

Quality addiction: Ongoing demand for good coffee has boosted industry revenue growth

IBISWorld Industry Report H4511b Cafes and Coffee Shops in Australia

April 2015

Stephen Gargano

2 About this Industry

| | |
|---|----------------------|
| 2 | Industry Definition |
| 2 | Main Activities |
| 2 | Similar Industries |
| 2 | Additional Resources |

3 Industry at a Glance

4 Industry Performance

| | |
|----|----------------------|
| 4 | Executive Summary |
| 4 | Key External Drivers |
| 5 | Current Performance |
| 7 | Industry Outlook |
| 10 | Industry Life Cycle |

12 Products & Markets

| | |
|----|---------------------|
| 12 | Supply Chains |
| 12 | Products & Services |
| 13 | Demand Determinants |
| 14 | Major Markets |

15 International Trade

| | |
|----|--------------------|
| 16 | Business Locations |
|----|--------------------|

18 Competitive Landscape

| | |
|----|----------------------------|
| 18 | Market Share Concentration |
| 18 | Key Success Factors |
| 18 | Cost Structure Benchmarks |
| 20 | Basis of Competition |
| 21 | Barriers to Entry |
| 22 | Industry Globalisation |

23 Major Companies

| | |
|----|---------------------------|
| 23 | Retail Food Group Limited |
|----|---------------------------|

25 Operating Conditions

| | |
|----|----------------------|
| 25 | Capital Intensity |
| 26 | Technology & Systems |
| 26 | Revenue Volatility |
| 27 | Regulation & Policy |
| 28 | Industry Assistance |

29 Key Statistics

| | |
|----|---------------|
| 29 | Industry Data |
| 29 | Annual Change |
| 29 | Key Ratios |

30 Jargon & Glossary

About this Industry

Industry Definition

The industry consists of cafes and coffee shops serving food and beverages to customers on premises. The industry excludes takeaway food services,

restaurant and catering services, theatre restaurants and establishments that primarily sell alcohol for consumption on and off premises.

Main Activities

The primary activities of this industry are

Cafe operation including BYO, licensed, BYO and licensed, and unlicensed establishments
.....
Coffee shop operation

The major products and services in this industry are

Coffee
.....
Food
.....
Other beverages

Similar Industries

H4520 Pubs, Bars and Nightclubs in Australia

Establishments in this industry mainly sell alcoholic beverages for consumption on the premises. Some pubs and taverns offer basic short-term accommodation.

H4513 Catering Services in Australia

Enterprises in this industry provide outsourced food services to businesses, government institutions and entertainment venues.

H4512 Fast Food Services in Australia

Companies in this industry sell takeaway food for consumption on and off premises.

H4511a Restaurants in Australia

Businesses in this industry provide food and beverages for consumption on premises. This industry primarily engages in full table service.

Additional Resources

For additional information on this industry

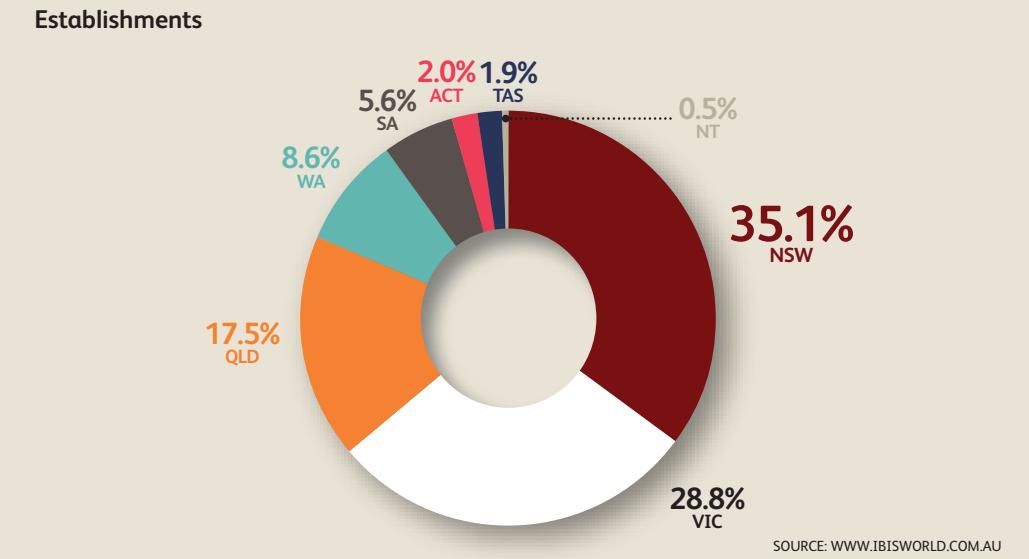
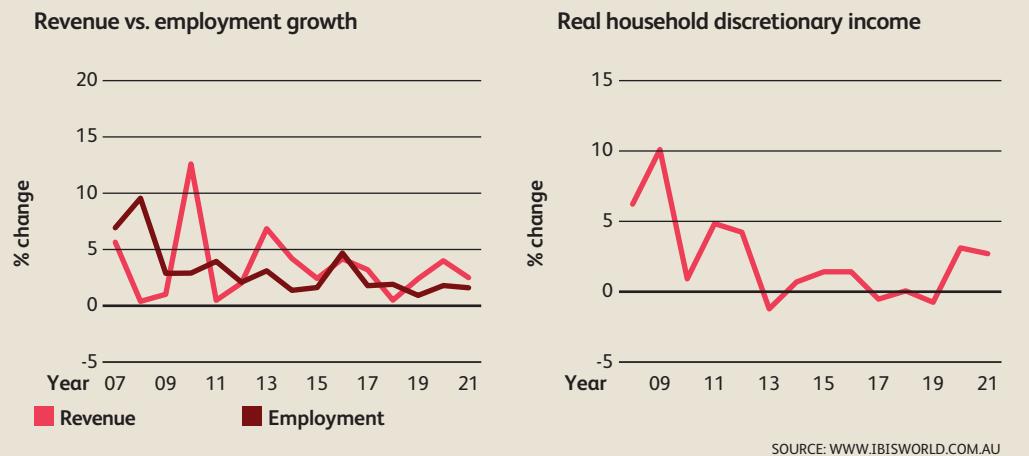
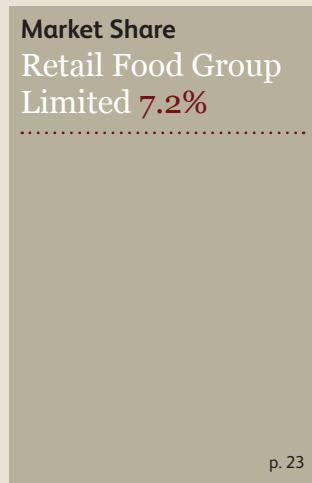
www.acta.org.au
Australian Coffee Traders Association
.....
www.ausfoodnews.com.au
Australian Food News
.....
www.cremamagazine.com.au
Crema Magazine
.....
www.hospitalitymagazine.com.au
Hospitality Magazine

Industry at a Glance

Cafes and Coffee Shops in 2014-15

Key Statistics Snapshot

| | | | | | |
|---------|-----------------|---------------------|----------------|---------------------|--------------|
| Revenue | \$4.3bn | Annual Growth 10-15 | 3.2% | Annual Growth 15-20 | 2.8% |
| Profit | \$256.6m | Wages | \$1.1bn | Businesses | 6,701 |



Industry Structure

| | | | |
|---------------------|---------------|------------------------|---------------|
| Life Cycle Stage | Growth | Regulation Level | Medium |
| Revenue Volatility | Medium | Technology Change | Medium |
| Capital Intensity | Low | Barriers to Entry | Low |
| Industry Assistance | Low | Industry Globalisation | Low |
| Concentration Level | Low | Competition Level | High |

FOR ADDITIONAL STATISTICS AND TIME SERIES SEE THE APPENDIX ON PAGE 29

Industry Performance

Executive Summary | Key External Drivers | Current Performance
Industry Outlook | Life Cycle Stage

Executive Summary

The Cafes and Coffee Shops industry has grown strongly over the past five years, owing much of its success to Australia's love for quality coffee and vibrant coffee culture. This love for coffee supported industry demand in the years following the global economic downturn and has fuelled revenue growth over the past five years. Industry revenue is expected to grow by an annualised 3.2% over the five years through 2014-15. This includes a forecast increase of 2.4% in 2014-15, to \$4.3 billion. However, competitive pressures have pushed profitability down slightly over the past five years.

Australia's coffee culture and the growing number of small speciality cafes and coffee shops have resulted in a high level of competition, low barriers to entry and low industry concentration. An establishment's success is determined by customer service, the price and quality of produce and the overall cafe experience. The coffee quality is crucial, with coffee brand, texture, temperature, milk and even the level of crema in an espresso becoming increasingly important to customers. Understanding and catering to the specific characteristics of consumer

demand have driven the success of some players, but have turned into obstacles for those failing to incorporate them into their business operations. Strong demand for coffee has led to an influx of new operators, with many artisan bakeries and patisseries establishing cafe operations over the past five years.

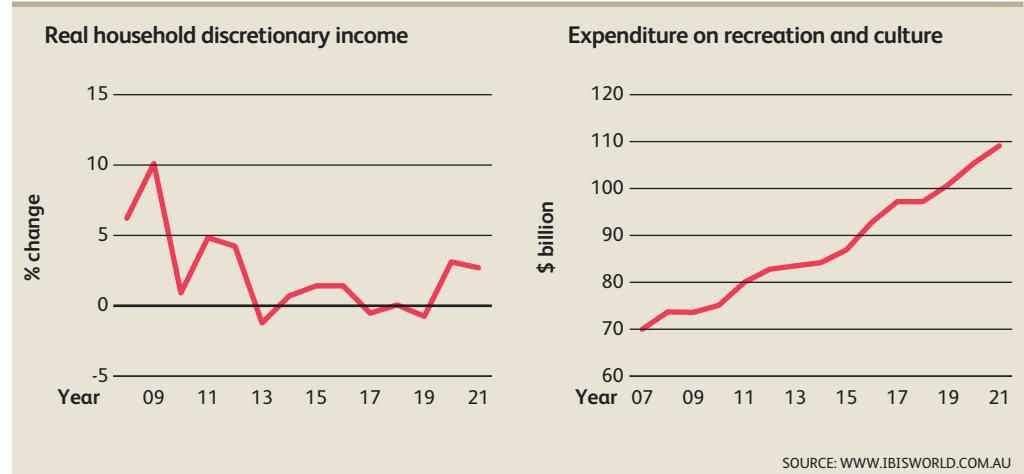
Industry revenue is forecast to continue growing over the next five years, driven by coffee sales. Consumer demand for high-quality, convenient food and beverages is also projected to support strong sales of other cafe products. As a result, operators are expected to focus on premium ingredients and gourmet cafe-style meals in an effort to boost sales of higher margin products. Strengthening economic conditions and ongoing interest in health and ethical consumerism should also provide some support for profit margins. However, high fragmentation in the industry will fuel intense competition, causing profitability to decline further over the next five years. Industry revenue is forecast to increase by an annualised 2.8% over the five years through 2019-20, to reach \$5.0 billion.

