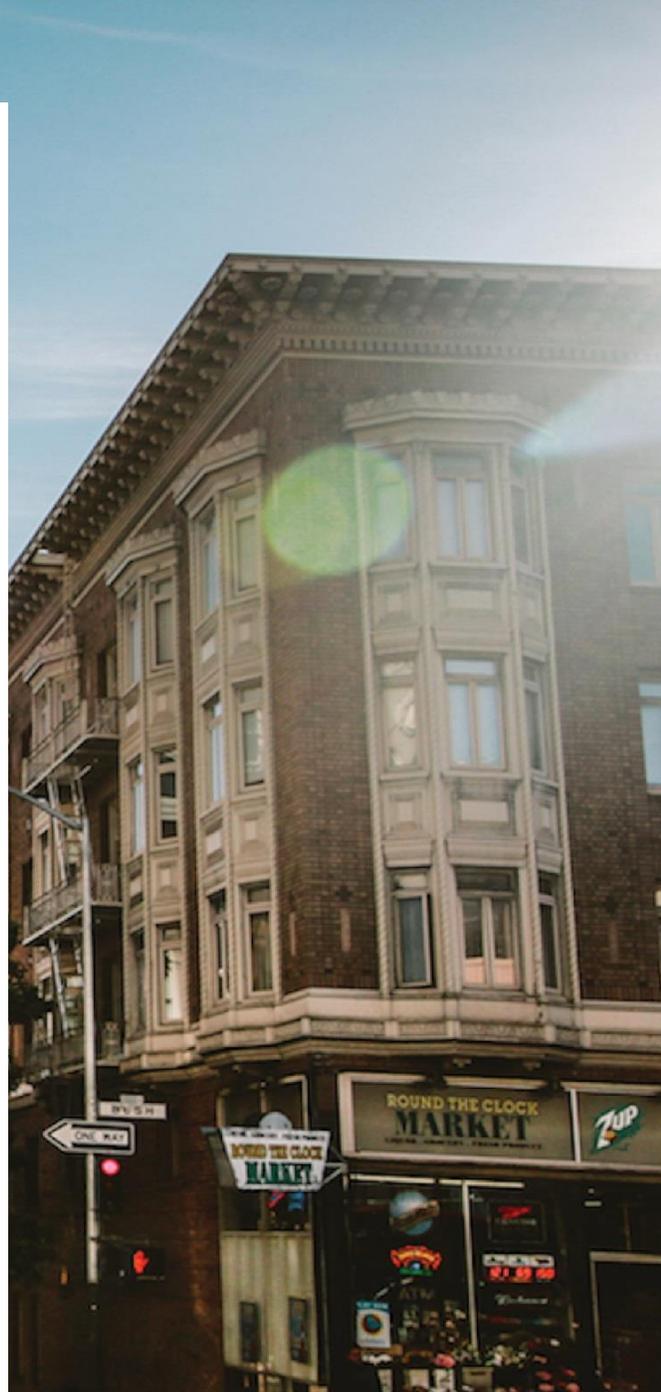


Industry Report – Café and Coffee Shops in Australia

Current Performance with 5 Years Outlook

JULY 2020

QUANTUM HOUSE AUSTRALIA



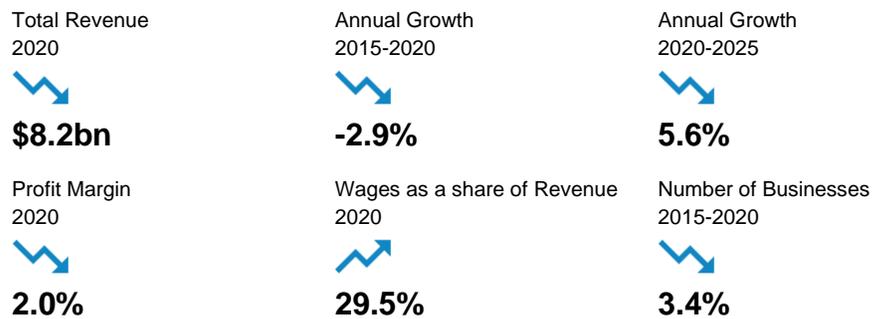
**COVID-19
(Coronavirus)
Impact Update**

IBISWorld's analysts constantly monitor the industry impacts of current events in real-time – here is an update of how this industry is likely to be impacted as a result of the global COVID-19 pandemic:

- The COVID-19 outbreak is expected to significantly affect the Cafes and Coffee Shops Industry. Industry revenue has been adjusted from a 0.3% increase to a 22.8% decline in the current year. This is due to government restrictions limiting players to takeaway only, and the ban on non-essential activities, such as social gatherings at cafes. For more detail, please refer to the Current Performance chapter.
- On 23 March 2020, the Federal Government announced the closure of cafes and coffee shops, except for those offering takeaway services. Many cafes and coffee shops are expected to temporarily close or shift to cheaper takeaway food options over the period, limiting revenue from premium dine-in food options in the current year. For more details, please refer to Products and Services chapter.
- Social distancing and self-isolation measures are also expected to limit demand in the current year, as many consumers are expected to shift to homemade coffee, such as instant coffee or coffee pods.
- Profit is expected to be constrained by weaker demand and mounting fixed costs in the current year. For more detail, please refer to the Cost Structure Benchmarks chapter.

Note: The content in this report is currently being updated to reflect the trends outlined above.

Snapshot

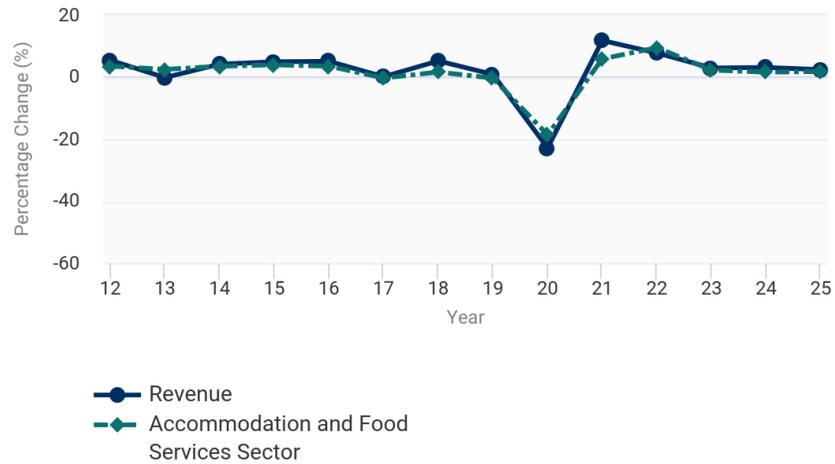


**Industry
Structure**

	Level	Trend		Level	Trend
Life Cycle	Mature	⊖	Regulation Level	Medium	⊖
Revenue Volatility	Medium	⊖	Technology Change	Low	⊕
Capital Intensity	Low	⊕	Barriers to Entry	Low	⚠
Industry Assistance	Low	⚠	Steady	Low	⊕
Concentration Level	Low	⊕	Industry Globalization	Low	⊕
			Competition Level	High	⚠
					Increasing

Key Industry Data

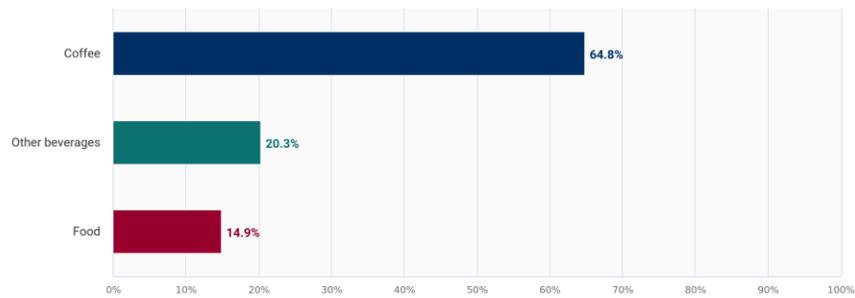
Industry Outlook 2012-2025



Cafes and Coffee Shops
Source: IBISWorld

Products & Services Segmentation

Products and Services Segmentation



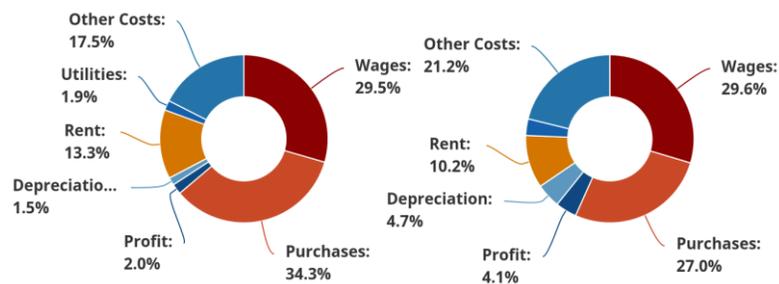
2020 INDUSTRY REVENUE

\$8.2bn

Cafes and Coffee Shops
Source: IBISWorld

Cost Structure

Sector vs. Industry Costs



Industry Performance

Performance Summary

Australia's vibrant coffee culture has supported industry growth over much of the past five years.

