

Price Rise At Starbucks Cuts Visits And Shares

By Bloomberg News

Starbucks, the world's largest chain of coffee shops, lowered its profit and sales forecasts yesterday after reporting its first decline in customer visits.

The shares fell more than 7 percent in after-hours trading.

The forecast revisions suggested that Starbucks was losing customers to McDonald's and Dunkin' Donuts, where a cup of coffee may cost \$1 less.

"Starbucks is saying what the rest of the U.S. is saying, that the consumer is getting hit," said James Walsh, who helps invest \$1.1 billion at Coldstream Capital Management in Bellevue, Wash. "They're not immune."

Starbucks posted a quarterly profit that was up 35 percent on higher prices. But it lowered its sales and earnings forecasts after customer visits fell.

The company said yesterday that earnings next year would be \$1.02 to \$1.05 a share, a gain of at most 21 percent but less than its previous forecast of a 22 percent increase. Analysts had been anticipating a profit of \$1.05 a share.

Starbucks lost customers after an increase in late July of 9 cents a cup caused some customers to go to competitors instead. Margins have also been hurt by higher dairy costs and the sales of less-profitable breakfast sandwiches and salads.

The price increase was "the right thing to do" because of the rising costs, the chief executive, James L. Donald, said.

"Unbeknownst to us, we saw economic headwinds that quite frankly came up probably stronger than I thought," Mr. Donald said. "The consumer is being faced with rising costs in every sector of their lives, and so part of that is reflecting on us."

Fourth-quarter net income advanced to \$158.5 million, or 21 cents a share, from \$117.3 million, or 15 cents, a year earlier, the company, based in Seattle, said in a statement. The results matched analysts' estimates. Revenue climbed 22 percent, to \$2.44 billion.

In trading yesterday, shares of Starbucks fell 15 cents, to \$24.10, and then dropped \$1.88, to \$22.22 after hours.

The stock price has declined 32 percent this year on investor concern that sales at stores open at least a year may slow as the company tries to reach a goal of 40,000 locations worldwide.

Sales at stores open at least a year increased 4 percent in the quarter.