Key External Drivers

Real household discretionary income

The industry is directly affected by changes in real household discretionary incomes. Given the discretionary nature of the industry's products, any

contraction or growth in household incomes and spending capacity places pressure on industry revenue. The coffee segment is more resistant to changes in discretionary income, given its



Industry Performance

Key External Drivers continued

perception as an affordable luxury. Discretionary incomes are expected to rise in 2014-15.

Demand from restaurants

Restaurants provide a significant source of competition for industry establishments. In many circumstances, they are a direct substitute for cafes and coffee shops. A rise in the number of consumers heading to restaurants would place downward pressure on demand for coffee shops and cafes, posing a significant threat to the industry. In 2014-15, revenue generated by restaurants is expected to rise.

Expenditure on recreation and culture

Cafes are becoming increasingly popular

places where to spend leisure time. However, they must still fight for a share of discretionary household expenditure against restaurants, entertainment and other leisure and recreational pursuits. Expenditure on leisure activities is expected to grow over 2014-15, providing an opportunity for the industry to grow.

Consumer sentiment index

Changes in consumer sentiment affect expenditure on discretionary items, including eating out. Negative movements in consumer sentiment often reduce discretionary expenditure and increase savings, both of which directly affect the industry's performance. Consumer sentiment is expected to decline over 2014-15.

Current Performance

A robust coffee culture has driven the success of the Cafes and Coffee Shops industry over the past five years. Industry players have benefited from Australia's love of quality coffee, which supported the industry's growth in the years following the economic downturn. Industry revenue is expected to grow by an annualised 3.2% over the five years through 2014-15. Revenue is forecast to rise by 2.4% during 2014-15, to total \$4.3 billion. The industry's success has been fuelled by

resilient consumer demand for quality and convenient food and drinks. While cafe and coffee shop spending is discretionary, many consumers consider it an affordable luxury. Therefore, consumers are often unwilling to forgo their daily cup of coffee, which provides a stable underlying revenue base for the industry. Increased interest in fair trade and organic coffee, and an emphasis on premium-quality food have also supported revenue over the past five years.

Positive trends

Larger workloads and an increase in family and work commitments have driven demand for industry products over the past five years. Busier lifestyles have led to greater demand for fast and convenient food and dining options. Industry operators have taken advantage of this trend, providing more on-the-go items and focusing on fast, efficient service. Other industries in the hospitality sector have also benefited from this trend, with higher consumption at hotels and restaurants over the past five years. As a result, the industry has faced greater competition for customers,

with other hospitality industries fighting for a larger share of the cafe trade. This competition has restricted food sales revenue growth to a degree. However, food sales at cafes and coffee shops have been buoyed by Australia's entrenched coffee culture, as consumers have been purchasing meals and snacks with their coffee. As a result, food has increased as a share of industry revenue over the past five years.

A rising trend towards premium food has been reflected in the changing products of cafes and coffee shops over the past five years. Operators have sought to

Industry Performance

Positive trends continued

benefit from trends in restaurants by repositioning their businesses to target more-discerning customers. Therefore, menus have changed dramatically as basic snacks and breakfast items have been replaced with gourmet equivalents. This trend has provided strong support for industry revenue, as operators have sought higher margins. However, higher quality products carry associated higher purchase costs, which has pushed up the cost of doing business over the past five years.

A raft of new entrants from neighbouring industries have also dramatically changed the quality of industry food. With the Cafes and Coffee

Shops industry growing strongly, artisan bakers and patisseries have increasingly sought to reposition themselves as cafes, selling coffee together with a range of gourmet pastries. As a result, the industry has captured a growing number of businesses, as operators have added profitable coffee service and seating to their core businesses. Enterprise and establishment numbers have followed an upward trend over the past five years. Employment has also risen to cope with increasing demand. These trends have increased industry revenue over the past five years, with growth being particularly prominent since 2012-13.

Profitability

Industry profitability has weakened only slightly over the past five years, as competition has restricted margins. However, solid demand and falling coffee prices for some of this period have supported profit margins. However, the world price of coffee can be quite volatile. It fell sharply after a high in 2011 (easing pressure on profit per cup of coffee) and then rose abruptly in early 2014 (due to fears of drought conditions in Brazil). Weather conditions in the world's primary growing areas can affect coffee prices, making margins on coffee sales volatile. Stable coffee consumption in the United States and growing demand from Russia, Germany and China have been supporting historically high coffee prices. While increasing costs throughout the industry have pushed the average price of a cup of coffee upwards, demand for coffee has remained strong.

Some operators have struggled to

maintain profit margins in an industry characterised by fierce competition. The highly fragmented nature of the industry has resulted in many establishments - particularly more basic coffee shops - competing on price. The low cost of coffee and its relatively homogeneous nature have allowed consumers to switch from one cafe to another with relative ease. As a result, operators have been forced to maintain competitive prices, even in the face of changing costs. This has caused many operators to implement stricter cost controls, looking to lower labour levels and minimise wastage. Australia's obsession with high-quality coffee has provided some support for wages, with quality baristas employed in an attempt to differentiate stores and boost sales. The trend towards premium-quality food has also supported margins over the past five years, despite overall profitability declining slightly.

Coffee culture

Australia's vibrant coffee culture and the extent to which it is entrenched in daily life are underlying drivers of industry success. Coffee is generally considered an affordable luxury and a daily ritual. The emphasis on quality across the industry has led independent coffee houses to grow at a faster rate than coffee chains,

Independent coffee shops have grown at a faster rate than coffee chains

which have largely declined over the past five years. Additionally, local demand for

Industry Performance

Coffee culture continued

quality coffee has boosted demand for rarer blends, fair trade coffee and organic coffee, for which operators can charge a premium price. This coffee culture has translated into higher revenue and has sustained demand for cafes and coffee shops over the past five years. With low organic growth, some coffee chains have been consolidating in an effort to grow

inorganically. In December 2014, Retail Food Group finalised the purchase of Gloria Jean's Coffees. The acquisition consolidated Retail Food Group's position as the largest player in the industry. The majority of the company's growth has come through acquisitions, with same-store sales growth being relatively modest.

Industry Outlook

The Cafes and Coffee Shops industry is expected to grow solidly over the five years through 2019-20, as Australians remain addicted to coffee. Consumer demand for high-quality coffee and convenient food products will underpin industry revenue growth. Industry revenue is forecast to rise by an annualised 2.8% over the five years through 2019-20, to reach \$5.0 billion. This includes forecast growth of 4.2% in 2015-16. Growth will be driven by trends towards health consciousness, premium eating and ethical consumerism. The prevalence of small specialty operators and intense competition will continue to affect the industry, requiring greater operating efficiencies from participants.

High demand for coffee and the affordable nature of most industry products will support industry revenue. Rising discretionary incomes are expected to encourage further growth over the next five years. As a result, households will spend more readily on discretionary products such as coffee, snacks and meals from cafes and coffee shops. Increasing demand will support growth in both enterprises and establishments over the next five years.



SOURCE: WWW.IBISWORLD.COM.AU

Employment levels are also expected to grow, boosted by rising establishment numbers and the need for quality service. However, operators may seek to temper employment growth to control wage costs and increase profit margins. A trend towards smaller establishments will support operators in their efforts to limit employment growth. While operators may reduce staff hours through more flexible and casual personnel, the industry will remain highly labour-intensive, leading operators to seek greater cost savings elsewhere.

Convenience

Cafes and coffee shops will benefit as consumers spend more on eating out over the next five years. With consumers living increasingly busy lives, demand will be driven by their desire for convenient food and beverages. As a result, cafes are expected to provide a wider range of fast,

convenient meals, particularly catering to lunchtime traffic. Cafes are expected to take some market share from restaurants as consumers move away from formal dining in favour of more convenient cafe-style meals and snacks. As the quality of cafe food rises, a further shift

Industry Performance

Convenience continued

away from restaurants is expected. Restaurants are projected to expand their cafe operations in an effort to win back customers. This trend will pose strong competition for industry operators.

Consumer demand for healthier, premium-quality food and beverages will also underpin industry performance. Cafes that offer diverse menus with an emphasis on fresh and premium ingredients are expected to be the best performers, as discerning consumers search for better quality. This focus on

quality will be particularly intense with regards to coffee. Australia's coffee culture is becoming increasingly serious, with consumers well aware of what constitutes a good coffee and easily able to spot a poor coffee. The prevalence of online reviewing websites, such as Urbanspoon, ensures that cafes will continue to be judged by their quality and service. This is expected to lead operators to allocate funds towards higher quality coffee blends, better baristas and premium ingredients in meals.

Competition

Small and specialised operators are expected to dominate the industry over the next five years. Franchised operations will struggle as consumers generally associate better quality, ambience and experience with smaller independent cafes. As a result, the industry will remain highly fragmented, with larger chains unable to expand their market share. Operators will seek to differentiate themselves to drive sales, with competition focused on price and quality. As price competition forces revenue

down and quality forces costs up, operators will need to control efficiencies to support profit. Operators will seek to minimise wage costs, reduce wastage and reduce purchase costs. Efforts to increase profit will also result in a stronger focus on higher margin products. With coffee sales remaining solid, cafes are expected to focus on selling quality meals and enhanced breakfast and lunch offerings. Despite this, strong competition will cause overall profit margins to ease slightly over the next five years.

Opportunities

Over the next five years, niche markets will provide opportunities for the industry, with the growing trend towards ethical consumerism particularly prominent. Industry players will promote their ethical business practices by using fair trade coffee and food products. Fair trade products ensure that multinational corporations are not exploiting coffee growers and food producers in the developing world. Fair trade growers and farmers typically have better working conditions, obtain higher prices for their product and receive education about sustainable agricultural practices. As

Fair trade products will become more prevalent and contribute to industry revenue growth

consumers become more concerned with the provenance of food and beverages, ethically sourced products will become increasingly popular and more people will be willing to pay a premium for them. This trend is expected to support growth in industry revenue over the next five years.

