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Starbucks Corp. (SBUX)

Q4 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Diego, and I will be your conference operator today. I would like to welcome everyone to Starbucks Fourth Quarter and Full Fiscal Year 2024 Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

I will now turn the conference call over to Tiffany Willis, Senior Vice President of Investor Relations. Ms. Willis, you may now begin your conference.

Tiffany Willis

Senior Vice President, Investor Relations, Starbucks Corp.

Thank you, Diego, and good afternoon, everyone, and thank you for joining us today to discuss Starbucks' fourth quarter and full fiscal year 2024 results. Today's discussion will be led by Brian Niccol, Chairman and Chief Executive Officer; and Rachel Ruggeri, Executive Vice President and Chief Financial Officer.

This conference call will include forward-looking statements, which are subject to various risks and uncertainties that could cause our actual results to differ materially from these statements. Any such statement should be considered in conjunction with cautionary statements in our earnings release and risk factors discussed in our filings with the SEC including our latest Annual Report on Form 10-K and Quarterly Report on Form 10-Q. Starbucks assumes no obligation to update any of these forward-looking statements or information.

GAAP results in fourth quarter fiscal year 2024's comparative period include several items related to strategic actions, including restructuring and impairment charges and other items. These items are excluded from our non-GAAP results. All numbers referenced on today's call are on a non-GAAP basis, unless otherwise noted or there is no non-GAAP adjustment related to the metric.

As part of our non-GAAP results, revenue, operating margin and EPS metrics on today's call are measured in constant currency, whereby current period results are converted into United States dollars using the average monthly exchange rates from the comparative period rather than the actual exchange rates for the current period, excluding related hedging activities.

For non-GAAP financial measures mentioned in today's call, please refer to the earnings release on our website at investor.starbucks.com to find reconciliations of those non-GAAP measures to their corresponding GAAP measures.

This conference call is being webcast, and an archive of the webcast will be available on our website through Friday, December 13, 2024.

Also, for your calendar planning purposes, please note that our first quarter fiscal year 2025 earnings conference call has been tentatively scheduled for Tuesday, January 28, 2025.

With that, I now have the privilege of turning it over to Brian.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

Thank you, Tiffany, and good afternoon and thank you for joining today. Starbucks is one of the world's great companies and most iconic brands. It really is a privilege to take on this role. And I am excited to be here and optimistic about the future.

Since joining Starbucks last month, I've spent my time digging into the business, listening to partners and connecting with customers. These experiences and my learnings have helped me form a clear understanding of where we are and what we need to do differently moving forward. Everything I have seen and heard tells me we have significant strengths to build on. The brand is strong and enduring. We have deep coffee expertise, and we have a fantastic team of Green Apron partners.

I look forward to sharing more about my plan to get Back to Starbucks with you shortly. But first I'd like to turn it over to Rachel for a more detailed overview of our final Q4 and full fiscal year 2024 financial results. Rachel?

Rachel Marie Ruggeri

Chief Financial Officer and Executive Vice President, Starbucks Corp.

Thank you, Brian. And welcome to your first Starbucks earnings call. And good afternoon, everyone. As you saw in our press release last week, our traffic challenges persisted in Q4, resulting in pressures throughout our P&L from our top-line to our bottom-line. With that, I'll briefly discuss our Q4 and full year results and then turn the call over to Brian.

In regards to Q4, our Q4 consolidated revenue was $9.1 billion down 3% from the prior year, driven by a 7% decline in comparable store sales, consisting of an 8% decrease in transactions and a 2% increase in average ticket, partially offset by 7% net new company-operated store growth.

The revenue decrease was primarily due to a 6% decline in US comparable store sales driven by a 10% decline in comparable transactions, partially offset by a 4% increase in average ticket mainly from pricing. Traffic declined across all channels and dayparts, with the most pronounced decline in the afternoon daypart.

In addition to the continued decline of non-Starbucks Rewards Member visits, frequency also slowed across all SR member deciles in comparison to prior year, and ultimately impacted spend. While active SR membership grew 4% year-over-year, to 33.8 million, it remained flat to Q3 as our product innovation and offerings, as well as promotions, did not create sustained excitement or the stickiness we planned.

Our Q4 results also reflected China comparable store sales decline of 14% driven by an 8% decline in average ticket and a 6% decline in comparable transactions, weighed down by intensified competition and a soft macro environment that impacted consumer spending.

Although the market reached an all-time high of 23.5 million SR Active members during the quarter with 2.2 million net new members versus prior year, comp declined due to non-SR member traffic pressures, elevated discounting given the highly-promotional environment and lower sales of high-ticket items impacted by consumer sentiment.

Shifting to margin. Our Q4 consolidated operating margin was 14.4%, contracting 370 basis points from the prior year, primarily driven by deleverage, investments in store partner wages and benefits as well as increased promotional activities. The contraction was partially offset by pricing and the in-store operational efficiencies.

In-store, we were successful in getting increased hours per partner, which is contributing to low hourly partner turnover and reduced training costs. However, we have additional work to do to obtain the correct staffing.

We also expect our throughput to be further optimized once the Siren Craft processes stabilizes across the company-operated store portfolio. Outside the store, we remained focused on capturing additional end-to-end supply chain efficiencies. Collectively in and out of store efficiency efforts have yielded savings of approximately 150 basis points in the quarter.

Our G&A expenses were higher than expected and exceeded 7% of revenue in Q4, primarily due to unplanned and non-reoccurring third-party services and transition costs. Excluding these costs totaling approximately 50 basis points, G&A was 6.6% of revenue in Q4 and remained closer to 6% for the second half of fiscal year 2024 in line with expectations. We expect G&A to further decrease relative to revenue over time, leading to sustained margin expansion.

Q4 EPS was $0.80, down 24% from the prior year. The decline was primarily driven by a combination of traffic challenges and heightened investments, partially offset by our pricing and efficiency efforts.

