17,920	19,811	21,720	23,648	25,594	27,559	29,544	31,547	33,570	34,675
Costs:														
Interest	938	938	938	938	938	938	938	938	938	938	938	938	938	938
Depreciation	-6,600	-6,310	-6,032	-5,767	-5,513	-5,270	-5,038	-4,817	-4,605	-4,402	-4,208	-4,023	-3,846	-3,677
Ongoing	-20,000	-20,160	-20,321	-20,484	-20,648	-20,813	-20,979	-21,147	-21,316	-21,487	-21,659	-21,832	-22,007	-22,183
Profit before tax	-16,998	-15,049	-13,097	-11,140	-9,178	-7,210	-5,235	-3,254	-1,264	733	2,739	4,754	6,779	7,878
Tax	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-147	-548	-951	-1,356	-1,576
Profit after tax	**-16,998**	**-15,049**	**-13,097**	**-11,140**	**-9,178**	**-7,210**	**-5,235**	**-3,254**	**-1,264**	**586**	**2,191**	**3,803**	**5,424**	**6,302**

THE BUSINESS CASE - ZaloPay

Conclusion: On the assumed medium growth rate with limited stores on a conservative base, break even point would occur after approximately 9 months, however this would be substantially affected by the user adoption rates, and be a function of promos and collaborated marketing efforts with which Zalopay and Starbucks could have significant reach and could increase adoption rates and shorten the break even point.