Industry Performance

Coffee chains

While the past five years have firmly established the dominance of independent operators, a shake-up of major coffee chains is expected over the next five years. Starbucks, which is the world's most renowned coffee chain, is expected to relaunch under the ownership of the Withers Group, the owner of the 7-Eleven brand. While Starbucks was unsuccessful in its previous attempt to capture the hearts of Australian coffee drinkers, the Withers Group has a track record of success with

foreign brands. The group already owns a large number of prominent locations through the 7-Eleven brand, which opens up the possibility of some combined or small-format stores. Coffee chains will also receive a boost through Retail Food Group's acquisition of Gloria Jean's Coffees. Retail Food Group manages a number of successful franchised restaurants and cafes, targeting shopping malls and regional and suburban centres, where passing traffic is high and the importance of quality is less pronounced.

Industry Performance

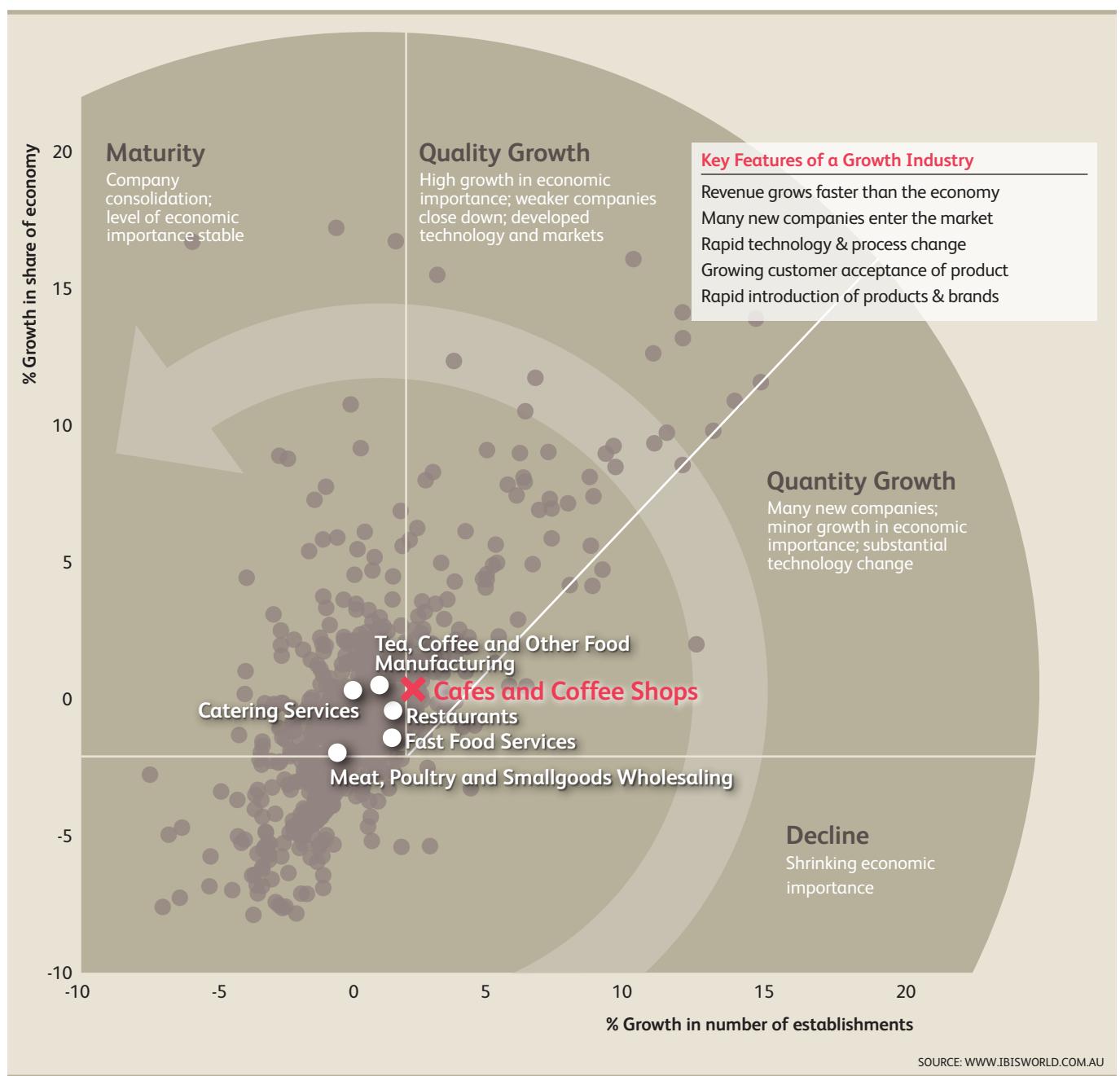
Life Cycle Stage

The industry's contribution to the economy is growing faster than GDP

The rapid increase of new cafes and coffee shops in Australia is a strong indication of a growth

There is scope for operators to capitalise on the introduction of new products and popular consumer trends

Technology is enabling industry operators to reach more consumers and increase brand recognition



Industry Performance

Industry Life Cycle

This industry
is **Growing**

The Cafes and Coffee Shops industry is currently in the growth phase of its economic life cycle. Industry value added, which measures the industry's contribution to the overall economy, is forecast to grow by an annualised 3.1% over the 10 years through 2019-20. In contrast, Australia's GDP is forecast to grow at 2.7% over the same period. This outperformance indicates that the industry is growing as a share of the overall economy.

The number of businesses and products in the industry is rising swiftly. The rapid growth in new cafes and coffee shops in Australia is one of the strongest indications that the industry is currently in the growth phase of its life cycle, with enterprises and establishments rising strongly over the 10 years through 2019-20. This growth is also evident in the increased range of new products. Opportunities exist for operators to capitalise on new consumer preferences. Organic products and fair trade coffee are

becoming more widespread, driven by trends in health consciousness, ethical consumerism and an increased focus on product provenance. Operators are able to charge a premium for these products as consumers become more concerned with ethical sourcing.

The rate of industry technological change is moderate, and has largely focused on efficiencies. This may indicate that the industry is moving towards the mature stage of its life cycle. However, the industry has turned to technology in marketing and promotion, with operators cultivating a strong online presence. This has been achieved primarily through company websites and social media. Online review websites, such as Urbanspoon, have also changed the operating landscape. Consumers are increasingly turning to online sources in choosing cafes, with the ability to quickly access information including operating hours, prices, menus and reviews.

Products & Markets

Supply Chain | Products & Services | Demand Determinants
 Major Markets | International Trade | Business Locations

Supply Chain

KEY BUYING INDUSTRIES

- Z9901 Consumers in Australia**
 Households account for the majority of industry demand and revenue.

KEY SELLING INDUSTRIES

- C1199 Tea, Coffee and Other Food Manufacturing in Australia**
 Manufacturers in this industry supply coffee and tea to cafes and coffee shops for resale.
- F3602 Meat, Poultry and Smallgoods Wholesaling in Australia**
 Wholesalers in this industry supply meat for preparation of menu items.
- F3603 Dairy Produce Wholesaling in Australia**
 Firms in this industry supply dairy foods and produce used in the preparation of foods.
- F3605 Fruit and Vegetable Wholesaling in Australia**
 This industry supplies fruit and vegetables to accompany main menu items.
- F3606a Liquor Wholesaling in Australia**
 Companies in this industry supply a range of liquor to licensed industry venues.

Products & Services

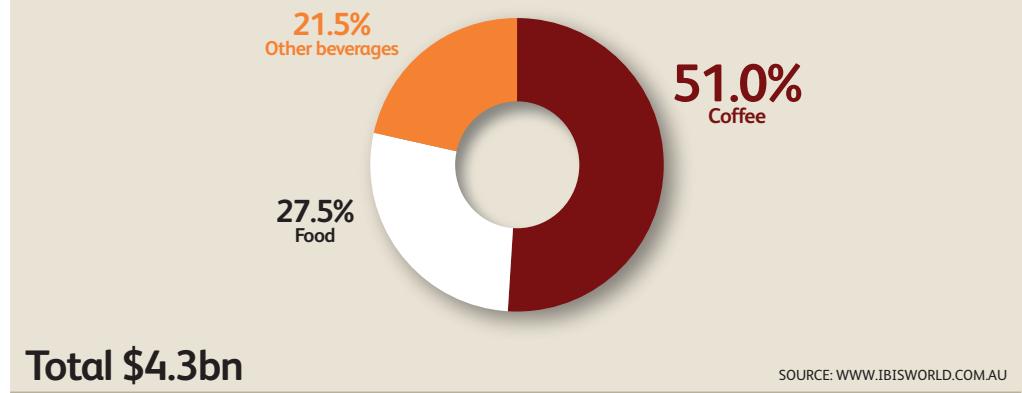
Over the past five years, cafes and coffee shops have grown in both number and diversity. The industry has moved further into restaurant territory, going beyond standard hot drinks and cafe snacks to provide more gourmet meals. The industry has also diversified its offering of food as many artisan bakers have opened cafes. Industry products can be broadly segmented into coffee, other beverages and food.

Coffee

Coffee is the largest segment in the industry and has increased as a share of revenue over the past five years. The majority of customers visit cafes or coffee

shops to purchase coffee, particularly outside lunch hours. Niche and independent coffee houses tend to differentiate themselves based on the quality of their coffee. As a result, the type of coffee beans used, the strength and the style of preparation can vary significantly across operators. Consumers are increasingly paying attention to the origins of their coffee, with growing demand for fair trade and organic blends. Larger generic coffee chains tend to offer a more standard range of coffees, with an emphasis on added flavours and syrups. Growth in demand for coffee is expected to continue over the next five years,

Products and services segmentation (2014-15)



Products & Markets

Products & Services continued

although at a slower rate as the market reaches saturation.

Food

The food sold by cafes and coffee shops predominantly consists of breakfast and lunch items such as eggs and toast, sandwiches, wraps, muffins, tarts, cakes and cookies. Coffee shops tend to sell more sweet food items. Cafes typically offer a more extensive menu with both sweet and savoury options, with an emphasis on breakfast trade. However, many cafe-style operations with large breakfast menus also provide dinner service, thus falling into the Restaurants industry. This product segment has increased as a share of industry revenue over the past five years, as cafes have broadened their menus to compete with restaurants and fast-food providers. Over the past five years, the profitability of coffee sales has also driven a range of premium food producers into the industry. A number of niche artisan bakeries and

patisseries have opened cafe operations, adding coffee service and seating to their businesses. As a result, this segment has grown strongly as a share of revenue over the past five years, with more cafes focusing on food as a point of difference.

