Continued pressure in the coffee industry could be influencing a rise in market consolidation. Image: Stephane Debove/stock.adobe.com.

Consolidation nation

Will the continued pressure of high green-bean prices result in further consolidation in the coffee industry, or will Australia and New Zealand's independent spirit persevere?

Acquisitions are nothing new in the international coffee industry. From Coca-Cola's purchase of United Kingdom café chain Costa Coffee for AU$7.58 billion in 2019 to Nestlé's acquisition of Blue Bottle Coffee in the United States for $1.1 billion in 2017, there's big business in large companies taking over smaller ones.

Yet, the continued pressure the coffee industry faces from high green-bean prices, supply issues, and the rise of domestic consumers – among many other factors – means an increasing number of roasteries and cafés are struggling to make ends meet. According to International Coffee Consultant Gerd Mueller-Pfeiffer, former Nestlé executive, large coffee companies are using the challenges as an opportunity to purchase struggling businesses to increase their footprint and improve their purchasing power.

"I believe we'll see more consolidation in the international coffee market over the next few years. There are hundreds of acquisitions every year and they're not always the big guys like Nestlé or Lavazza – the majority are on a much smaller scale," says Gerd.

> "COFFEE PRICES ARE STILL HIGH AND MANY SMALLER COFFEE COMPANIES ARE STRUGGLING TO MEET THE BOTTOM LINE AND RUNNING INTO FINANCIAL TROUBLE."

"Coffee prices are still high and many smaller coffee companies are struggling to meet the bottom line and running into financial trouble. While some larger companies will use this as an opportunity to scale up, I don't believe we'll end up in a situation in which five or six very big companies are dictating the coffee world."

While many of the most prominent examples are large coffee roasters, this is a trend being witnessed throughout the supply chain – from international green bean merchants to mid-size roasters to small café chains.

"I speculate we'll see more consolidation in coffee trading. Due to the financing model of merchants, some are experiencing financial problems because they're not running on a strong P&L," Gerd says.

"I think we'll see more direct models of coffee trading, with more producers skipping the middleman and distributing products directly into consumer consumption countries."

REGIONAL MOVEMENTS AND MERGERS

Over the past few years there have been a string of coffee acquisitions in Australia and New Zealand.

In 2021, international coffee and tea company JDE Peet's purchased Sydney's Campos Coffee, while global drinks brand Asahi Beverages acquired Auckland original Allpress Espresso. In 2022, Toby's Estate joined UCC Holdings when the Japanese group acquired Suntory Coffee Australia for almost $250 million.

In late 2024, Gloria Jean's parent company Retail Food Group acquired South Australian coffee shop franchise CIBO Espresso for $2.7 million to accelerate the growth of Gloria Jean's in the region. Most recently, in February 2025, Coffee Supreme invested in Sydney specialty brand Gabriel Coffee, while in April Zarraffa's Coffee acquired drive-thru specialty coffee chain First Things First in South Australia.

In a statement at the time, Gabriel Coffee Founder Sam Garbielian said: "My decision to partner with a renowned brand like Coffee Supreme has been a long and thoughtful journey.

"After years of discussions with [Coffee Supreme CEO] Andrew Low, it became clear that our shared values and vision made this partnership the right move. I'm excited to continue doing what I love as Head of Coffee for Australia while also remaining a shareholder in the combined business."

While Australia and New Zealand have long been proud of the café cultures they've built based on independent business, is consolidation in the market an inherently bad thing? Or could it be one of the keys to saving an industry that's struggling in challenging times.

> "WE HAVE CAFÉS NOT MAKING MONEY, ROASTERS NOT MAKING MONEY, AND FARMERS NOT MAKING MONEY. SO, WE ASKED OURSELVES, WHAT WE CAN DO AS A ROASTER TO IMPROVE THAT DYNAMIC?"

Andrew Low, CEO of Coffee Supreme, believes some acquisitions of smaller coffee roasters in the region will be necessary for the long-term health of the sector.

"As an industry we face unprecedented cost increases, not just in green beans but also rent and utilities. The ability for small roasters to make a sustainable profit while base costs are so high is very difficult," Andrew says.

"In our view, coffee's value chain is broken. Currently, we have cafés not making money, roasters not making money, and farmers not making money. So, we asked ourselves, what we can do as a roaster to improve that dynamic?"

For the Coffee Supreme team, the answer was economy of scale. Andrew says acquiring businesses enables roasters to reduce their fixed costs, become more efficient, create a more automated process, and maintain a very high coffee standard.

"Doing this means we pass less of the higher costs onto our customers than other roasters that are less efficient. As an organisation, it's your job to square your house away first before passing on costs to your customers," he says.

"As well as utilising economy of scale, acquiring a company like Gabriel Coffee is also a method to bring talent into the business. And we were fortunate enough to do both."

MORE INVESTMENT TO COME

Aligned with Gerd, Andrew believes we'll see more larger roasters acquiring and investing in smaller operations over the next few years. He says the roasting landscape today is completely different to that of the 2010s when the independent coffee industry was booming.

"In 2012, the ability to buy a small roaster and set up in a warehouse was

Gerd Mueller-Pfeiffer is an ex-Nestlé Executive Officer and International Coffee Consultant. Image: Gerd Mueller-Pfeiffer.

