

Rank: 7

**Name:** Zarraffa's Coffee

**Revenue:** \$9.8 million

**Growth:** 59.10%

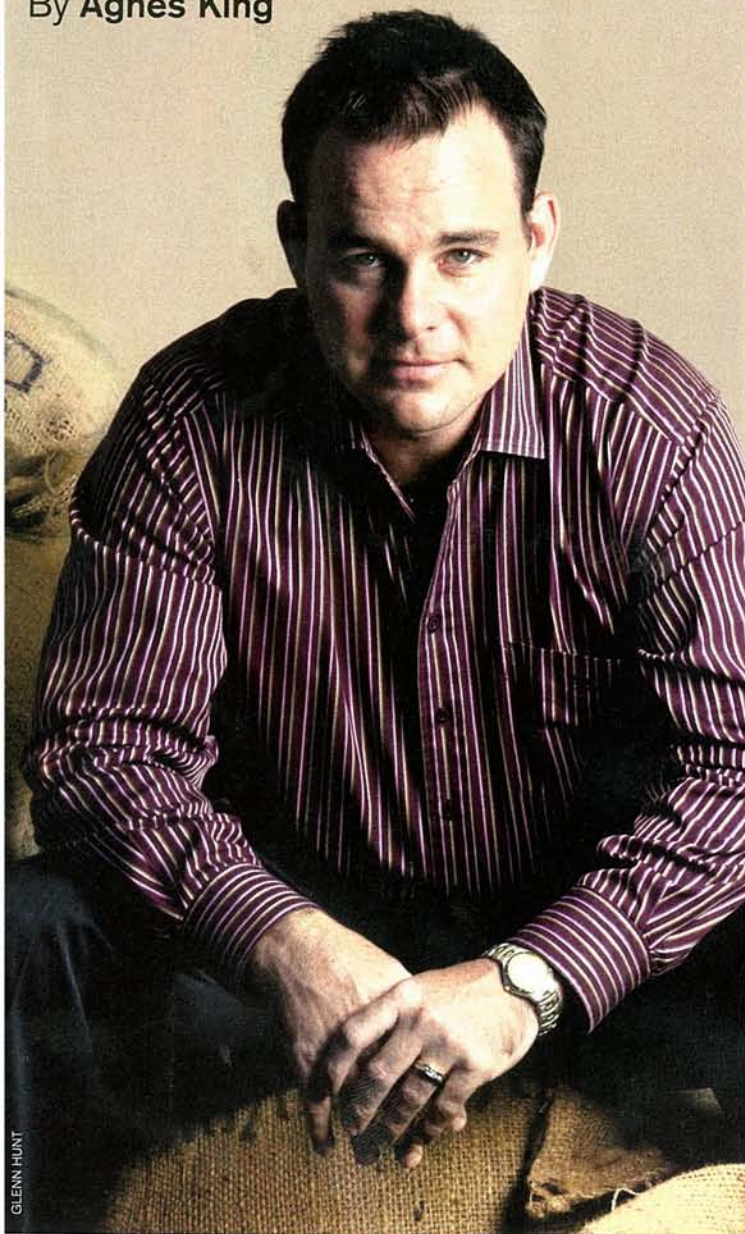
**Chief executive:** Kenton Campbell

**Tip:** Have a business that works without franchising before you start thinking about franchising.

# BRAND RECOGNITION

The growth of competitors has allowed Zarraffa's Coffee to ride on their coat-tails.

By Agnes King



**B**RANDED COFFEE HOUSES HAVE SPRUNG UP with a vengeance since Zarraffa's Coffee opened its first store on the Gold Coast with three tables and nine chairs in 1996. The number of branded coffee houses, which includes Gloria Jean's, Starbucks and Hudsons, rose from 591 in 2001 to 1420 at the end of 2005, according to BIS Shrapnel. That's an average yearly increase of 24.5 per cent.

Rather than saturating the sector, Zarraffa's founder, Kenton Campbell, says the growth of competitors has helped his chain grow, allowing him to piggyback on their branding and concept. "Starbucks did us nothing but favours," he says. "We would never be in the position we're in without them because they helped educate the market. What's more, their quality was so poor on product and service it made us look good."

Campbell, a seasoned coffee-cart owner from Seattle, Washington, was headhunted to Australia as a consultant in 1995. Relations with his employer soured and he ended up on the Gold Coast with his physiotherapist – now wife and mother of his three sons – in the same year.

The first Zarraffa's outlet, financed with a \$9000 personal loan, was "in the middle of nowhere" – a ghost-town shopping arcade where the only attraction was cheap rent and the post office next door – but it was enough. Zarraffa's became a favoured cafe spot, drawing a big enough crowd for Kenton to negotiate a better position in the arcade.

By the end of 2007, Zarraffa's will have almost 35 stores, including its first drive-through. But Campbell says maintaining in-store sales growth is infinitely more important than the overall number of outlets.

He says franchising should not be viewed as a way to get rich quick. "We might break even this year with the royalty stream." Of Zarraffa's 23 stores, only 10 per cent made a profit from day one, although he says all are trading in the black. Average store turnover was just under \$500,000 in the 2005-06 financial year.

Campbell originally employed the franchising model as a way to finance growth. He was reluctant to form a partnership or become entangled with an investor to gain access to capital. He posted advertisements for franchisees and says several store managers have since purchased their own outlets.

Buying into the Zarraffa's chain costs between \$300,000 and \$400,000. Royalties are 7 per cent of turnover as well as an additional 3 per cent for marketing.

Campbell is slowly selling his five corporate stores and will retain just one training store and the wholesale business, which supplies coffee and associated products to Zarraffa's outlets.

He works hard at keeping overheads low, particularly on property leases. He would rather lose a site than overpay and have it eating into a profit margin.

On more than one occasion, Zarraffa's has been muscled out by extravagant offers from competitors on potential sites. "We negotiated a site in Surfers Paradise for \$85,000 per annum," Campbell says. "Gloria Jean's gazumped us at \$135,000."

Campbell wants to dominate the Gold Coast and south-eastern Queensland patch before considering expansion to other areas. Taking the brand national too far, too fast would expose it to many potential mistakes, he says.

"In three to five years I think we could do it, but we want to own this district before we move on."

Kenton Campbell:  
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nothing but favours'