Other beverages

In addition to coffee, industry operators offer a range of other beverages. This segment accounts for the smallest share of industry revenue. Beverage sales can be contingent on season and location. Cold beverages, such as milkshakes, sell better in warmer seasons, while consumers are more likely to purchase hot beverages such as tea, hot chocolate and chai in the winter months. This segment also includes bottled water, juices and carbonated drinks. These products often come in premium glass bottles, attracting a higher price. This segment has declined significantly as a share of revenue over the past five years, as coffee has become increasingly sophisticated and popular.

Demand Determinants

Demand for cafes and coffee shops is reliant on several factors, including consumer discretionary income and lifestyle trends. The level of discretionary income is a major driver of demand for industry products. As most industry products are discretionary, consumer confidence levels are also important. A rise in real income can boost demand for higher value food or drink products sold through cafes and coffee shops. Alternatively, a fall in real household income can lead to restricted spending on discretionary items, decreasing industry demand. Many consumers consider coffee an affordable luxury, making demand for the product more resilient, while cafe meals are much more discretionary.

Changing lifestyles can affect demand for cafe and coffee shop products. Convenience, value for money and time all affect demand to some degree. The increase in the number of cafes over the past five years has corresponded with an

increase in income-rich and time-poor households. This trend has arisen largely due to rising work commitments. With more consumers living on-the-go, cafes have also become popular locations for business meetings, discussions and general leisure time.

Australia's vibrant coffee culture is another driver of industry demand. The national obsession with high-quality coffee took off with the influx of European migrants after World War II and the subsequent emergence of European-style cafes. Competition within the industry is intense, with local cafes competing fiercely. Success is reliant on a better understanding and incorporation of the nation's coffee culture. Therefore, size or global market share is not necessarily a determinant of success. Rather, it is crucial for operators to understand the national preference for quality, taste, presentation, ambience and customer service.

Products & Markets

Major Markets

Given the nature of the industry's products and services, discretionary income levels have a significant effect on product demand. As a result, the major markets are based on income distribution. While the industry's food offering is highly dependent on income levels, the strength of Australia's coffee culture makes coffee consumption less reliant on income.

Lowest income quintile

Many consumers, across all income quintiles, consider coffee an affordable luxury. As a result, consumers in the lowest income quintile are more likely to cut spending in the competing Restaurants industry rather than forgo a cup of coffee. Many consumers view their coffee as an affordable and essential part of their daily routine. This market is expected to spend at coffee chains and cafes, purchasing beverages rather than food, due to the relatively inexpensive nature of on-the-go coffees. This market has grown over the past five years as coffee has become an integral part of daily life for all income quintiles. However, competition from convenience stores and fast-food operators has provided a cheaper alternative for lower earners, which will likely restrain growth from this market over the next five years.

Second income quintile

The second income quintile is also likely

to focus spending primarily on coffee and other beverages. While there may be a small increase in food consumption, the daily coffee is expected to contribute the largest share to this market's consumption. This market has increased as a portion of industry revenue over the past five years. However, this trend faces a significant threat from cheaper alternatives over the next five years.

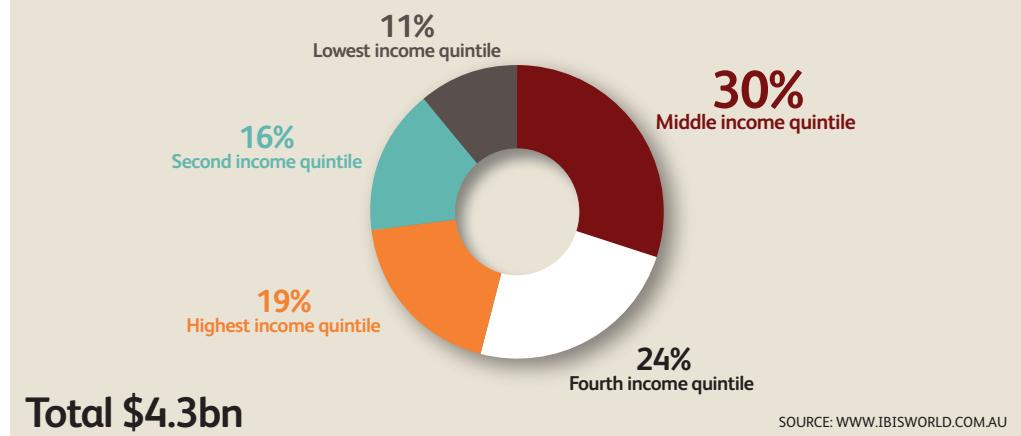
Middle income quintile

The largest contribution to industry revenue comes from the middle income quintile. This proportion is a result of the mixture of high expenditure on more expensive cafe meals and beverages, and high levels of on-the-go coffee consumption from independent brewers. Total spending by this market has increased over the past five years, but its contribution to the industry has declined as the lower income quintiles have grown at a faster rate.

Fourth income quintile

The fourth income quintile is expected to contribute the second-largest share of industry revenue. Coffee is entrenched in the daily life of consumers in this market. While this market typically has high expenditure on food in addition to coffee, some restaurant substitution does occur. The popularity of coffee has led many restaurants to introduce cafe-style operations during the breakfast period,

Major market segmentation (2014-15)



Products & Markets

Major Markets continued

encouraging consumers away from cafes and coffee shops. This has resulted in lower industry-based consumption relative to income levels over the past five years. As a result, the share of consumption has decreased modestly over the past five years.

Highest income quintile

The highest income quintile is expected to

contribute a lower share of revenue due to this market's tendency to spend more time and money at higher end restaurant and dining establishments. Fine coffees brewed by specialty coffee houses and cafes are becoming increasingly popular with this market. However, with many restaurants introducing similar products, this market has declined as a share of industry revenue over the past five years.

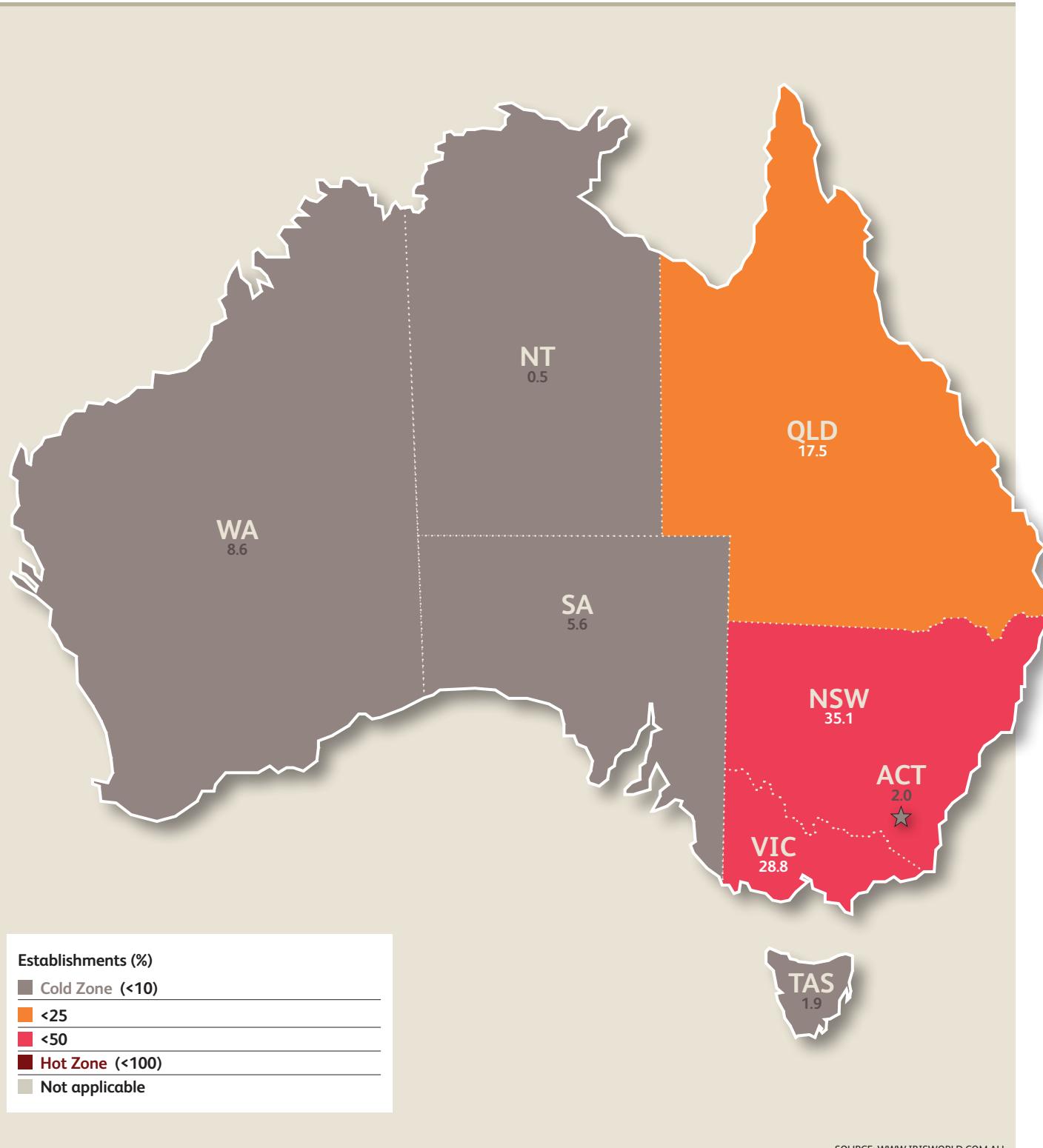
International Trade

The industry primarily services the needs of domestic customers. Food and beverages from cafes and coffee shops are made for the purpose of consumption within Australia. As a result, no

international trade occurs within the industry. While the consumption of international visitors is significant, it is outweighed by domestic consumption of industry goods.

Products & Markets

Business Locations 2014-15



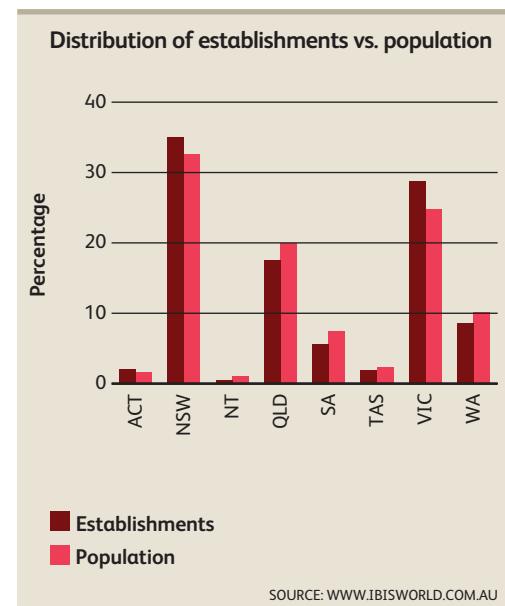
Products & Markets

Business Locations

Industry business locations are generally spread according to population and income distribution. As a result, the majority of industry establishments and revenue earned is concentrated in the eastern states, where the majority of the Australian population lives. Businesses also rely on population density to provide strong markets for clients. This provides further grounds for the concentration of businesses along the eastern seaboard, where population is more concentrated.