Moving to full fiscal year 2024. Consolidated net revenues increased 1% to $36.2 billion in fiscal year 2024 driven by 7% net new company-operated store growth offset by a 2% decline in comparable store sales.

Full year consolidated operating margin was 15%, contracting 110 basis points from prior year, primarily driven by investments in store partner wages and benefits, deleverage and increased promotional activity. The contraction was partially offset by pricing and in-store operational efficiencies.

Our in-store and out-of-store efficiency efforts collectively delivered roughly 250 basis points of margin improvement for the full year, which is nearly $1 billion of cost reductions throughout our P&L as aligned with our original plan.

Full year EPS was $3.31, declining 6%, including a 1% unfavorable impact from higher effective tax rate.

Shifting to our outlook. As noted in our press release last week, given the company's CEO transition, coupled with the current state of the business, our guidance is suspended for full fiscal year 2025. This allows ample opportunity to assess the business and solidify key strategies as we refocus our efforts on the turnaround.

I would like to still briefly touch on our capital allocation priorities. As Brian mentioned in his prepared remarks last week, one of our top priorities includes re-establishing Starbucks as the community coffee house.

To do so, we plan to reduce the number of our new stores and renovations in fiscal year 2025 to accommodate a redesign while also unlocking capital to support our broader turnaround. We expect this shift, coupled with efficiencies, will help us balance our investments accordingly. We're working through the details of the impacts on key metrics, including store growth, and will revert back with insight at a future date.

In the meantime, I want to be clear that this shift in store growth strategy does not reflect and should not be interpreted as a statement on our long-term opportunity view or new store performance. In fact, we continue to see strong, highly incremental performance from our new stores.

As a proof point, approximately 40% of our US company-operated stores had positive comp growth in full fiscal year 2024 with outsized contribution from our newer stores, especially in markets where store density remains low. We continue to see store growth opportunity, especially as we focus on continuing to create a welcoming coffee house and the store experience that both our Green Apron partners and our customers deserve.

Also last week, we announced an annual increase in the quarterly cash dividend from $0.57 to $0.61 per share. This marks our 14th consecutive year of annual increase at a CAGR of approximately 20%, offering shareholders a sense of certainty during the turnaround and our confidence in our long-term growth.

In summary, our results do not reflect the strength of our brand and what we're capable of. As a 20-plus year partner, I've seen what Starbucks is capable of when we focus on what we do best. It's because of that, that I have confidence in our ability to turn around our business. And I have the utmost confidence in our partners around the globe that together we can deliver.

With that, I'll now turn the call over to Brian.

Brian R. Niccol

Chairman & Chief Executive Officer, Starbucks Corp.

Thank you, Rachel. Our financial results were very disappointing, and it is clear we need to fundamentally change our strategy to win back customers and return to growth. Back to Starbucks is that fundamental change.

We have to get back to what has always set Starbucks apart, a welcoming coffee house where people gather and where we serve the finest coffee, handcrafted by our skilled baristas. Regardless of the consumer environment, we must be at our best to succeed. And right now, despite the hard work of our Green Apron partners we aren't always at our best.

I've heard that while people love Starbucks, some feel like we have drifted from our core. We've made it harder to be a customer than it should be, and we focused our marketing too narrowly on Starbucks Rewards members.

I've spent my career understanding, building and stewarding brands, and it's clear the Starbucks brand is iconic and loved. My experience tells me that when we get back to our core identity and consistently deliver a great experience, our customers will come back.

Our problems are fixable, most of what we need to do is in our control. So our path forward is clear. And with our US business being our priority, work is already underway. Some things will take some time as we test and learn, but we're moving quickly on the things we can. I want to share a few examples.

We have to make it easier for our customers to get a cup of coffee. We are prioritizing work across the US business to support a clear throughput with quality goal. We want to hand deliver a high-quality handcrafted beverage to our cafe customers in 4 minutes or less and deliver orders on time for our Mobile Order & Pay customers every time. We have work to do to achieve this consistently, but we've learned lessons from our success improving the drive-thru experience and reducing out the window times.

Our throughput with quality aspiration and getting the core cafe experience right will drive everything we do and every decision we make. The moment our barista hands a cup of coffee directly to the customer is our brand moment of truth.

So let's talk about some of the changes we're making to do this. First, we're working to get staffing right in our stores. As Rachel shared, we've made significant progress to improve average hours per partner and partner turnover is at another low. Our efforts to get partners, the hours and schedules they want are working.

Now we need to make sure we have the right number of partners on the floor, particularly during our morning peak and shoulder hours. We are moving quickly to test and learn. We're also making a commitment to grow from within by identifying internal hires for 90% of our retail leadership roles and to rally our team behind our Back to Starbucks plan and help support strong leadership in every store, we're planning to host a store manager conference in 2025.

Second, we're making it easier for customers to enjoy brewed coffee their way. We plan to bring back condiment coffee bars in all our cafes by early 2025. It's a great customer experience and will help with speed of service.

We also plan to complete the rollout of our Clover Vertica brewers in all our company-operated locations by the end of fiscal year 2025, providing customers more on-demand choice and high-quality brewed coffee. And we're evolving store routines to hand deliver brewed coffee to customers faster upon order.

Third, to improve throughput, quality and consistency, we will cut down our overly complex menu to align with our core identity as a coffee company. We will still offer customers great choice but we'll be focused on fewer, better offerings consistently crafted.

Fourth, we will continue to scale our investment in Siren equipment and Siren Craft processes to improve the in-store experience for our partners and customers. This work is a critical enabler in helping to achieve our 4-minute wait time aspiration.

