Twitter Thread by Colin Landforce

Colin Landforce
@landforce

Starbucks customers have something like $1.4 billion in balances in the Starbucks app at any given time.

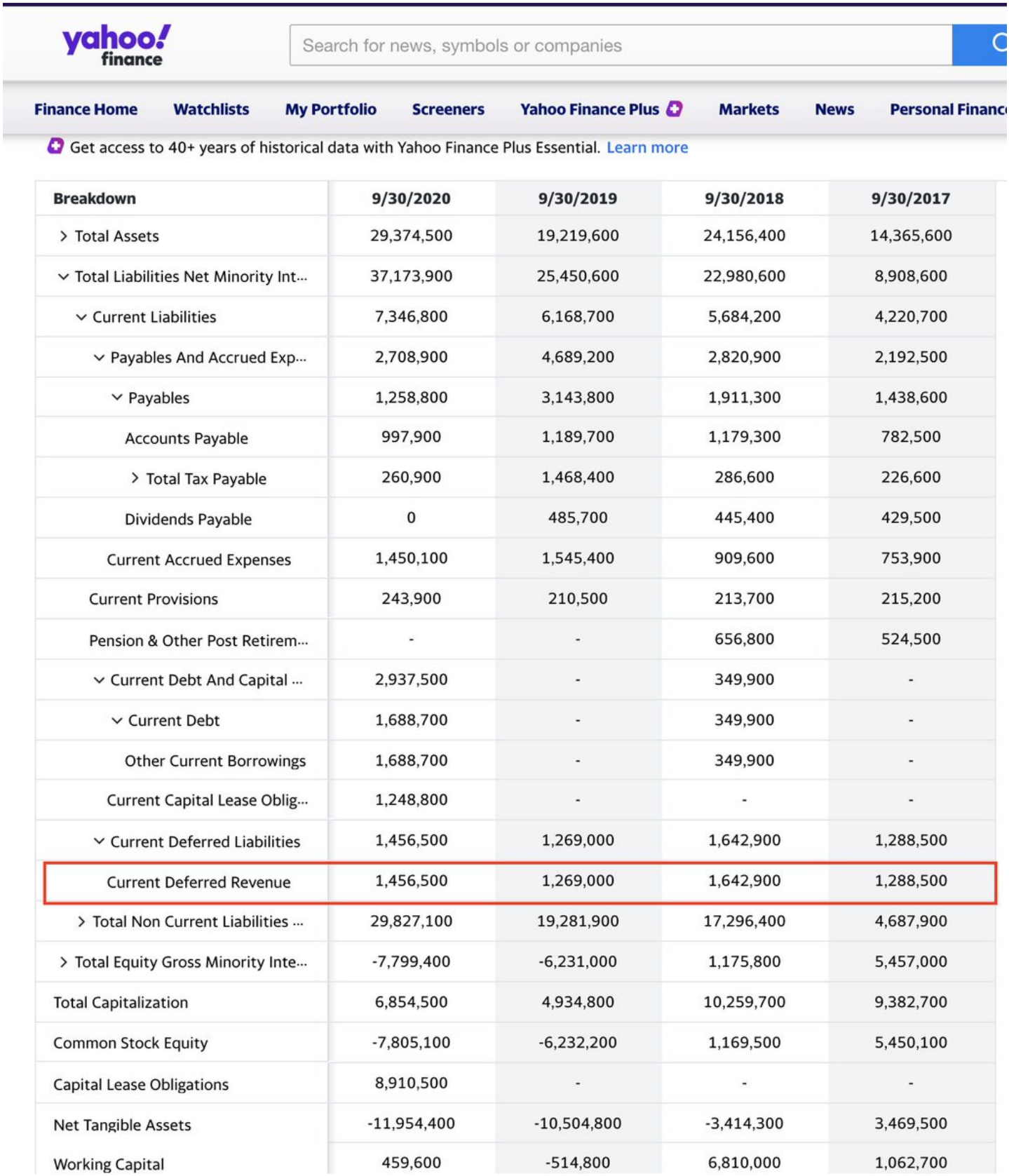
We give them a billion and a half dollar loan, no interest, and only ask for it back when we want to buy some 90% margin coffee from em. Amazing.