New South Wales accounts for the largest share of industry revenue and establishment numbers, followed by Victoria. Over the past five years, the relative share of retail revenue generated by New South Wales has fallen, in keeping with weak growth in the state's share of total population and stronger growth elsewhere. Victoria's share of the total industry revenue has grown steadily over the past decade due to Melbourne's entrenched coffee culture. This trend, reflected in the European-style cafes and coffee shops mostly in the inner city areas, is becoming more widespread. Queensland also holds a large portion of establishments, although substantially less than New South Wales and Victoria.

Western Australia, South Australia,



Tasmania, the Northern Territory and the Australian Capital Territory have distributions similar to their share of the total population. These states and territories are the least populous in Australia and exhibited a slower rate of population growth. Western Australia has been strengthened by growth during the mining boom, although its more dispersed population hinders industry revenue growth.

Competitive Landscape

Market Share Concentration | Key Success Factors | Cost Structure Benchmarks
Basis of Competition | Barriers to Entry | Industry Globalisation

Market Share Concentration

Level
Concentration in this industry is Low

The industry has a low level of market share concentration, with only one company holding over 5.0% of the market. The industry is highly fragmented and traditionally encompasses a large number of single-establishment owner-operated cafes. This fragmentation is not expected to change much over the next five years. Consumers are expected to drive the trend towards smaller operators and niche providers, continuing to choose independent cafes and coffee shops over chain stores.

While independent operators dominate the market, there are some franchised coffee shop or cafe operators in the industry. The most prominent chains include the Coffee Club, Gloria Jean's Coffees and Michel's Patisserie. While these chains operate a number of stores, they have limited market power and are

unable to influence the industry in terms of price or product trends. The strong independent coffee culture in Australia, which places an emphasis on quality over quantity, has restricted the influence and growth of chain stores. This is especially true in urban centres, where the coffee culture is most prominent. However, changing ownership within the industry has pushed concentration higher over the past five years, as major chains consolidated. Retail Food Group (RFG) has aggressively expanded its portfolio of coffee shops, acquiring Michel's Patisserie, BB's Cafe, Esquires Coffee, and most recently, Gloria Jean's Coffees. As a result, RFG is now the industry's largest player. A relaunch of the Starbucks brand also appears imminent, with the local rights purchased by the Withers Group in May 2014.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

Having a clear position in the market

As the industry is highly competitive, it is critical for operators to have an excellent understanding of their market and the ability to quickly respond to changing customer tastes and preferences.

Business expertise of operators

Business expertise, such as experience in hospitality or retail, is a crucial factor to succeeding in an industry characterised by high revenue, low profit and high propensity for losses.

Effective cost controls

For an industry characterised by low profit margins, it is important that industry players minimise costs and

wastage, especially with regard to food inputs.

Effective quality control

A consistently high level of quality in the preparation, presentation and serving of coffee and food items is required to satisfy customer expectations and to maintain positive word-of-mouth.

Access to multiskilled and flexible workforce

Operators need access to a high number of skilled, casual and permanent wait staff, cooks, chefs and kitchen hands to maintain quality customer service, especially during periods of peak demand.

Cost Structure Benchmarks

The cost structures of industry operators are largely alike, with the majority of establishments being similar in size and operations. High levels of competition over the past five years have placed pressure on profit, forcing companies to implement stricter cost controls. Profit is highly dependent on an operator's ability

to increase the popularity of their establishment and sell high-margin food products while minimising costs.

Profit

Profit can vary substantially among players, depending on the size of operations, economies of scale, cost

Competitive Landscape

Cost Structure Benchmarks continued

control and the ability to develop a fashionable image. With low margins, the ability to drive sales while limiting costs is pivotal in boosting profit and avoiding losses. Profit margins have fluctuated over the past five years, but have fallen overall. Substantial competition and rising wage costs have driven this decline. Operators have sought to support profitability by providing a wider range of food options, which attract higher margins and increase revenue per customer.

Wages

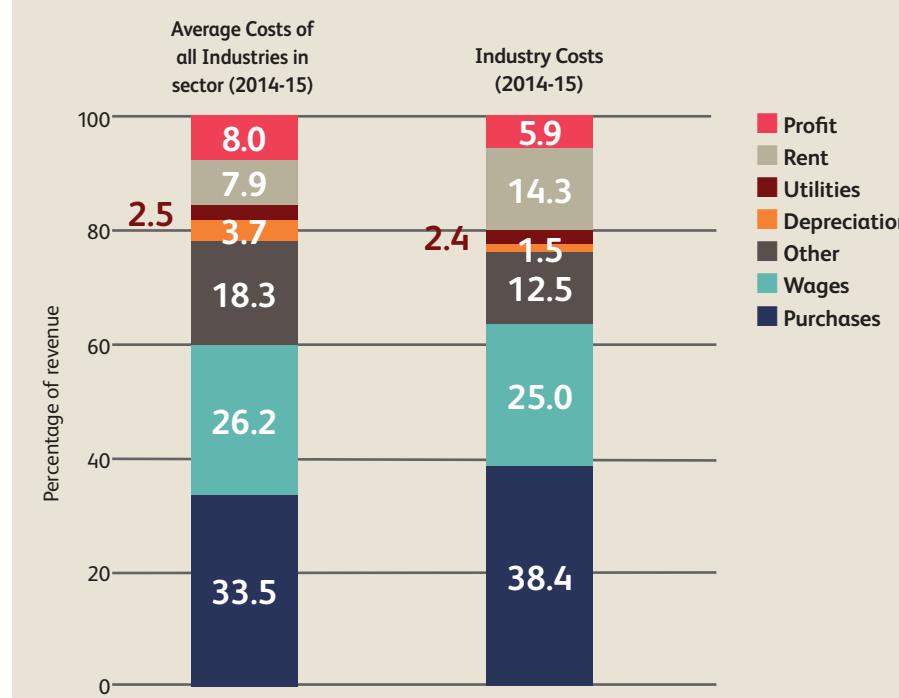
The Cafes and Coffee Shops industry is highly labour-intensive, as are most hospitality industries. All aspects of cafe operation require manual labour. These include food preparation, coffee making, cooking, cleaning and customer service. Wages account for the second-largest share of industry revenue in 2014-15, and this share has increased over the past five years. Australia's obsession with high-quality coffee has supported some wage growth among baristas. Coffee quality has become pivotal in attracting clientele,

leading operators to employ highly skilled and expensive baristas to boost sales. Wages are expected to decline mildly as a share of revenue over the next five years due to a trend towards smaller cafes that require less staff.

Purchases

Purchases account for the largest share of industry revenue. This segment includes the cost of coffee beans, food items and other ingredients, and beverages for resale. Pre-packaged items, such as soft drinks and bottled water, are typically purchased from wholesalers. Cakes, pastries and other savoury items are often sourced from local suppliers and bakers, although some premium items are made on site. Purchase costs have increased over the past five years due to a wider variety of complementary items being available, such as cakes and sandwiches. The availability of premium food provides a significant competitive edge for operators, resulting in higher purchase costs. However, operators need to be careful to monitor stock of food to avoid wastage. Operators have received

Sector vs. Industry Costs



Competitive Landscape

Cost Structure Benchmarks continued

some respite from coffee prices, which have fallen from their 2011 peak.

Rent

Rent costs involve the leasing of premises for the operation of cafes. Over the past five years, rent has been a significant cost for industry players and has increased as a share of revenue. Rent varies greatly by location and is highest in major cities such as Sydney and Melbourne. Desirable locations are typically found in areas with high passing traffic, enabling operators to attract customers for a quick coffee. With the number of establishments rising, desirable locations are becoming harder to find. This competition is pushing up rental costs, and this trend is expected to continue over the next five years. As a result, new entrants are increasingly choosing smaller locations to establish their businesses.

Depreciation

Depreciation accounts for a small proportion of industry revenue. This cost

segment reflects capital expenditure, which includes the fitting out of cafes and coffee shops. Over the past five years, depreciation has declined as a proportion of industry revenue, as smaller coffee establishments with lower capital investments have become more prevalent. Operators are also increasingly seeking to lease equipment such as expensive coffee machines to reduce start-up costs, further reducing depreciation. The trend towards leasing equipment has been exacerbated by a high failure rate, with operators choosing to reduce risk by leasing equipment.

Other

Other costs for the industry include payments for subcontractors, utilities, insurance, repairs and maintenance. Cafe operators also incur costs for tax, marketing, transport, cleaning, laundry, legal and accounting services and other administrative costs. Many of these costs are relatively fixed and decline in share as revenue increases.

Basis of Competition

Level & Trend
Competition in this industry is **High** and the trend is **Increasing**

Operators in the industry face a high level of competition. Players are forced to compete both against other cafes and coffee shops, and against other hospitality industries. Furthermore, over the past two years, significant price competition has emerged from external sources.

Internal competition

Internal competition is fuelled by the industry's low barriers to entry. The ease of entry stems from low start-up costs, especially when operators have the option to lease major items instead of having to buy them upfront. These low barriers have resulted in the development of a highly fragmented industry. The high number of small coffee shop and cafe establishments in Australia further intensifies competition. Cafes and coffee shops compete on the basis of location, as consumers demand convenience from their coffee provider and are unlikely to travel long distances for a coffee.

The broad range of cafes available has also minimised switching costs for consumers. Most operators now provide a range of quality food in addition to coffees such as espresso, long black, cafe latte, cappuccino and flat white with a range of milk options. This quality focus has extended to food, with more gourmet options available. The overall trend towards higher quality has also been supported by a focus on ambiance, with a strong emphasis on providing the best overall coffee experience. Internal competition is not significantly based on price, with most cafes applying similar prices to their range of coffees.

External competition

Industry players face competition from other hospitality establishments such as restaurants, casinos, hotels, pubs, bars and clubs. Cafes and coffee shops are particularly susceptible to competition from restaurants, many of which also

Competitive Landscape

Basis of Competition continued

serve coffee and other substitutable products. Industry operators have sought to compete on convenience and cost, increasing their range and quality of food choices. This has been particularly evident in city areas in competition for lunch-time trade, with many consumers moving away from traditional restaurants towards more convenient, cheaper cafe meals.