And finally, we'll bring order to Mobile Order and Pay, so it doesn't overwhelm our cafes. Today, more than 30% of transactions are driven by mobile orders. At peak, it can drive an influx of orders that can be difficult to sequence and quickly deliver to our customers. When it works well, it's great, but sometimes it can be a challenge for both customers and partners. So we're working to improve sequencing with a new algorithm that enables on-time mobile order handoffs and supports our 4-minute throughput with quality being our goal for cafe customers.

We're also placing common sense guardrails on mobile ordering that we think will improve the experience for all customers. And over the coming months, we plan to take steps to better separate mobile order pickup from the cafe experience.

There are also some additional steps we're taking beyond a throughput with quality focus that we believe will resonate with our customers and partners. First, we are reimagining our pricing architecture, starting with non-dairy milk customizations. We know customization is an important part of the Starbucks experience, and we want to make it easier for customers to order their beverage just the way they want while still feeling like it's worth it.

So beginning with holiday launch on November 7, we're eliminating the upcharge for non-dairy milks at North American cafes owned and operated by Starbucks. It's the most popular customization after an extra shot of espresso. And once implemented, nearly half of customers that pay for a modifier could see a price reduction of 10% or more when they choose a non-dairy milk.

We're also investing in our customers with an intent not to increase menu prices at company-owned and operated stores in North America through fiscal year 2025. It's a great start, but we have more work to do to make our pricing architecture straightforward and logical.

Next, we're reclaiming the Third Place. So our cafes feel like the welcoming coffee house our customers remember. In the coming months, we intend to reintroduce more personal touches to elevate the cafe experience. For instance, we'll begin to prioritize serving coffee in ceramic mugs for customers who choose to enjoy their coffee in our cafes.

We're also beginning to review and revise our cafe designs to bring back more comfortable seating and amenities. And to ensure our stores are a place where customers want to sit, work and meet, we're beginning to revisit certain policies with our partners and customers being top of mind.

Lastly, we're getting back to marketing Starbucks to all our customers. We've already made some changes. So first, we're focusing on coffee. Starbucks sources, roasts and crafts some of the finest quality coffee. I have always loved Starbucks Coffee, but I haven't always fully appreciated the quality and care that goes into every cup. From the work of our agronomists to support tens of thousands of independent coffee farmers to our master roasters, our high-quality equipment and our skilled baristas. Our marketing needs to tell our coffee story and showcase our premium coffee beverages.

Second, we're reducing the frequency of discount-driven offers that are proven ineffective, diluted our premium positioning, overburdened our baristas and detracted from a consistent customer experience. We're working to make every visit worth it for our customers with straightforward pricing, timely service and a more consistent enjoyable cafe experience.

Third, we need to broaden our marketing beyond our Starbucks Rewards customers. Our newly launched campaign focuses on talking to all customers and elevates the Starbucks brand in a much more visible way through broad reach media like linear TV. It reminds customers across age groups that Starbucks serves the best coffee.

You've likely seen our new approach in practice already, and you will see more of it throughout the holidays and into January.

Our customers find worth through quality, consistency and a sense of value. I'm confident that even these early steps will begin to remind customers the Starbucks experience is all of these things.

The US is my near-term priority, but our international business presents significant opportunities. Before discussing China in detail, I need to spend time there to better understand our operations and the market. All indications show me the competitive environment is extreme, the macro environment is tough, and we need to figure out how we grow in the market now and into the future. In the meantime, we continue to explore strategic partnerships that could help us grow in the long term.

Looking elsewhere, I've been pleasantly surprised to learn about significant international growth opportunities for the business beyond China. We'll spend more time and effort to capitalize on growth across other international markets in the coming years.

As I mentioned last week, success comes from staying true to your identity, taking care of customers and your team, simplifying the business, delivering consistently high-quality products and experiences and telling your story. I'm confident we'll make it easier to be a customer, and we'll encourage customers to visit more often.

And I'm confident we'll set our partners up for success, so they can deliver the great customer experience I know they want to provide. In doing so, we'll reinvigorate our brand, drive stronger financial returns and return Starbucks to growth. Thank you for your time. And as we get Back to Starbucks, we'll regularly share results driven by our work. And as we begin to see results from pilot projects and early initiatives, we'll share more about our long-term plan.

With that, we will open the call for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Jeffrey Bernstein with Barclays.

Jeffrey A. Bernstein
Analyst, Barclays Capital, Inc.

Q

Great. Thank you very much, and welcome to Starbucks, Brian. Just a bigger picture question. Obviously, you met with baristas presumably a lot over the past 50 days. I'm wondering what your key learnings have been in terms of maybe top requests or what areas you think are the greatest opportunities because presumably, you're bringing it back to kind of the basics at Starbucks and you would think that handoff between barista and customer is the most important. So just wondering kind of what your key takeaways were?

And if I could just layer in another component there. I mean it just seems like you had tremendous success at Chipotle implementing very similar initiatives. I'm just wondering what you think were some of your greatest wins at Chipotle with some initiatives that maybe could be applied at Starbucks? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks. And terrific to be here at Starbucks and delighted to be talking about the business with all of you. So to answer your first question, yeah, I had the opportunity, frankly, to spend time with our baristas from the West Coast to East Coast, middle of the country, in the South. And one thing that was consistent that I got to start with is they love this brand, okay? They love serving craft coffee that they know we go the extra mile to ensure it's absolutely the best.

And I had the opportunity to ask people over and over again, what is your favorite drink to prepare. And consistently, every barista came back to me with, you know what, I love making the espresso drinks, the latte art, the flat whites, the cappuccinos, the lattes. These are things that literally, they shined when they answered the question.

Now as regard to – I also asked them, what do you think are some things we could be doing better. And right out of the gate, one of the things they said that would help the whole process is if we could get brewed coffee not to be going down the line and ending up down at the counter. And so that's why you heard me in my prepared remarks here, talk about how we're going to bring back the coffee condiment bar, because both our customers are asking for it and our baristas are saying it would help them deliver the speed of service that they want to provide.