It’s time for a thread ■■

First, what is this number and where does it come from?

This number fluctuates daily, and shows up on Starbucks balance sheet as a Deferred Revenue liability.

Here are the actual balances the last 4 years:
2020: $1,288,500
2019: $1,642,900
2018: $1,269,000
2017: $1,456,500



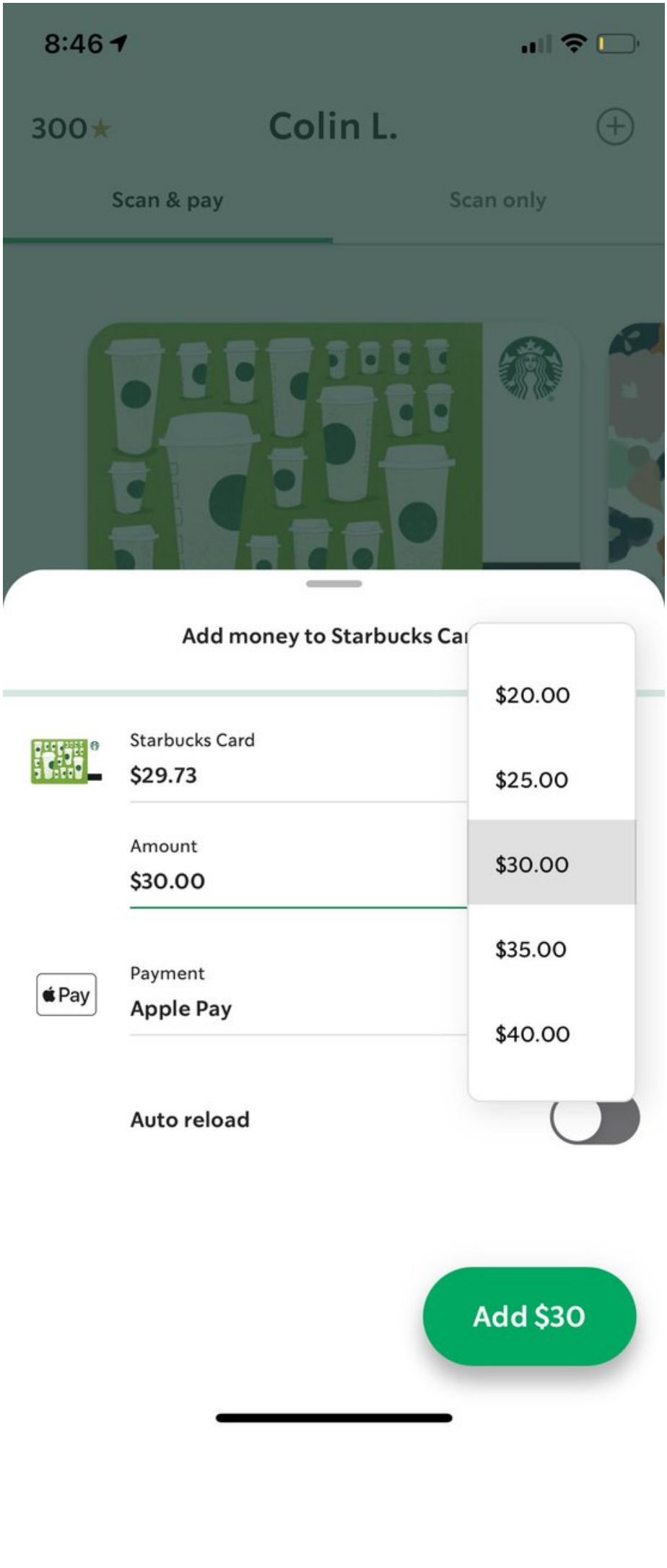
Breakdown	9/30/2020	9/30/2019	9/30/2018	9/30/2017
Total Assets	29,374,500	19,219,600	24,156,400	14,365,600
Total Liabilities Net Minority Int...	37,173,900	25,450,600	22,980,600	8,908,600
Current Liabilities	7,346,800	6,168,700	5,684,200	4,220,700
Payables And Accrued Exp...	2,708,900	4,689,200	2,820,900	2,192,500
Payables	1,258,800	3,143,800	1,911,300	1,438,600
Accounts Payable	997,900	1,189,700	1,179,300	782,500
Total Tax Payable	260,900	1,468,400	286,600	226,600
Dividends Payable	0	485,700	445,400	429,500
Current Accrued Expenses	1,450,100	1,545,400	909,600	753,900
Current Provisions	243,900	210,500	213,700	215,200
Pension & Other Post Retirem...	-	-	656,800	524,500
Current Debt And Capital ...	2,937,500	-	349,900	-
Current Debt	1,688,700	-	349,900	-
Other Current Borrowings	1,688,700	-	349,900	-
Current Capital Lease Oblig...	1,248,800	-	-	-
Current Deferred Liabilities	1,456,500	1,269,000	1,642,900	1,288,500
Current Deferred Revenue	1,456,500	1,269,000	1,642,900	1,288,500
Total Non Current Liabilities ...	29,827,100	19,281,900	17,296,400	4,687,900
Total Equity Gross Minority Inte...	-7,799,400	-6,231,000	1,175,800	5,457,000
Total Capitalization	6,854,500	4,934,800	10,259,700	9,382,700
Common Stock Equity	-7,805,100	-6,232,200	1,169,500	5,450,100
Capital Lease Obligations	8,910,500	-	-	-
Net Tangible Assets	-11,954,400	-10,504,800	-3,414,300	3,469,500
Working Capital	459,600	-514,800	6,810,000	1,062,700