Over the past two years, fast-food operators and convenience stores have sought to cash in on the coffee market.

With many individuals consuming coffees on their way to work, these operators have marketed themselves as fast, convenient and cheap. This has allowed these operators to capture a share of the coffee trade and has also encouraged some consumers to purchase an additional coffee due to the low prices. 7-Eleven initiated this trend through the introduction of \$1.00 coffees, with fast food operators quickly following suit.

Barriers to Entry

Level & Trend

Barriers to Entry in this industry are **Low and Increasing**

Barriers to entry in the Cafes and Coffee Shops industry are low, as indicated by the high number of entries and exits. New operators can enter with relative ease, minimising establishment costs by leasing premises, equipment, furniture and fittings. Furthermore, many prominent coffee manufacturers also reduce start-up costs by supplying branded items such as windbreaks, umbrellas, signs, cups and plates and even staff uniforms. Entry to the industry is often available through franchising, with start-up costs covering outfitting and equipment, as well as training and computer systems for a cost.

There are no formal qualifications required to operate in the industry, although experience and training in the hospitality industry can be crucial in running a successful cafe. Low barriers to entry, coupled with the fragmented nature of the industry, means that new entrants can gain market share without competing with dominant major players. The majority of cafes and restaurants are small businesses, employing less than 20 people. This suggests plenty of scope for new entrants to compete with existing establishments, and subsequently carve out their own position in the market. However, low margins across the industry increase the possibility of

Barriers to Entry checklist

| | |
|---------------------|--------|
| Competition | High |
| Concentration | Low |
| Life Cycle Stage | Growth |
| Capital Intensity | Low |
| Technology Change | Medium |
| Regulation & Policy | Medium |
| Industry Assistance | Low |

SOURCE: WWW.IBISWORLD.COM.AU

making a loss, which may discourage some potential entrants.

The level of competition between industry players can be fierce, deterring new entrants. Competition is higher in desirable, more populated locations as many cafes and coffee shops are located in close vicinity. New entrants also have a high propensity for failure, which can be costly. These pressures may provide as significant deterrent to new entrants. However, new players can boost their competitive advantage through product differentiation, promotions, branding and skilled staff to ensure the quality of food, beverages and customer service. Regulation also provides a barrier to entry, covering areas including food handling and safety. Finally, licences are necessary for liquor sales, although these are becoming easier to obtain.

Competitive Landscape

Industry Globalisation

Level & Trend
Globalisation in this industry is **Low** and the trend is **Increasing**

The level of globalisation in the Cafes and Coffee Shops industry is low, although the trend is increasing. The majority of operators in the industry are Australian-owned and operate solely within the domestic market. However, several coffee chains within Australia are owned by international coffee houses, or have a strong international presence. The Coffee Club and Coffee Hit are ultimately owned by Minor International PCL - based in Thailand - while Hudsons Coffee is owned by the Dubai-based Emirates Group. However, major coffee chains have been unable to increase their market share significantly in the local industry. US-based Starbucks exemplified the failure of chains in the Australian market. The company grew quickly in the early 2000s after entering the Australian market. Despite this rapid expansion, the

company was unable to establish significant market share, closing underperforming stores in 2008. This failure demonstrates the importance of understanding the local coffee culture and providing a coffee experience that meets with consumer preferences. However, with the local rights to Starbucks having recently been purchased by the Withers Group, it is likely that the brand will be relaunched in Australia.

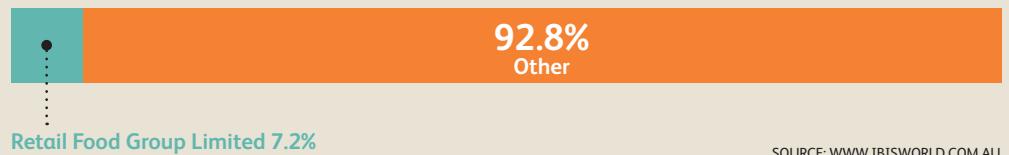
A number of Australian cafe owners have taken their concepts overseas. Both New York and London are increasingly awash with Australian cafes, with Australian-born and trained baristas seeking to introduce fine coffee to markets traditionally perceived as serving lower quality coffee. The Australian coffee scene is now internationally recognised as among the world's best.

Major Companies

Retail Food Group Limited | Other Companies

Major players

(Market share)



SOURCE: WWW.IBISWORLD.COM.AU

Player Performance

Retail Food Group Limited

Market share: 7.2 %

Industry Brand Names

Michel's Patisserie
Gloria Jean's Coffees
BB's Cafe
Esquires Coffee

Retail Food Group Limited is a publicly listed company that operates in the industry through Michel's Patisserie, BB's Cafe, Esquires Coffee and the recently acquired Gloria Jean's Coffees. The company manages a diversified range of food service brands, and has sought to grow primarily through acquisitions over the past five years. Michel's Patisserie has traditionally contributed the largest share of the company's industry segment revenue. The brand was acquired by Retail Food Group in 2007 and has over 320 stores across Australia.

Retail Food Group acquired Gloria Jean's Coffees for \$163.5 million in December 2014. The acquisition has significantly increased Retail Food Group's market share, making them the industry's only major player. The global Gloria Jean's Coffees brand is composed of over 800 cafes worldwide, including over 354 in Australia. As a result of the purchase, Retail Food Group now owns the two largest chains in the industry.

Financial performance

Retail Food Group's industry segment revenue has grown strongly over the past five years as the company established itself as the industry's dominant player. While the local coffee market has not been traditionally favourable for large brands, the

Retail Food Group Limited - industry segment performance*

| Year | Revenue (\$ million) | (% change) |
|---------|----------------------|------------|
| 2009-10 | 232.3 | -6.5 |
| 2010-11 | 237.7 | 2.3 |
| 2011-12 | 241.3 | 1.5 |
| 2012-13 | 193.2 | -19.9 |
| 2013-14 | 191.3 | -1.0 |
| 2014-15 | 314.1 | 64.2 |

*Estimated income from all stores, excluding franchise fees
SOURCE: ANNUAL REPORT AND IBISWORLD

company's focus on regional shopping centres has proven successful. The closure of several underperforming Michel's Patisserie cafes and stores with unfavourable leases pushed network sales lower during 2012-13, although same-store sales grew modestly. More recently, the acquisition of Gloria Jean's Coffees is expected to provide a strong boost to revenue, contributing to growth during the second half of 2014-15. The company's industry segment revenue is expected to grow by an annualised 6.2% over the five years through 2014-15, outperforming the wider industry in nominal terms. This growth is expected to continue as the brand will contribute a full year of revenue during 2015-16.

Other Companies

The Cafes and Coffee Shops industry is highly fragmented and industry players are often owner-operators with one establishment. The majority of cafes are

small businesses employing less than 20 people, although there has been some growth in the number of franchised operators over the past five years.

Major Companies

Other Companies continued

Minor DKL Food Group Pty Ltd

Estimated market share: 4.0%

Minor DKL Food Group Pty Ltd represents the Australian operations of the Thailand-based Minor International PCL. The company is the franchisor for the Coffee Club and Coffee Hit. The Coffee Club accounts for the majority of the company's industry segment revenue. The Coffee Club is a franchised chain that began in Brisbane in 1989. The brand has since grown to over 360 outlets throughout nine countries worldwide, with over 260 of these stores in Australia. The Coffee Club has been the fastest growing coffee chain over the past five years, supported by its emphasis on food sales. The company's other chain of coffee shops - Coffee Hit - is represented by seven stores throughout Australia.

Emirates Leisure Retail (Australia) Pty Ltd

Estimated market share: 1.0%

Emirates Leisure Retail (Australia) Pty Ltd operates in the industry through the Hudsons Coffee chain. Hudsons Coffee is a franchise chain of coffee stores that commenced operations in Melbourne in

1998. The company has since grown to over 70 locations throughout Australia, most of which are concentrated in the Melbourne CBD and other capital cities. In 2009, the Emirates Group's hospitality division acquired Hudsons Coffee, with plans to expand the company in Australia and abroad.

Starbucks Coffee Australia Pty Ltd

Estimated market share: Less than 1.0%

Starbucks is the world's largest coffee chain. The company started operations in 1971 and has over 15,000 stores worldwide. Starbucks entered the Australian market in 2000 and opened 81 stores nationwide. Over the first three years, the company's revenue grew by 18.0%. However, in 2008 the company closed 61 underperforming sites in Sydney, Melbourne and Brisbane, with a loss of 685 jobs. Only 24 coffee shops continue trading in metropolitan areas. In May 2014, the Withers Group - the local owner of the rights to 7-Eleven - acquired the Australian rights to Starbucks. The company intends to expand the Australian presence of Starbucks through a network of company-owned stores.

Operating Conditions

Capital Intensity | Technology & Systems | Revenue Volatility
Regulation & Policy | Industry Assistance