So that's one big piece of feedback I got. The second piece of feedback right there with the brewed coffee is take a hard look at the staffing, both during peak and shoulder hours to ensure that we're setting the teams up for success all day long. And so, we've looked at it. I'm happy to say we're already implementing some changes in a couple of thousand stores, and we are going to be piloting some new approaches on how we set up the labor model so that our baristas have time to give not only great craft drinks, but also that hospitality and that human touch of handing off the drink to our customer at the counter and then also making sure that we're on time with the mobile order business.

The other thing that they shared with me in some of the stores is they wanted their cafe dining room back. They like leading the coffee house. I think there is a moment of pride of saying, this is my place. They know our customers by name. They have their regulars. They want to have a great seat for them. They want to have a great environment for them to enjoy whether it's a moment for themselves or whether it's sharing a moment with others. And so I couldn't agree more, frankly, with a lot of their feedback.

I'll touch on one more, which was, hey, is there any way to simplify the customization that we provide? Can we put in some guardrails on this, so that it's not out of hand? And so those were the big ones.

To your question on similarities of Chipotle, what I would tell you is the similarity start with, you've got an employee/partner base at Starbucks that is hugely committed to the brand and hugely committed to doing the right thing for the business. And when you start with that kind of foundation, you're able to put in the right programs so that we can get the business turned around.

So I would say that is one big similarity. The thing obviously that I've also just been really impressed by is just how special Starbucks is to so many people, both customers at all ages and whether they're getting just a brewed cup of coffee quickly or whether they're getting a flat white. The brand means a lot to them, and it means a lot to their communities. And I take that as a lot of responsibility. So long answer to your question, but I wanted to make sure I was thorough. So thanks for the question.

Operator: Your next question comes from Sara Senatore with Bank of America.

Sara H. Senatore
Analyst, BofA Securities, Inc.

Q

Thank you. And thank you for that color, Brian. I wanted to ask, I know you're getting a lot of questions comparisons to Chipotle. But one of the things that I think struck me at the time was that there were a lot of benefits that you were able to extract from what say, reallocating resources. So reinvesting in some parts of the business and maybe finding things that were less productive elsewhere.

And I guess I'm wondering, it sounds like maybe that's the case for Starbucks, too. You talked about reducing upcharges for non-dairy milk, which as an almond milk drinker, I thank you for, but you're also promoting less. And similarly, maybe shifting to linear television, but it sounds like perhaps away from other channels.

So I wanted to see if that's the right interpretation including around scheduling perhaps, which is maybe not more hours, but different hours?

And then just a quick question for Rachel. I think you mentioned some one-time charges in G&A, but I think they were included in the non-GAAP EPS. So I just want to make sure I understand what kind of non-recurring might actually be in the adjusted EPS? Thanks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

So, I'll start, Sara. To answer your question, I mean, look, I absolutely want to stop doing the things that aren't working and shifting those dollars to things that I believe will work. And in some cases, we have to test and learn our way through that. But yeah, look, I think to the company's credit, they've already started some terrific work on supply chain and getting inefficiencies out of the supply chain that I think can support the business longer term. It's not just a one-time situation. It's an ongoing capability that we're building.

And then as it relates to like discounts and some of the shifting of marketing dollars and then what we're doing on the labor side of things, we may find it's going to require some additional hours. Because at the end of the day, I want to make sure that the teams are staffed to win every transaction.

So that, when somebody comes in, they walk away saying they had a great experience, time and time again. And I also want to have a scenario where our baristas feel like they have the ability to give a great experience. And I'm sure you've heard this over and over again, right? It's like the customer experience will not exceed that of the partner's experience.

So we have to make sure and we're going to test and learn our way through this, that we are setting up the right schedule, the right amount of hours with the right number of partners on the floor, so that we can deliver these handcrafted drinks and hand them off to our customers in store. And then also support our mobile order business, as well as in some cases, the drive-thru business as well.

So we're going to be smart about the investments. And I think also you saw in the past, when I find something that's working, we're going to do more of it. And so that is really what we're after. And I think collectively, the team really buys into that approach.

I'll hand it over to Rachel for the second piece.

Rachel Marie Ruggeri
Chief Financial Officer and Executive Vice President, Starbucks Corp.

A

Sure. Thanks for the question, Sara. What I would just say just to punctuate a bit of what Brian said is that broadly with our investments, you can expect that we'll continue with efficiency efforts.

We'll have ways to balance this, but I think it's important to note that in the near term, we may see some incremental investments that will have an impact on our financials, but we do expect they'll be accretive, particularly as we balance that with increased transactions. So I'd look at it from that perspective.

As it relates to the G&A, we don't have a GAAP, non-GAAP situation with the transition cost. The cost that I spoke about, the non-reoccurring one-time, are largely all related to transition in one way or another. We don't expect that that will repeat. When you think about G&A for next year, the one thing to remember is while we'll continue to focus on being as efficient as possible, we will be lapping lower performance-based comp in fiscal year 2024. So that will have an impact on our G&A in fiscal year 2025.

Operator: Thank you. And your next question comes from Brian Harbour with Morgan Stanley. Please state your question.

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Sure. Yeah. Good afternoon. Thanks, Brian, for the thoughts and welcome. Just a menu question. The simplification that's going to happen, do you have a sense for what that will be so far and roughly what the timing would be? In the comment about kind of guardrails around customization, do you – I don't know if you want to say anything about that at this point? And then I guess just more broadly, what's – what do you think is kind of the right pace of innovation at Starbucks typically?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So to answer your first question on kind of guardrails for customization and menu simplification, we're actually in the middle of doing that work right now. There are some obvious things that are easy to say, let's get that off the menu. And then there are other things that we might have to test our way on the menu of how we exit them smartly.

