



# The Australian Café and Restaurant Industries – Market Snapshot

## MARKET OVERVIEW

2011	Total Revenue	\$19.3bn
2011	Average net profit margin	8%
2011-2012	Historical annual growth rate	1.1-2.6%
2012-2017	Forecast annual growth rate	3.0-5.7%

### Market Conditions

- Due to the discretionary nature of restaurant spending, the industry has faced difficult trading conditions as a result of the recent economic downturn whereby consumers chose to save by eating at home more often. Further, already low margins were squeezed as consumers sought value for money in food purchases.
- In comparison, Australia’s love of quality gourmet coffee, which is seen as an “affordable luxury”, has resulted in strong growth in the café industry during this time. Results indicate that 1 billion cups of coffee are consumed in cafés each year in Australia and out-of-home consumption is on the rise.
- With economic conditions set to improve, stronger growth is expected in both the café and restaurant industries over the next 5 years and beyond, as well as an increased presence of both international players and franchises.

### Competitive Landscape

- The Australian café and restaurant industries are highly competitive, mainly derived from low barriers to entry and high industry fragmentation. In both industries the largest players represent less than 10% of industry revenue, and 91% of café and restaurant businesses have less than 20 employees.
- In the café industry, almost all significant networks use a franchise model as a primary or complementary business strategy including Gloria Jean’s Coffees, McDonald’s McCafe, Hudsons Coffee and Coffee Club. Restaurants including La Porchetta, Outback Jacks and Wagamama have also set up successful franchise systems in Australia.
- Operators within the café and restaurant industries compete on price, quality and customer service. DC Strategy has found that a franchising model can substantially improve these critical factors.

### Opportunities for Growth

- Understanding your unique offer to the customer – statistics show that specialised stores have often outperformed international brands who have failed to understand the Australian market and not altered their product/service offering accordingly.
- Increase profit margins – take advantage of available system advancements which are designed to improve business processes as well as minimising labour costs and wastage.
- Build your brand – technology has presented the opportunity for operators to reach a greater proportion of the market to enhance their competitive advantage and increase brand recognition.
- DC Strategy has seen numerous businesses enter and capture considerable market share by focusing on these factors, despite not having the ‘first to market’ advantage.

## *The Australian Café and Restaurant Industries – Market Snapshot (Continued)*

### The importance of franchising

- The retail sector, especially food retailing, has been the dominant sub-sector of franchising and this trend is set to continue. The 2010 Potential Franchisee Survey found 53% of respondents listed food/restaurants/cafes as their preferred industry to pursue.
- In the 2010 Franchisor Expansion Study, franchisors saw take-away food (17%) and coffee (12%) as the top industry growth areas. Coffee has increased its popularity in recent years, with only 3% seeing it as a growth area in 2007.
- Franchising has proved to be a successful business model for businesses with a unique offer, system and brand looking to expand rapidly. For example, Xpresso Delight, which installs coffee machines into offices, has built a network of over 100 franchises in a short period due to, amongst other things, their unique offer and specific marketing system.
- Forecasts suggest that franchises will continue to increase their concentration in these industries over time.

### The benefits of franchising

#### The benefits of franchising to the franchisor include:

- Greater availability of capital for expansion
- Income received through royalties and other fees
- Motivated and committed franchisees, compared with store managers, resulting in an uplift in sales
- Increased purchasing power from suppliers as the network grows
- Control over distribution
- Stronger image and marketing presence
- Increased knowledge base and new ideas within the system

#### The benefits of franchising to the franchisee include:

- Established brand identity
- Proven business model
- Less risk of business failure
- More valuable business upon exit

### Further information

*DC Strategy is widely recognised as the regions premier franchise consulting and legal firm.*

*Our people have helped create the franchise systems and documentation for many of Australia's leading franchise networks and have assisted franchise networks to expand internationally. We have worked for clients such as:*

- *Hudson's Coffee*
- *Shingle Inn*
- *Campos Coffee*
- *Grill'd*
- *Shuji Sushi*

**For further information and to discuss growth opportunities for your business contact DC Strategy on:**

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