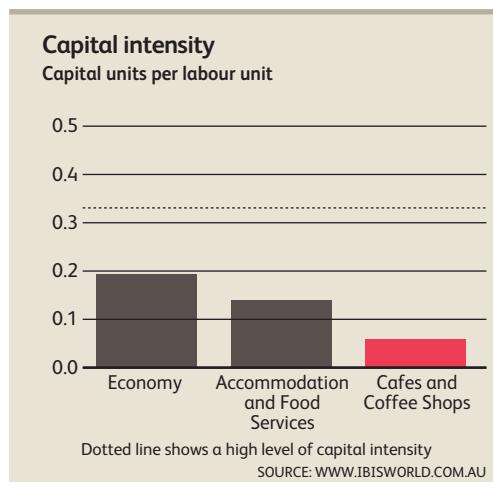
Capital Intensity

Level

The level of capital intensity is **Low**

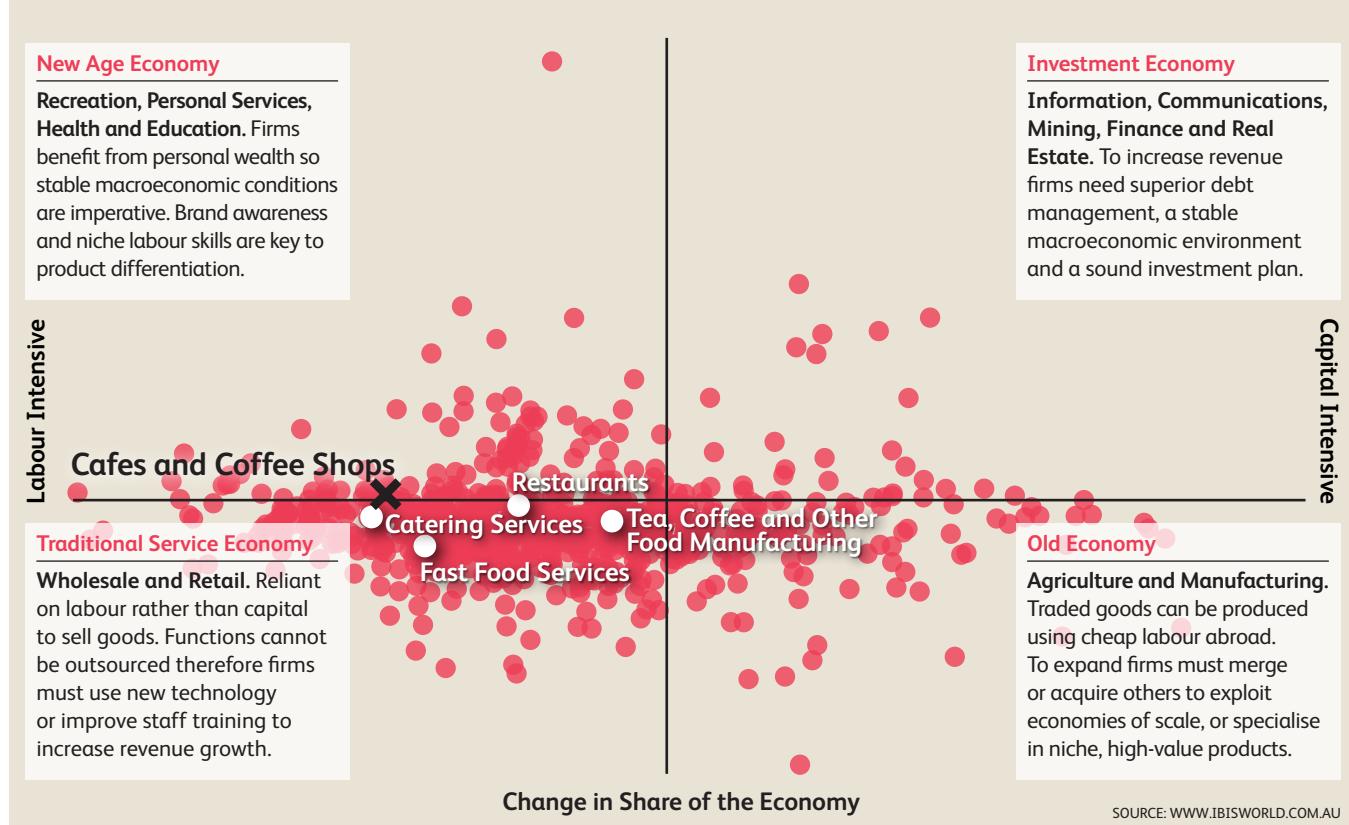
The Cafes and Coffee Shops industry exhibits a low level of capital intensity. Operators spend an estimated \$0.06 on capital investment for every dollar paid as wages. Cafe and coffee shop operators require significant labour input in all areas, ranging from coffee and food service to cooking and cleaning. Most positions are relatively unskilled, with some training required for roles such as coffee making. Many cafes and coffee shops lease both their premises and much of their equipment to lower the initial capital outlay and reduce risk. This significantly lowers capital intensity and decreases start-up costs for new entrants. Cafes and coffee shops typically require more basic kitchens than restaurants. As a result, capital intensity is also lower, with less equipment required to operate in the industry.

The level of capital intensity can differ among players, depending on the scale



of the business. Larger operators may own more specialised equipment and invest in higher quality coffee machines. The costs for initial setup and the types of equipment needed can also differ greatly between larger cafes and smaller coffee vendors. Capital intensity has

Tools of the Trade: Growth Strategies for Success



Operating Conditions

Capital Intensity continued

remained steady over the past five years, although an increasing focus on food - such as in-house baked products - may cause capital intensity to rise over the next five years. Capital expenditure will

also find some support in the push by operators to improve the coffee experience. This will lead to more frequent remodelling of cafes to maintain a fashionable edge.

Technology & Systems

Level

The level of Technology Change is **Medium**

The Cafes and Coffee Shops industry exhibits a medium level of technology change. Most functions in the industry are heavily labour oriented, decreasing the need for technology. As a result, most technological advancements in the industry aim to improve systems and procedures to provide better quality of service and reduce customer wait time. Wireless electronic ordering systems that link front-of-house orders to the kitchen are an example of such innovation. With a high customer focus on quality, technology has also sought to support this trend. Advances in coffee machines are a prominent example, as operators aim to provide better quality coffee to more discerning customers.

The industry has also been affected by changing technology in the supply chain. Successful operators need to maintain strict stock controls to avoid wastage. They also require access to a range of good-quality, fresh ingredients. Online ordering systems with wholesalers and suppliers has provided operators with a greater level of control over ordering and has increased efficiencies in coordinating supplies such as coffee beans and other pre-prepared food items.

Smartphone and tablet technology is also driving change in the industry. Operators are introducing tablet-based

cashier systems that are able to manage payments, inventory, employees, reporting, analytics and also allow operators the mobility of this data. Operators are also able to easily move data between tablets, smartphones and computers, simplifying the daily operation of businesses and improving convenience in sharing information with third parties such as accountants. Providers of these applications such as Revel or POSLavu also sell related hardware in order to easily integrate tablet applications into daily business. These systems are relatively inexpensive, user friendly and compact, making them appealing for operators with small businesses.

Loyalty card applications are moving the traditional coffee card into online platforms. Applications such as eCoffeeCard allow consumers to keep their coffee cards from various cafes on their phone, simply scanning a barcode when they purchase a coffee. The application has also moved to provide payment services through its CafeWallet function, where users can pay for their coffee via an account. The uptake of such technology is increasing among users and cafes, with the convenience of online platforms particularly attractive to operators and customers.

Revenue Volatility

Level

The level of Volatility is **Medium**

Revenue volatility in the Cafes and Coffee Shops industry is moderate, mainly due to relatively strong growth over the past five years. Australia's vibrant coffee culture and expanding range of quality cafe food has driven growth. Despite this strong performance, overall volatility was driven upwards by a spike in revenue growth during 2009-10, when demand

rebounded after the global financial crisis. However, the relatively inexpensive nature of industry products and strong demand have fuelled the perception of coffee as an affordable luxury. This has allowed the industry to survive during tough economic times as consumers sought larger savings elsewhere, unwilling to sacrifice their

Operating Conditions

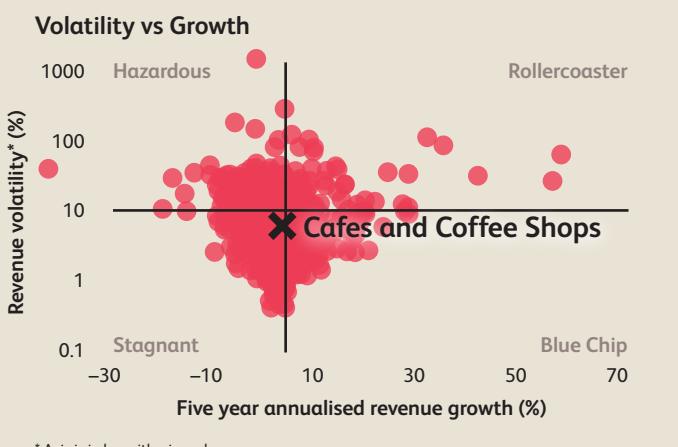
Revenue Volatility continued

daily coffee. Volatility is also typically dependent on the product being sold. Higher cost food items are more dependent on discretionary income and are likely to be more affected by weaker economic performance.

Revenue volatility within the industry is also largely affected by consumer trends. Industry revenue is currently buoyed by the fashionable nature of coffee and consumers' desire for

convenient food and beverages. Changes in consumer preferences and lifestyles can increase volatility. For example, the general increase in health consciousness over the past few years has led to healthier eating patterns. This works to the advantage of those operators that can cater to these changes. Healthier eating may also be detrimental to operators that primarily sell unhealthy products such as sweets and cakes.

A higher level of revenue volatility implies greater industry risk. Volatility can negatively affect long-term strategic decisions, such as the time frame for capital investment. When a firm makes poor investment decisions it may face underutilised capacity if demand suddenly falls, or capacity constraints if it rises quickly.



Regulation & Policy

Level & Trend

The level of Regulation is **Medium** and the trend is **Steady**

The Cafes and Coffee Shops industry is subject to a medium level of regulation. Regulation is focused mainly on food safety, service and hygiene, with some more bureaucratic requirements also in place. Food hygiene is governed by the Food Standards Code in Australia. This code, developed by Food Standards Australia New Zealand, places greater emphasis on self-regulation. Under the code, operators are responsible in ensuring the delivery of optimal hygiene. Inspections by officers do occur, with a focus on educating operators and identifying safety concerns. Victoria has gone further, requiring compulsory Food Safety Plans since 2002. This again emphasises self-regulation as operators must demonstrate that they have suitable plans for their establishment. Operators are also typically required by council legislation to undertake some training in

appropriate food handling.

The rapid increase in the number of cafes, particularly in high traffic areas has made planning, building and conversion regulations more significant. New entrants seeking to convert an existing premises into a cafe are required to adhere to planning laws, which vary across different states. These regulations govern the manner in which building can be carried out, the appearance of the new structure and whether the location is zoned for use as a cafe. As desirable locations become increasingly scarce, the construction or conversion of buildings is expected to become more prominent.

Legislation regarding the service of alcohol is also significant to the industry. This includes the regulation of licensed premises by the state government liquor licensing authorities and appropriate staff training. The industry also has to comply

Operating Conditions

Regulation & Policy continued

with local council regulations regarding the provision of liquor licences for on-premises consumption. Other legislation affecting the industry includes bans on smoking in covered areas, fees for footpath

dining, street signage and licensing costs involved in the use of certain background music. These minor regulations can significantly increase costs and the administrative burden on operators.

Industry Assistance

Level & Trend

The level of Industry Assistance is **Low** and the trend is **Steady**

The Cafes and Coffee Shops industry in Australia receives little to no direct government assistance. The minimal level of assistance is in part due to the relative ease of entry to industry and absence of international competition. The majority of establishments are locally owned, minimising the need for industry protection. The industry does

have natural levels of protection due to its highly fragmented composition and an entrenched local coffee culture. Global chains have found it difficult to gain strong market share or influence over the industry. Consumers have largely preferred small boutique coffee houses and cafes over international chains.