And then on the customization, as far as guardrails go – and by the way, the menu simplification is both in beverage and food. We're not just looking at beverage or just food.

And then on the customization guardrails, right now, if you go through the app, you'll notice that we offer up all kinds of customization or it's the same customization page almost for everything that you order. So two things happen.

One, it's complicated for the customer to get through it. And then two, we kind of incentivize people to customize drinks that probably aren't the best way to execute the drink. Not to mention, it creates additional complexity for our partners to execute the drink.

So – we have some clean up to do is the way I would describe it. And then I also think we have some pricing architecture tied to guardrails to ensure that we end up with – no surprises for, frankly, anybody on what was the price of what they just built. And then also that we can execute it consistently every time. So that's what we're after on those fronts. And what was your other question?

Brian Harbour
Analyst, Morgan Stanley & Co. LLC

Q

Just product innovation. What do you see in your view – what's kind of the right pace?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Look, it's really interesting. I'm still getting up to speed on the innovation process at Starbucks. And what I'm happy to discover is, they have a Stage-Gate process. It hasn't been followed recently, and we're going to start using the process again.

So innovation has been, I think, a core piece of the Starbucks proposition, and it's going to continue to be. But we are definitely not going to be moving at the speed you probably saw over the last two years. And part of that is we're just going to take a much more disciplined approach using the Stage-Gate process. So that what we roll out, we have a better understanding of how it's going to perform, the supply chain can support it, the baristas can execute it. And we'll make sure we're smart about how we then market it. So people are aware of it.

So it's kind of the basics of how I would call it like Stage-Gate innovation. But what I was happy to discover is there is a process already at Starbucks, it just wasn't being used, and now we're going to reinstate it.

Operator: Thank you. And your next question comes from John Ivankoe with JPMorgan. Please state your question.

John Ivankoe
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you very much. Brian, you just mentioned food, I think, for the first time in this call and food is nearly 25% of Starbucks sales. Food from what I recall is in 40% of transactions. So it is actually a pretty meaningful part of the Starbucks business. And there has been some discussion of kind of improving the baked goods, improving the sandwiches, improving the lobby, things around food warming cabinets that could be a significant enhancer to speed, especially if people were to order several different things.

How would you prioritize food? Is that something that you think is a big long-term growth opportunity for Starbucks or is the answer, do fewer things better and really focus on beverage first?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks for the question, John. The – to answer your question, look, food is, I think, a key piece of the puzzle. And I think you're right, we have the opportunity to do fewer, better food executions. So obviously, I want to make sure that everybody understands the quality, the craft, the commitment we have to coffee. But I think we can also have the same commitment to quality and craftsmanship in our food to match the experience you get with our beverages.

So we're doing work on that already. And I do think we're going to be much better at food if we do fewer things on the food front in a better-quality fashion. So that's part of the process. And I think you'll see some of those changes evolving over the coming months.

Operator: Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah.

Operator: And your next question comes from David Tarantino with Baird. Please state your question.

David E. Tarantino
Analyst, Robert W. Baird & Co., Inc.

Q

Hi. Good afternoon. I wanted to ask about the store redesign work that you're doing. I was just curious if you could elaborate on what are some of the elements you're seeking in that? And what do you envision the benefits of the new design being? And then maybe secondly, once you finalize that design, do you envision a big remodel cycle over the next several years or however you want to frame it with that? Thanks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.
A

Yeah. Thanks, David. So yeah, so look, what we want to do is figure out, one, how we can reduce the cost on our renovation program. And then as part of that, also create the experience where you've got a great coffee house chair or a seat or vibe, okay? And then at the same time, I want to separate and we believe we need to separate the counter experience, meaning the in-store experience from the mobile order pickup experience. But regardless, whether you walk in to just pick up your coffee and go, I want you to feel like you've walked into a special place.

And look, ideally, I was just saying this to our design team. I know we've got it right when people are questioning whether or not they want to order mobilely because maybe if I have a few minutes, I'd rather stay in the cafe and get that cafe experience from our barista where it's handheld. So I have a strong belief that we can make the cafe experience, frankly, really terrific and something special, really welcoming, warm space where you want to spend some time.

And I think there's touches, right? I mentioned just bringing back the ceramic mug if you decide to stay in the cafe and have your latte. Two, obviously, then the furniture that we have, the materials that we choose. I love – our designers are talking about making sure we bring back the layers, the texture, the warmth. Those are the things that are really important.

Operationally, what we're also after is clarity of where that barista handoff experience will happen. We're also after less than 4 minutes for POS to the handoff. And we're also after if you order a brewed cup of coffee, it's a really fast experience because we're going to just hand it to you right at the point of sale, and then you can go to the coffee condiment bar and doctor up your coffee, how you see fit.

One of the other things we're going to be bringing back to is bringing the sharpies back to our baristas and it's going to give them the opportunity to put that additional human touch on every coffee experience as well.

So there's a lot of – I think there's a lot of just simple things that go a long way of saying, you know what, this is a community place, this is a special place where people are here to connect. And I think we can do that in a really meaningful way.

And then obviously, on the mobile order side of things, I want to create a separate area where it's clear, so your drink is ready. I can grab it. And if you need to be quick, you can be quick. And we'll be on time with it. And then obviously, we still have the drive-thru business where we got to make sure we get the orders correctly out the window.

And then to answer your question, David, on the renovation program. I think we're still working through what is the right schedule once we fully understand what the renovations are going to entail. But my hope is over the coming years, we'll be able to touch everything and get back to having that community coffee house vibe.

Operator: Thank you. Your next question comes from Andrew Charles with TD Cowen. Please state your question.