This Deferred Revenue number includes 2 things:

- Unused Gift cards
- Unused app deposits

Everyone is familiar with gift cards, but the majority of this # is a relatively fluid flow of deposits/spending through their mobile app.

Deposit, spend, repeat.


8:46
300★
Colin L.
Scan & pay
Scan only
Add money to Starbucks Ca
Starbucks Card
$29.73
Amount
$30.00
Payment
Apple Pay
Auto reload
$20.00
$25.00
$30.00
$35.00
$40.00
Add $30

In other industries like insurance, this is called "Float". Profit aside, the providers are touching a huge amount of cash as they collect premiums and occasionally cut a claim check.

Same w/ the balances lingering in your Venmo.

You get free transfers, they touch billions.

In addition to providing a huge float, spending on the app and cards are responsible for 40%+ of their rev.

Far and away the biggest retail loyalty program on the planet it is 3x the size of the next biggest.

GameStop and AMC, prior to being meme stocks, are the runners up. LOL

The scale and success of Starbucks loyalty programs is an ode to the convenience and customer experience they deliver to millions.

My original tweet about this had some negative reactions - they're misplaced.

There's also nothing for bitcoin to solve here!

Anyway, the gift card industry is built on the fact that a shockingly high percentage of gift cards are never redeemed.

It's called "breakage" and the rates vary drastically by brand and industry, but are always noticeable.

Yearly, Starbucks claims roughly 10% of that Deferred Revenue number as good old fashion Revenue.

That means historically 10% of it is never used, and it can't just sit around on the books forever.

Even though the aggregate is written off as breakage, the balances never expire.

In most markets, there are no expiration dates on our stored value cards and we do not charge service fees that cause a decrement to customer balances. While we will continue to honor all stored value cards presented for payment, management may determine the likelihood of redemption, based on historical experience, is deemed to be remote for certain cards due to long periods of inactivity. In these circumstances, if management also determines there is no requirement for remitting balances to government agencies under unclaimed property laws, unredeemed card balances may then be recognized as breakage income, which is included in interest income and other, net on our consolidated statements of earnings. In fiscal 2018, 2017, and 2016, we recognized breakage income of $155.9 million, $104.6 million, and $60.5 million, respectively. Refer to the *Recent Accounting Pronouncements* section of this footnote for further discussion regarding the expected changes to breakage income in the first quarter of fiscal 2019.