Key Statistics

Industry Data

| | Revenue (\$m) | Industry Value Added (\$m) | Establishments | Enterprises | Employment | Exports | Imports | Wages (\$m) | Domestic Demand |
|--------------|---------------|----------------------------|----------------|-------------|------------|---------|---------|-------------|-----------------|
| 2005-06 | 3,083.9 | 986.8 | 6,172 | 4,614 | 61,698 | -- | -- | 766.6 | N/A |
| 2006-07 | 3,258.0 | 1,042.6 | 6,558 | 4,862 | 65,973 | -- | -- | 880.0 | N/A |
| 2007-08 | 3,270.8 | 915.8 | 7,137 | 5,218 | 72,277 | -- | -- | 897.7 | N/A |
| 2008-09 | 3,304.1 | 991.2 | 7,643 | 5,842 | 74,359 | -- | -- | 855.3 | N/A |
| 2009-10 | 3,720.3 | 1,153.3 | 7,894 | 5,925 | 76,517 | -- | -- | 858.5 | N/A |
| 2010-11 | 3,738.4 | 1,157.7 | 8,097 | 6,054 | 79,535 | -- | -- | 951.1 | N/A |
| 2011-12 | 3,813.8 | 1,206.7 | 8,303 | 6,261 | 81,198 | -- | -- | 975.6 | N/A |
| 2012-13 | 4,075.0 | 1,313.5 | 8,570 | 6,488 | 83,719 | -- | -- | 1,066.3 | N/A |
| 2013-14 | 4,246.1 | 1,363.9 | 8,779 | 6,613 | 84,867 | -- | -- | 1,070.1 | N/A |
| 2014-15 | 4,349.0 | 1,410.5 | 8,950 | 6,701 | 86,243 | -- | -- | 1,087.7 | N/A |
| 2015-16 | 4,530.3 | 1,443.9 | 9,303 | 6,951 | 90,285 | -- | -- | 1,149.4 | N/A |
| 2016-17 | 4,675.3 | 1,502.7 | 9,493 | 7,077 | 91,898 | -- | -- | 1,157.0 | N/A |
| 2017-18 | 4,698.7 | 1,500.7 | 9,659 | 7,189 | 93,650 | -- | -- | 1,167.9 | N/A |
| 2018-19 | 4,811.5 | 1,527.7 | 9,783 | 7,315 | 94,512 | -- | -- | 1,182.5 | N/A |
| 2019-20 | 5,003.9 | 1,565.9 | 9,908 | 7,392 | 96,211 | -- | -- | 1,226.1 | N/A |
| Sector Rank | 7/25 | 8/25 | 3/25 | 4/25 | 2/25 | N/A | N/A | 7/25 | N/A |
| Economy Rank | 238/776 | 235/775 | 87/776 | 85/775 | 48/775 | N/A | N/A | 180/775 | N/A |

Annual Change

| | Revenue (%) | Industry Value Added (%) | Establishments (%) | Enterprises (%) | Employment (%) | Exports (%) | Imports (%) | Wages (%) | Domestic Demand (%) |
|--------------|-------------|--------------------------|--------------------|-----------------|----------------|-------------|-------------|-----------|---------------------|
| 2006-07 | 5.6 | 5.7 | 6.3 | 5.4 | 6.9 | N/A | N/A | 14.8 | N/A |
| 2007-08 | 0.4 | -12.2 | 8.8 | 7.3 | 9.6 | N/A | N/A | 2.0 | N/A |
| 2008-09 | 1.0 | 8.2 | 7.1 | 12.0 | 2.9 | N/A | N/A | -4.7 | N/A |
| 2009-10 | 12.6 | 16.4 | 3.3 | 1.4 | 2.9 | N/A | N/A | 0.4 | N/A |
| 2010-11 | 0.5 | 0.4 | 2.6 | 2.2 | 3.9 | N/A | N/A | 10.8 | N/A |
| 2011-12 | 2.0 | 4.2 | 2.5 | 3.4 | 2.1 | N/A | N/A | 2.6 | N/A |
| 2012-13 | 6.8 | 8.9 | 3.2 | 3.6 | 3.1 | N/A | N/A | 9.3 | N/A |
| 2013-14 | 4.2 | 3.8 | 2.4 | 1.9 | 1.4 | N/A | N/A | 0.4 | N/A |
| 2014-15 | 2.4 | 3.4 | 1.9 | 1.3 | 1.6 | N/A | N/A | 1.6 | N/A |
| 2015-16 | 4.2 | 2.4 | 3.9 | 3.7 | 4.7 | N/A | N/A | 5.7 | N/A |
| 2016-17 | 3.2 | 4.1 | 2.0 | 1.8 | 1.8 | N/A | N/A | 0.7 | N/A |
| 2017-18 | 0.5 | -0.1 | 1.7 | 1.6 | 1.9 | N/A | N/A | 0.9 | N/A |
| 2018-19 | 2.4 | 1.8 | 1.3 | 1.8 | 0.9 | N/A | N/A | 1.3 | N/A |
| 2019-20 | 4.0 | 2.5 | 1.3 | 1.1 | 1.8 | N/A | N/A | 3.7 | N/A |
| Sector Rank | 12/25 | 4/25 | 5/25 | 11/25 | 4/25 | N/A | N/A | 7/25 | N/A |
| Economy Rank | 326/776 | 252/775 | 199/776 | 237/775 | 291/775 | N/A | N/A | 376/775 | N/A |

Key Ratios

| | IVA/Revenue (%) | Imports/Demand (%) | Exports/Revenue (%) | Revenue per Employee (\$'000) | Wages/Revenue (%) | Employees per Est. | Average Wage (\$) | Share of the Economy (%) |
|--------------|-----------------|--------------------|---------------------|-------------------------------|-------------------|--------------------|-------------------|--------------------------|
| 2005-06 | 32.00 | N/A | N/A | 49.98 | 24.86 | 10.00 | 12,425.04 | 0.08 |
| 2006-07 | 32.00 | N/A | N/A | 49.38 | 27.01 | 10.06 | 13,338.79 | 0.08 |
| 2007-08 | 28.00 | N/A | N/A | 45.25 | 27.45 | 10.13 | 12,420.27 | 0.07 |
| 2008-09 | 30.00 | N/A | N/A | 44.43 | 25.89 | 9.73 | 11,502.31 | 0.07 |
| 2009-10 | 31.00 | N/A | N/A | 48.62 | 23.08 | 9.69 | 11,219.73 | 0.08 |
| 2010-11 | 30.97 | N/A | N/A | 47.00 | 25.44 | 9.82 | 11,958.26 | 0.08 |
| 2011-12 | 31.64 | N/A | N/A | 46.97 | 25.58 | 9.78 | 12,015.07 | 0.08 |
| 2012-13 | 32.23 | N/A | N/A | 48.67 | 26.17 | 9.77 | 12,736.65 | 0.09 |
| 2013-14 | 32.12 | N/A | N/A | 50.03 | 25.20 | 9.67 | 12,609.14 | 0.09 |
| 2014-15 | 32.43 | N/A | N/A | 50.43 | 25.01 | 9.64 | 12,612.04 | 0.09 |
| 2015-16 | 31.87 | N/A | N/A | 50.18 | 25.37 | 9.70 | 12,730.80 | 0.09 |
| 2016-17 | 32.14 | N/A | N/A | 50.87 | 24.75 | 9.68 | 12,590.05 | 0.09 |
| 2017-18 | 31.94 | N/A | N/A | 50.17 | 24.86 | 9.70 | 12,470.90 | 0.09 |
| 2018-19 | 31.75 | N/A | N/A | 50.91 | 24.58 | 9.66 | 12,511.64 | 0.09 |
| 2019-20 | 31.29 | N/A | N/A | 52.01 | 24.50 | 9.71 | 12,743.87 | 0.09 |
| Sector Rank | 19/25 | N/A | N/A | 25/25 | 13/25 | 9/25 | 25/25 | 8/25 |
| Economy Rank | 415/775 | N/A | N/A | 768/775 | 239/775 | 276/775 | 766/775 | 235/775 |

Jargon & Glossary

Industry Jargon

COFFEE CULTURE Coffee consumption as part of the daily routine for many Australians, especially high-quality gourmet coffee.

FAIR TRADE Coffee sourced from developing nations at reasonable prices, ensuring better wages and conditions for workers.

FOOD HANDLING AND SAFETY Close monitoring of food purchasing, preparation, storage and serving to ensure quality at each stage, from farm gate to plate.

FOOD SERVICE Provision of meals for customers, usually accompanied by alcoholic or non-alcoholic beverages.

IBISWorld Glossary

BARRIERS TO ENTRY High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than \$0.333 of capital to \$1 of labour; medium is \$0.125 to \$0.333 of capital to \$1 of labour; low is less than \$0.125 of capital for every \$1 of labour.

CONSTANT PRICES The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA) The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company's profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES The gross total wages and salaries of all employees in the industry. Benefits and on-costs are included in this figure.

At IBISWorld we know that industry intelligence
is more than assembling facts
It is combining data with analysis to answer the
questions that successful businesses ask

Identify high growth, emerging & shrinking markets
Arm yourself with the latest industry intelligence
Assess competitive threats from existing & new entrants
Benchmark your performance against the competition
Make speedy market-ready, profit-maximising decisions



WHERE KNOWLEDGE IS POWER

Who is IBISWorld?

We are strategists, analysts, researchers, and marketers. We provide answers to information-hungry, time-poor businesses. Our goal is to provide real world answers that matter to your business in our 500 Australian industry reports. When tough strategic, budget, sales and marketing decisions need to be made, our suite of Industry and Risk intelligence products give you deeply-researched answers quickly.

IBISWorld Membership

IBISWorld offers tailored membership packages to meet your needs.

Disclaimer

This product has been supplied by IBISWorld Pty Ltd. ('IBISWorld') solely for use by its authorised licensees strictly in accordance with their license agreements with IBISWorld. IBISWorld makes no representation to any other person with regard to the completeness or accuracy of the data or information contained herein, and it accepts no responsibility and disclaims all liability (save for liability which cannot be lawfully disclaimed) for loss or damage whatsoever suffered or incurred by any other person resulting from

the use of, or reliance upon, the data or information contained herein. Copyright in this publication is owned by IBISWorld Pty Ltd. The publication is sold on the basis that the purchaser agrees not to copy the material contained within it for other than the purchasers own purposes. In the event that the purchaser uses or quotes from the material in this publication - in papers, reports, or opinions prepared for any other person - it is agreed that it will be sourced to: IBISWorld Pty Ltd