Andrew M. Charles
Analyst, TD Cowen
Q

Great. Thank you. Brian, one of the things that made Chipotle successful was the digital make line that helped provide capacity for traffic growth and creating production capacity, it sounds like something in your mind for Starbucks. I'm curious what your view is on the Siren System automated technology, and if this is something you're looking to step on the gas to accelerate retrofitting the pace of this in excess of the 10% of the store base per year that's currently in place, would help you improve operations as well as the barista experience?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks for the question. Obviously, the one thing I'm really delighted about is the Siren Craft System, both the equipment and the process I think, is a key unlock for us to deliver on this 4 minutes or less on the in-cafe experience. And then also to set up the algorithm where we can allow mobile orders to have specific pickup times so that we're sequencing those mobile orders.

What I'll tell you is we know we've got some bottlenecks out there, right, that we've got to solve. And the good news is some of the bottlenecks require the full implementation, so the hot hold, the combi oven, the cold solution, the process. And then there are other stores where we don't have to quite go that far in order to achieve the throughput that we're after. But what I love about this is then we can – we know when transactions get to a certain level or mix gets to a certain level, how we need to roll out the system accordingly.

So what I would tell you is, look, would I want the organization rotating towards is how do we unlock throughput at less than 4 minutes in that store. If that store requires a full Siren Craft System, put it in. If it requires some pieces of it, put that in. If it just requires staffing and better deployment, we'll implement that.

So I really – I think we need to re-rotate ourselves to this idea of we are going to be a great coffee craft company that has now really good throughput and operational standards for how we'll perform for each of these access modes. And the good news is we've got a great group of engineers, a great group of people that have clarity on how we solve any of these bottlenecks that we pop into or bump into.

So that's the way you should think about it. I'm putting a full-court press on solving 4 minutes is the point and then how that cascades into our other access modes.

Operator: Your next question comes from David Palmer with Evercore ISI. Pleas state your question.

David Palmer
Analyst, Evercore ISI

Q

Thanks. Just a follow-up on what you were just talking about with the back of the bar changes and trying to make the baristas' life easier, service times better. Are you – and you mentioned CapEx changes, away from unit development and perhaps towards some of these changes with the Siren System or at least just the machines.

Are we really going to see what they were describing to us a while ago with the Siren System or – and you're just going faster with that and more aggressively towards the stores that need it? Or are you envisioning something not more radical, but different in that you were going to separate the bar in different ways to make that is more fundamentally a departure from what we were hearing about?

And then you mentioned the 4-minute service time goal. What is that service time today? And where specifically are the biggest bottlenecks or pain points that are keeping you – keeping that gap from 4 minutes? Thanks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.
A

Yeah. So David, I think the big change here is having an operating standard around less than 4 minutes. And there wasn't, I guess, clarity on that aspect. Instead, we were just kind of working on pain points in isolation as opposed to what is the system solution to get the customer experience and the barista experience that we know we need to deliver.

And so the less than 4 minutes actually comes from two things: one, talking to baristas and customers to find out what are their expectations. And one of the things I'm happy to discover is, before the business got as big as it is and had also mobile order and food and cold, et cetera, a lot of our partners, long-time partners are used to getting these handcrafted drinks done in about 2.5 minutes. So we know it's feasible.

To your point, though, there is some additional bottlenecks that we have to deal with. So in some cases, it's the food, and that's where it's necessary to put in the combi oven, have the warming kit. In some cases, it's the mix of cold. And in some cases, frankly, it's the mix of mobile. And so we have to address these things throughout the system.

And that's why I was saying like putting everything against this idea of, you know what, we are not going to do something or, said another way, we're going to be doing the things that enable less than 4 minutes at the counter.

Then we're also going to be doing things that enable being on time and accurate every time for mobile order pickup. And it's also – we're going to work towards getting less than 4 minutes in the drive-thru window as well.

So, the good news is we've got the equipment. We just haven't over time, used it as a system to serve against the need of less than 4 minutes. And so that's the big change. And when you start to use that metric, you quickly discover where our stores have a real problem, and we're going to go very aggressive against those first. And where there are other stores that frankly don't have the transaction or the mix yet that weren't putting in all this equipment, but we should put in the processes, wire the place correctly so that as their transactions get close, we can put it in and avoid ever having the bottlenecks.

And then to just answer your question, we probably have 50% of our transactions already happening less than 4 minutes. So we know it's very doable, and this is what I'm referring to during peak. We know it's very doable. We just need to do it in all our stores in every transaction.

So we're going to be maniacal about getting after it.

Operator: Thank you. And your next question comes from Christine Cho with Goldman Sachs. Please state your question.

Christine Cho
Analyst, Goldman Sachs
Q

Thank you for taking my questions. So I know you're not ready to put specific numbers around it. But I was wondering if you can kind of talk about the major areas or buckets where you would need to kind of invest in to kind of restore the traffic momentum as well as to improve the store infrastructure for your partners as well as guests? And also just to confirm that $1 billion per annum cost efficiency unlock program, is that something still you can leverage in the next few years? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

I'm sorry, what was the last part of your question?

Christine Cho
Analyst, Goldman Sachs

Q

The $1 billion per annum cost efficiency unlock. Is that something? Thanks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Oh, yeah, the productivity effort. Yeah, the productivity effort. Yeah, you got it. So, yeah, look, the things we're working on are kind of what I shared in my opening remarks, which I believe will drive transactions because it's going to address our partner experience as well as our customer experience.

So I just spent a bunch of time talking about this, getting after the less than 4 minutes in the cafe, being on time and accurate in mobile order against certain time standards, getting the pricing architecture correct, broadening our reach beyond Starbucks Rewards customers. And then obviously, creating that community house experience where people want to be in Starbucks, spend time in Starbucks.

All those things will add up to, I believe, growth. And the good news is we've got some great assets and tools available to us, right? That rewards program is a valuable tool. It's not the only tool, but it's a valuable tool that I think we could make work harder for us if we put it in concert with marketing that has more broad reach.