Although purchases at cafes and coffee shops are considered discretionary, many consumers treat coffee as an affordable luxury, allowing the industry to remain resilient despite movements in household income. This trend has provided a steady base revenue for the industry. Furthermore, an increased focus on fair trade and organic coffee, and an emphasis on premium food have boosted demand over much of the period. Despite this, industry revenue is expected to decline at an annualised 2.9% over the five years through 2019-20, to \$8.2 billion. This decline is primarily due to an anticipated fall in revenue of 22.8% in the current year, as a result of the COVID-19 pandemic.

The outbreak of COVID-19 in 2019-20 has placed significant restrictions on the industry. On 23 March 2020, the Federal Government limited industry players to takeaway only and banned non-essential activities, such as social gatherings at cafes. As a result, many operators are expected to temporarily close over this lockdown period or shift to takeaway only services. The pivot to cheaper takeaway food is expected to limit the sale of premium dine-in food products in the current year, constraining industry revenue. Consumers are also expected to abide by self-isolation and social distancing measures in the current year, and are expected to shift to homemade alternatives, such as coffee pods. These demand constraints in the current year are expected to underpin a significant decline in industry revenue. In addition, profit is expected to have declined over the past five years, due to weak demand and growing fixed costs in the current year due to COVID-19.

Industry revenue is projected to recover over the next five years, as COVID-19 restrictions are anticipated to be lifted by early 2020-21. Consumer demand for high-quality, convenient food and beverages is anticipated to support strong sales of other cafe products. As a result, industry operators are anticipated to focus on premium ingredients and gourmet cafe-style meals in an effort to boost sales of higher margin products. Although competition is projected to intensify over the period, profit is forecast to recover from a low base year due to COVID-19. Furthermore, ongoing consumer interest in health and ethical consumerism will also likely support profit margins. Overall, industry revenue is forecast to increase at an annualised 5.5% over the five years through 2024-25, to \$10.7 billion.

Industry Issues

Threat

Changes in real household discretionary incomes directly affect the industry. As the industry's products are discretionary, higher discretionary incomes enables consumers to allocate more money towards industry products. Conversely, a decline in discretionary incomes tends to reduce consumer spending capacity, placing pressure on industry revenue. However, the coffee segment is more resistant to changes in discretionary income, as many consumers perceive coffee to be an affordable luxury. Discretionary incomes are expected to fall in 2019-20, posing a threat to industry revenue.

Opportunity

Cafes are becoming increasingly popular as places for consumers to spend their leisure time, or to enjoy as part of other leisure activities. Therefore, increasing expenditure on recreation and culture supports industry revenue growth. However, cafes must compete with entertainment activities, and other leisure and recreational pursuits for a share of discretionary household expenditure. Expenditure on recreation and culture is expected to rise in 2019-20, providing an opportunity for the industry to grow.

Industry Outlook

Outlook

The Cafes and Coffee Shops industry is projected to recover over the five years through 2024-25, as COVID-19 restrictions are expected to be lifted by early 2020-21.

Consumer demand for high-quality coffee and convenient food products is anticipated to support revenue growth over the period. Industry revenue is forecast to increase at an annualised 5.5% over the five years through 2024-25, to \$10.7 billion. Trends in health consciousness, premium foods and ethical consumerism are projected to drive this revenue growth. The prevalence of small, specialty operators and intense competition will continue to affect the industry, requiring participants to achieve greater operating efficiencies.

High demand for coffee and the affordability of most industry products are anticipated to support industry revenue growth over the next five years. Rising discretionary income later in the period is anticipated to encourage further industry revenue growth, as households spend more on coffee, snacks and eating out. Increasing demand will likely support growth in industry enterprise numbers over the period, albeit at a slower rate than the previous five-year period due to competitive pressures. Industry employment numbers are also projected to grow over the next five years, due to an emphasis on quality service. However, some industry operators will likely limit employment growth to control wage costs and support profit margins. Trends favouring smaller establishments could also limit employment growth. Despite operators reducing staff hours through hiring more casual employees, the industry will remain highly labour-intensive. This trend will likely lead operators to seek greater cost savings elsewhere.