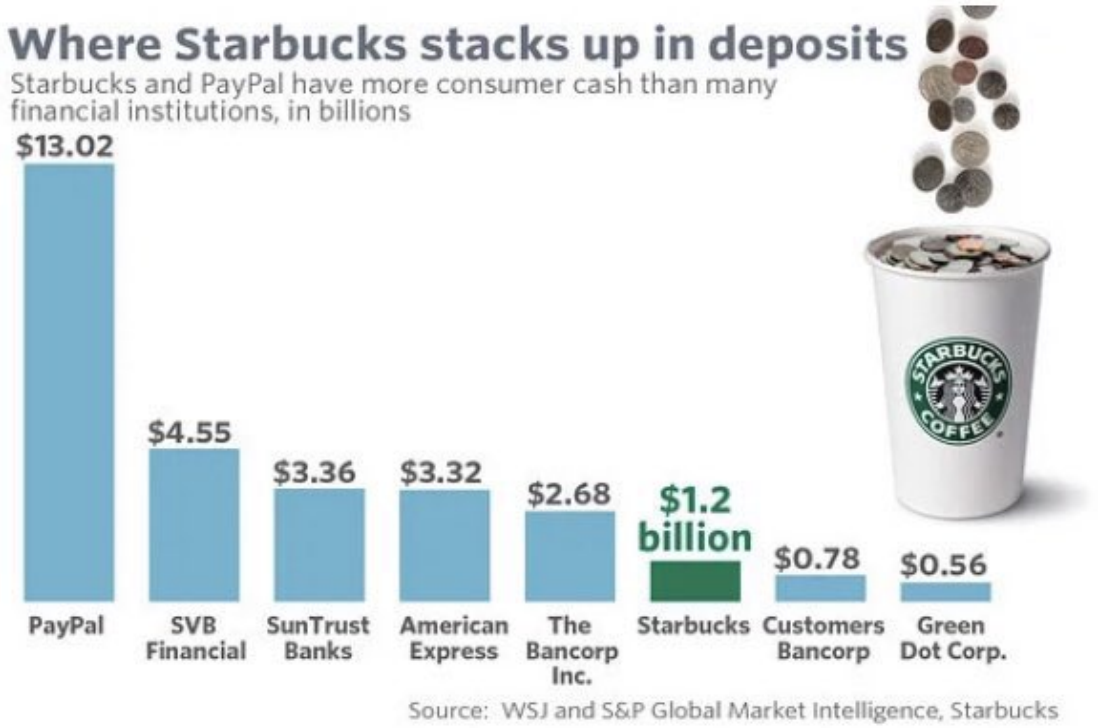
The best part of all this is that this massive cash float and resulting free revenue is just a byproduct of providing value to consumers at a massive scale.

The data and loyalty they reap from these programs is orders of magnitude more valuable than those side effects.

So, how does Starbucks stack up against other banks?

1 - They hold the 6th most consumer cash at any given time
2 - The coffee isn't free

(Get it this is a joke that they’re a bank)



Since they are a public company all this info is available in their financials:
https://t.co/RKs599GR5b

And with more context from management in their yearly 10Ks:
https://t.co/2DNni8e4Lx

If you're new here, I tweet about building businesses and cannabis consumer goods. My wife rarely likes any of my tweets but lots of other people do.

Smash that follow @landforce

And sub here to get an email anytime I drop a thread:
https://t.co/NQSnRENCrV

TL;DR

40% of Starbucks revenue is through their app/cards

That creates $1B+ of float at any given time

10% of it is never used by consumers

Side effect of providing massive value