I think innovation, the capability of this organization has on innovation is a powerful tool. We haven't used it correctly of late. But I think if we use it correctly, with the Stage-Gate process, driven against the idea of these operating standards of less than 4 minutes and then also delivering on customers' expectations, innovation will be more powerful.

So it is one of those things where as we get the foundation reset, I believe there's a lot of additional catalysts for growth in the business. And if you're asking me, how do I add it all up, I don't have an answer for you yet. What I can tell you it adds up to is more growth. It adds up to a turnaround and it adds up to growth. So that's what we're going to spend our time on.

And then on the last piece of productivity, the $1 billion. I mean the good news is the team, especially the supply chain team has done a tremendous job of just being much smarter about how we, I think, work with our vendors and partners as well as the right way to bring them these products to market. It's powerful when you have the right product at the right place at the right time, it just becomes so much more efficient for everybody involved, both the supplier to all the way to our partner in store that has to deliver on. So Rachel, if you want to add anything to that.

Rachel Marie Ruggeri
Chief Financial Officer and Executive Vice President, Starbucks Corp.

A

The only thing that I would add, Christine, is just to say that while we'll continue to focus on efficiencies, the target that we've shared previously will be part of as we think about reassessing the business and looking at the right near-term and longer-term strategies as part of our Back to Starbucks plan, we'll look at the optimal level of efficiencies.

But what you can expect is we will continue, to Brian's point, we have so much opportunity across the end-to-end supply chain as we optimize throughout the store and even as we manage spend. And so we'll continue to be focused on that. I wouldn't be as focused on the $1 billion. I would just be focused on the fact that we will continue forward with efficiencies, and we'll do that as a way to help offset some of the investments we'll be making.

And in the future, those efficiencies will help us not only support incremental investments, but they'll lead to margin expansion and earnings growth.

Operator: Your next question comes from Jon Tower with Citi. Please state your question.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Great. Thanks for taking the questions. And Brian, congrats, and I wish you guys all the best of luck getting this going in the right direction again. Maybe just first, when you're talking about the menu simplification and even just the simple idea of not charging for non-dairy modifiers, any way to quantify the dollar amount that that's contributing to revenue today?

And then, I guess, my broader question for you, Brian, just looking at the brand from a high level, do you feel like it's a bit overdistributed today, specifically, when I look at the US, you have a large chunk of US company stores, but then you have a fairly large footprint of licensed stores. And when you're talking about going through all these initiatives, how can you apply that not only to your customers, your current company store base, but also to the licensed stores so that the customer gets a similar experience of both venues?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks, Jon. The – look, I will tell you, I am pleasantly surprised to see how the license business in the US performs. I had the opportunity to spend some time with the guys at Target and I will tell you, they are hugely supportive of the idea of getting Back to Starbucks. And I think they're going to want to give people the Back to Starbucks experience that we're after.

So I'm hugely optimistic. Then even when I think about like the airports and such, there's a huge opportunity for us, I think, to simplify some of the execution there so that we can get people the great throughput that they want so they can get on their way. So from what I can tell, everybody seems to be very excited about this idea of throughput with quality, this broader idea of just getting Back to Starbucks.

So I think this will carry not only in our licensed stores, but I think they'll carry it as it's their own, which I think is really important. And then what was the other part of your question?

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

Was on the menu simplification...

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Oh, menu simplification.

Jon Tower
Analyst, Citigroup Global Markets, Inc.

Q

... and putting numbers around that, or even just on the non-dairy modifier cost?

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So look, we're early days into the menu simplification. But there's definitely room for us, I think, to eliminate some products, frankly, that add complexity, have a lot of waste and really don't add a whole lot to the experience. And so we're going to have to be – it's going to be – in some cases, it's tough because everybody has their one favorite thing that maybe is on the long tail of this. But we got to clear the way so that we can get to the big movers that people really interact with time and time again.

And then on the customization, like the alt-milk, look, I've just seen time and time again, when people start the process of their beverage, the price is, I think, warranted given the caliber of the coffee or the drink that you're getting. Where we sometimes, I think, get twisted is in all the different customizations that we offer up. And then the complexity of the customization that people take us up on.

And I think a lot of it is unnecessary. And I think when we simplify that aspect of it and then charge for the things that we should be charging for and maybe not charging for the things that don't really need to be charged for, I think everybody is going to walk away feeling a lot better about ultimately their personal beverage that they've created.

So, the numbers specifically, we're still working through some of that. Obviously, we've got a pretty good idea of what the alt-milk implication is, but I'm confident it's the right investment in the business to get people to reengage with the brand accordingly. So I don't know if you want add anything to that, Rachel?

Rachel Marie Ruggeri
Chief Financial Officer and Executive Vice President, Starbucks Corp.

A

Yeah. I would just say, as you think about the investments we're making, which are going to be important to returning Starbucks to growth, just when you think about the shape of the year, you could expect that the first half of the year is where we'll be making the investment. So we expect that the back half of the year will be stronger as the investments and our strategies start to take hold.

So, that's the way I think about it. I think there'll be a more near-term impact as we make some of these investments, but we expect that the traffic will return and that we'll see customers coming back into the stores, and that will help the balance so that we see gradual momentum in the back half of the year.

Operator: Thank you. And your next question comes from Peter Saleh with BTIG. Please state your question.

Peter Saleh
Analyst, BTIG LLC

Q

Great. Thanks for taking the question. Brian, I did want to ask again about the Siren System. This has been around for about two years now. And I think the pushback in terms of broader development or expansion of the Siren System has been, it's too disruptive to the stores unless it's a remodel store or a new store. So I guess as you see it with fresh eyes, what do you see as the hurdle to a broader implementation of the Siren System? Is it that disruptive? Or is it just something that you're going to have to work through, given the ultimate benefit of the system itself? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. Thanks. Well, look, one of the things that we definitely have to fix is when we do renovations, we can't have stores closed for two weeks or three weeks or whatever it is. That is too disruptive. So the team knows that, they're working on how we fix that. But that almost has nothing to do with the Siren System. That's just in general, principal on renovations.