Andrew Low is the CEO of Coffee Supreme. Image: Coffee Supreme.

a reasonably low cost of entry, therefore you didn't need a huge balance sheet to be successful. Green bean prices were also a lot lower then, so there were a lot of good roasters making solid cash," he says.

"However, three things have happened since those days. Firstly, competition has got aggressively high, with many roasters trying to compete for the same piece of pie. There's also too many cafés fighting for the customer voice, so that's creating economic return challenges for us roasters because when you put a coffee machine on a bench it's now doing 20 kilograms instead of 30. And finally, coffee prices have gone up significantly. Few small businesses are making money like they used to."

While Andrew believes there will be more consolidation within the roasting sector, he doesn't see the region's café scenes going towards a more European or North American model in which huge chains reign supreme.

"I don't see a situation where you can go from the largest established independent market in the world to a consolidated chain environment – that seems very unlikely. Starbucks and equivalents have tried to break the Australian and New Zealand markets and haven't done well, having to fold back," he says.

"What I do think we'll see is a decline in the number of cafés. When I first started at Toby's Estate in 2009, there were around 5000 independent cafés in Australia. Today, there's around 25,000. Some of those won't make it, but the sector will tighten up to fewer but better venues, which is probably a good thing. It's market correction."

Localised chains have become more prominent over the past decade. Café groups with store prints between 10 and 20 venues are proving successful in the larger cities such as Melbourne, Sydney, and Brisbane.

"With a footprint of around 15 to 20 stores, the venue can still bring its local style and at scale the owner can negotiate better prices for ingredients and other essentials. That allows them to be sustainable and not too expensive, so I think we'll see more of this," Andrew says.

"The only variable that none of us know is whether further automation of the coffee machine industry will drive us closer to a chain-based model in terms of quality of drink construction. With increased automation, you become less reliant on an expert barista and more on the technology. I do think that keeps the door open to the more cookie-cutter models than we've had before."

COLLECTIVE INDEPENDENT ACTION

In December 2024, a collective of independent Adelaide cafés came together for an advertising campaign to encourage coffee lovers to support small businesses in the city. The campaign was launched by local marketing and communications agency Topbunk in response to the acquisition of CIBO Espresso by Gloria Jeans' parent company.

Ryan Spellman, owner of Spellmans' Social, was one of the independent venues to get behind the campaign.

"We jumped at the opportunity to be involved in this campaign as it is finally shining a light on an issue that has been affecting our business and many other local independent businesses like us for the past three years. This is more than local or federal governments have offered us when we have been crying out for help while more and more local businesses are being forced into closure every week," says Ryan.

"Independent businesses create so much for the local economy and communities surrounding them. We buy from local suppliers, employ locally, and service the local community."

Since the campaign, Ryan has sold his business. He says the cost-of-living crisis was a major factor in his decision, as well as competition from restaurant and pub groups in the area that have diversified into serving specialty coffee and casual food.

"We are in the fortunate position that we were able to sell the business and pass it on, but there are a lot of other local horror stories of café owners who have spent a lot of money on a venue and can't get out of a lease," he says.

"We started Spellman's Social in 2021 and have created a great community here. We were attracting new customers and welcomed back regulars, but the average spend was dropping while all the running costs were doubling. At the same time, restaurant and pub groups in Adelaide were diversifying, serving coffee, grab-and-go food items, and cakes in the day and staying open into the evening."

Despite his decision to walk away and explore a new avenue while still young, Ryan believes there's still opportunity for independent coffee businesses in South Australia and beyond.

"Across the board, independent businesses are coming together to try and make things work. Brands are getting creative and partnering with other like-minded businesses to share spaces and ideas," he says.

"There's enough media attention out there now that most consumers understand that small businesses are struggling with the huge increase in overheads and coffee prices going up. If businesses can hang in there, I think the world will level up and everyone can keep trying to live their dream."

> "MOST CONSUMERS UNDERSTAND THAT SMALL BUSINESSES ARE STRUGGLING WITH THE HUGE INCREASE IN OVERHEADS AND COFFEE PRICES GOING UP"

GOOD FOR THE CONSUMER?

So, can consolidation be a positive for the greater good of the coffee industry? Gerd says there's no clear-cut answer.

"Sometimes yes, but quite often no. As a consumer, you could be confronted with higher pricing from venues due to the fact they have less competition," he says.

"The beauty of the coffee industry is having the local coffee shops, the local ideas, and the local tastes."

For Andrew, there are both pros and cons to consolidation in the local coffee market.

"Consumers want choice, but consolidation brings familiarity and consistency," he says.

"However, the markets in Australia and New Zealand have expanded aggressively and as a result I think around 10 to 15 per cent of independent coffee shops aren't producing excellent coffee. This lowers people's perceptions and encourages them to think they can make better at home.

"I do think consolidation of a small number of roasters and a small number of cafés ultimately increases average quality and customer satisfaction, which as a result makes the industry stronger. At this time, there's a natural need to trim the tail."

It's hard to predict what will happen next for the Australasian coffee industry, but looking at other similar markets around the world consolidation is on the mind of many of the major players. ◘

The team at Spellman's Social admiring the advertising campaign promoting independent business. Image: Topbunk.