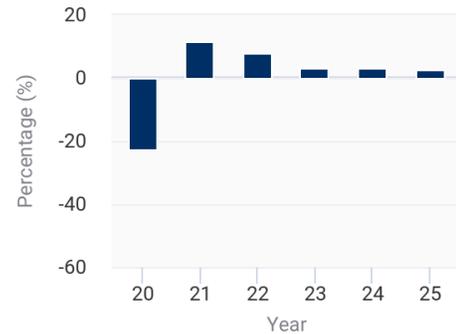
CONVENIENCE

Consumers are anticipated to spend more on eating out over the next five years, which benefits industry operators.

Demand for convenient food and beverages will likely drive industry demand, as consumers live increasingly busy lives. Consequently, cafes are anticipated to provide a wider range of fast and convenient meals, particularly catering to lunchtime traffic. Cafes are anticipated to take some market share from restaurants, as many consumers move away from formal dining towards more convenient cafe-style meals and snacks. The quality of food served by many cafes is anticipated to improve, encouraging more consumers to eat at industry establishments rather than traditional restaurants. However, restaurants are anticipated to expand their cafe-style operations in an effort to win back customers, resulting in strong competition for industry operators.

Consumer demand for healthy and premium food and beverages is also projected to support the industry's performance. Cafes offering diverse menus that emphasise fresh and premium ingredients are anticipated to be the best performers, as discerning consumers search for quality. The industry's focus on quality will be particularly intense for coffee products, due to increasingly discerning customers. Consumers can also easily access review websites, such as Zomato, to rate cafes for their quality and service. This trend is anticipated to encourage operators to allocate funds to higher quality coffee blends and premium ingredients in meals.

Industry Outlook
2020–2025



Cafes and Coffee Shops
Source: IBISWorld

COMPETITION

Small and specialised operators are anticipated to remain popular over the next five years.

Franchised operations will likely struggle, as consumers generally associate quality, ambience and experience with independent cafes. Consequently, the industry will likely remain highly fragmented, with larger chains struggling to expand their market share. Operators will seek to differentiate themselves to drive sales, with competition focusing on price and quality. Industry operators will need to control expenses to support profit margins, as price competition tends to limit revenue growth, and demand for quality products causes costs to increase. As a result, many industry operators will seek to minimise wage and purchase costs and reduce wastage. Efforts to increase profit will also result in a stronger focus on higher margin products. Demand for coffee is anticipated to remain strong, as cafes focus on selling quality meals and enhanced breakfast and lunch offerings. Despite this trend, strong competition and higher global coffee prices are projected to constrain profit margins over the next five years. Overall, profit margins are anticipated to recover over the next five years, due to a low base year resulting from COVID-19. This recovery is forecast to be supported by cost saving measures and a greater sale of higher margin products.

OPPORTUNITIES

Niche markets will provide opportunities for industry operators over the next five years, particularly relating to ethical consumerism.

Many industry players will promote their ethical business practices by using fair trade coffee and food products. Fair trade products aim to 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 consumers become increasingly concerned about the origin of their food and beverages, ethically sourced products are anticipated to become more popular and attract premium prices. This trend is anticipated to support industry revenue growth over the next five years.

Year	Revenue (\$m)	IVA (\$m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports (\$m)	Imports (\$m)	Wages (\$m)	Domestic Demand (\$m)
2019-20	8,155	2,691	23,689	21,262	138,418	N/A	N/A	2,403	N/A
2020-21	9,117	2,994	24,480	21,891	143,600	N/A	N/A	2,451	N/A
2021-22	9,825	3,205	25,178	22,536	148,259	N/A	N/A	2,540	N/A
2022-23	10,114	3,308	25,570	22,902	151,129	N/A	N/A	2,602	N/A
2023-24	10,429	3,431	26,186	23,467	155,334	N/A	N/A	2,666	N/A
2024-25	10,682	3,504	26,592	23,819	158,303	N/A	N/A	2,708	N/A
2025-26	10,810	3,562	26,665	23,875	159,289	N/A	N/A	2,726	N/A

Disclaimer: This industry report has been sourced from IBISWorld Australia. Our firm is not responsible for the correctness of the report.