The Siren System, I would say part of the reason why I think we've maybe took a – not the most direct path on this is because we haven't had clarity of what we – problem we were trying to solve. And the problem we are solving now is getting to great experiences. If you really think about it right, we've got three access modes, okay? – or sorry, four access modes if you include delivery, right? You got in-cafe, you got mobile order pay, you got drive-thru and you got delivery, all right? So there's four access modes coming. And now we're in three lines of business, right, hot, cold and food?

And we have not had operating standards for time of service that we want to provide for each of those elements. So that's the problem we need to solve. And the good news is, even though it wasn't, I guess, envisioned initially, a lot of the equipment and process solves bottlenecks that were kind of considered one-off issues. But when you put the whole thing together, and you realize like, oh, geez, this store is operating at such a transaction level, it's got such a food mix. It's got such a cold mix. It's got such a mobile order, you got to put the entire system in, in order to achieve these operating standards of the excellence as it relates to the customer experience.

So I would tell you, part of the reason why I think we've zigged and zagged on that Siren Craft System is because we didn't have clarity of what the problem we were trying to solve. And now I think we've got clarity, which is we're all about great throughput for the access modes that our customers want to experience Starbucks. And I think I'm optimistic that we can roll this out accordingly. And the places where you got the full-scale bottleneck, they're going to be the first places that we implement this, coupled with, I want to touch the stores to bring back that coffee house experience.

And look, the challenge or the problem for us to solve is, I don't want the store closed for weeks, and we got to figure out how we can do it for less. So – and I think these things are all very solvable. So hopefully, that answers your question on the Siren Craft System.

And more importantly, what's the problem we're trying to solve. And the problem we're trying to solve is I want to give a great customer experience from a time standpoint to go with the great craft quality coffee, drink experience/food experience you're getting.

Operator: Thank you. And our last question comes from Lauren Silberman with Deutsche Bank. Please state your question.

Lauren Silberman
Analyst, Deutsche Bank Securities, Inc.

Q

Thank you. And congrats, Brian. I wanted to ask about value. You talked about the pricing architecture, no plans to increase prices, removing the upcharge on non-dairy. How would you assess Starbucks' value perceptions?

And to what extent you see that as a driver of current headwinds? And then relatedly, how are you thinking about the architecture of the rewards program and opportunity there? Thank you.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

A

Yeah. So look, I think – like I said, I think we have a real opportunity in simplifying the pricing experience, right, because you start off with a price for a latte or whatever you start with. And then the next thing you know you start customizing. And right now, everything has kind of a different price and whether it's one pump, four pumps, frankly, I'm still wrapping my head around how the whole system works, and that's part of the reason why I know we have to simplify it.

What I have found is when you get simplification in place on pricing, people understand, okay, this is what I'm paying, and this is what I'm getting. And right now, I think we're surprising people a little bit on what they're paying through the customization process and we've got to fix that.

But look, if you actually look at just a brewed cup of coffee, and you understood the commitment we have to the agriculture of that coffee bean to the moment that, that coffee being roast to the moment that coffee bean makes its way to our store, we use equipment like Clover Vertica, it's freshly ground, freshly brewed. I'm highly confident it's probably the best cup of coffee you can get. And we're going to make it a lot easier for people to get access to it.

And I think when people discover that, with a great environment, I think we're back to people saying, hey, this is really worth it. And that's what we got to work on. That's what we've got to prove to our customer. And I think the combination of what I've outlined is going to do just that.

And I think the good news is we don't have to wait, we can start that process. And that's why you see us doing things like bringing in the coffee condiment bar, not charging for alt-dairy, okay? You're going to continue to see us make those moves that we can. And then you'll see us continue to test and learn our way into some of the other things that we need to take our time on and be smart about.

Operator: Thank you. That was our last question. I will now turn the call over to Brian Niccol for closing remarks.

Brian R. Niccol
Chairman & Chief Executive Officer, Starbucks Corp.

All right. Well, thank you, everybody. It was great to hear some familiar voices and thank you for the kind words. Obviously, I just want to reiterate, I believe Starbucks is one of those great special companies and brands. And it's a real pleasure and honor to have the opportunity to be in this role. And thank you for your time and your questions.

I'll just reiterate a few things. Obviously, Q4, the fiscal year, they were disappointing, but fundamentally, we're changing our strategy, okay? And we have a clear path on how we're going to get Back to Starbucks. And hopefully, what you've heard from this is we're already taking steps to start driving this idea of throughput with quality, getting the staffing right in our stores, making movement on our pricing architecture and bringing, I think, some order to mobile orders while we also reclaim the Third Place and overhaul our marketing.

So a lot of work is happening. I think it's been clearly communicated to the organization. Hopefully, you have a clear understanding of what we're focused on. And I'm confident this early work will start to stabilize the business. We'll make it easier and quicker for our customers to get a great cup of coffee.

We'll make our cafes more enjoyable. And I think that's going to help bring customers back into our stores. And most importantly, I think our barista is going to be really proud of the store that they work in and the experience that they provide.

So as I said at the top of the call, I'm very optimistic despite the near-term challenges, I believe we have significant strengths, a strong enduring brand. We have a clear plan. We're going to be moving quickly. There's a lot of important work ahead of us. And look, I look forward to updating each and every one on our results as we go. And I'm confident we're going to return Starbucks to growth. So with that, thank you, and have a great day.

Operator: Thank you. This concludes Starbucks' fourth quarter and full fiscal year 2024 conference call. You may now disconnect.