

Why Starbucks Failed In Australia

Intro

0:01

Starbucks has coffee shops all over the world

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There are more than 28,000 locations and 76 markets

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From Shanghai to Guantanamo Bay

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And in China, a new Starbucks location opens up every 15 hours

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But there is one continent that seems uninterested in the hype over the Seattle based coffee chain

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And that continent is Australia

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It's proven to be one of the toughest markets in the world to break into

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So tough in fact, that Starbucks closed more than two-thirds of its stores on the continent back in 2008

What went wrong

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So what went so wrong with Starbucks and Australia

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To answer that let's go back to July of 2000

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When Starbucks opened its first Australian shop in Sydney

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From there it expanded fast

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By 2008 Starbucks had 87 stores across the continent

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I think one of the problems with Starbucks

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and it's true for a lot of businesses that have been successful in one country

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is that they thought that their business model could just roll out

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to a different environment and there was no need for them to adjust

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But that was the problem

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They tried to grow the Empire too fast

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Starbucks rapidly opened up multiple locations

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instead of slowly integrating them into the Australian market

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When they launched they launched too rapidly and didn't give the Australian consumer

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an opportunity to really develop an appetite for the Starbucks brand

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They also moved into regional areas into outer suburbs of major cities

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And so for the Australian consumer it was almost like it was too available for them

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And so there wasn't this point of difference, this want, this need for Starbucks

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And it wasn't an organic growth which is what we very much saw in the US

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In its first 7 years in Australia, Starbucks accumulated \$105 million in losses

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By 2007, Starbucks Australia was hanging on by a thread

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taking big loans from the US, totaling up to \$54 million

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And in 2008, Starbucks announced it was shutting down 61 stores

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But of course 2008 was a difficult time for businesses due to the financial crisis

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Along with Australia closures, Starbucks also closed 600 underperforming American stores

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But even still such a retreat in Australia was embarrassing for the brand

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When you're shutting down 75 stores

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For the Australian consumer when they, when they did leave the market

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or at least a large number of bestowals were shut down they didn't really care

Australias coffee market

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It's partly because Australians are spoiled for choice when it comes to coffee

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Australia's coffee market is one of the biggest in the world

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the industry is expected to hit more than \$6 billion in total revenue in 2018

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They've been immersed in nuances of cafe culture since the mid 1900s

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when Italian and Greek immigrants began traveling to the country

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The immigrants introduced Australians to espresso

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By the 1980s, Australians were fully engulfed in cafe culture

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They've also grown accustomed to specialty menu items like a flat white or an Australian macchiato

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So cafes in Australia were born out of like the Italian culture

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of, you know, meeting of friends and knowing your local barista

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and it being kind of like a local meeting place where everyone knew each other

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and that coffee was just a part of that

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and then Starbucks came in with what is more of an American style

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like coffee culture which is essentially just like coffee is a product, coffee is a commodity

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Coffee is like, like perk me up in the morning it's caffeination

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Starbucks had a basic menu and offered more sugary drinks which most Australians didn't like

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in Australia where, you know, local tastes are different

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So we don't really want a coffee that's, you know, hundreds of ounces with lots of sugar in it

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We want something a little more sophisticated

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Plus Starbucks charge more than local cafes

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So Australians instead opted to pay less for coffee they liked from a local barista they trusted

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And so when you come in with this big like hey, we're going to open all these cafes

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And they're all gonna be to go focus

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It just was the complete wrong market for what, what the Australian was used to

Gloria Jeans

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But there is one American coffee company that's thriving in Australia

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Founded in Chicago and now based in Australia

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Gloria Jean's got the traction in Australia that Starbucks couldn't

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Gloria Jean's has more than 400 Australian locations

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And serves more than 35 million consumers in Australia each year

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So what is Gloria Jean's doing in Australia that Starbucks isn't

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Well the company attributed to success to two Australians who franchised the business in their home country

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Shops started to show up in Australia in 1996

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Fast forward to today, the company has a presence in every Australian state

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The reason? Its menu

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The chain offers a wide variety of espresso drinks and specialty coffee

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Failing to adapt its menu to Australians coffee culture proved to be a mistake for Starbucks

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And the company faces another challenge later this year

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Italy

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Starbucks is opening its first store in Milan in late 2018

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home of the espresso, Italy is rich in cafe culture

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But according to Starbucks it's not going to make the same mistakes that it did in Australia

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The company said that it would develop in Italy with humility and respect for its coffee culture

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It announced it would be opening a roastery which is not your average cafe

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It gives customers a chance to see coffee beans roasted and processed before their eyes

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So there's a chance that it won't struggle like it did in Australia

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But Starbucks isn't admitting defeat in Australia either

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Starbucks is staging a comeback on the continent

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In 2014, Starbucks locations in Australia were purchased by the Mount Waverley based Withers group

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Starbucks told CNBC that since its sale to the Withers group the company learned a lot

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So this time it's taking a different approach to putting Starbucks on the continent

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So if you just think about Australia as a big tourist destination

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There's a lot of U.S. and Chinese tourists

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Starbucks has been very successful in China

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and it makes a lot of sense for them to build out because

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there are people looking for something that's familiar to them

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Now with 39 locations in Brisbane, Melbourne, the Gold Coast, and Sydney areas

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this time it's not looking to appeal to Australians

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but instead the coffee giant hopes to be a familiar face for tourists visiting popular vacation destinations in Australia

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free Australia has always been a high-volume tourist market

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The same thing in terms of international students at our universities are potential opportunities for them

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And we're starting to see Starbucks enter into some large shopping malls

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here in Australia as well

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Australia welcomed 9 million tourists from 2017 and 2018

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And those international visitors spent more than \$30 billion in 2017 alone

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So tourists could possibly be the key to keeping the company afloat and preventing another downfall

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