

Roast Master's Franchise Plan Starts With Good Beans

FOOD: Aussie-owned coffee companies map U.S. growth

By PAUL HUGHES

At **Retail Food Group USA Inc.**'s Santa Fe Springs headquarters, they offer you coffee, of course.

The Aussie-owned entity includes coffee wholesaler **Di Bella Coffee LLC** and retail coffee house brands **Gloria Jean's Coffees** and **It's A Grind**.

Predecessor firms under a previous owner were in Irvine until 2013. They all plan a U.S. expansion under current owner **Retail Food Group Ltd.**, in Queensland, which traded recently at a \$721 million market cap.

RFG Ltd. owns a dozen restaurant brands—several each in bakery, coffee, cafe, and pizza niches—which it franchises globally, said President of U.S. operations **Brian Balconi**.

The parent plans to bring three more brands here—**DonutKing**, **Brumby's Bakery**, and **Crust Gourmet Pizza Bar**—with Balconi leading the push from OC.

Di Bella has a few U.S. accounts, Gloria Jean's has 55 U.S. sites, and It's A Grind has 18.

Franchises

It's A Grind started in Long Beach in 1994 and also has eight overseas sites. Gloria Jean's began in Chicago and has 800 locations, including 350 in Australia.

"Gloria Jean's is bigger than Starbucks" there, Balconi said.

News reports note Starbucks started Down Under in 2002, topped off at about 90 units, closed two-thirds of them, and now plans more-focused growth.

Gloria Jean's wants national growth in the U.S. Forty-nine of its locations here are east of



Flow-through: Balconi (inset, right), and beans heating up in roaster

the Mississippi.

It's A Grind aims at California—16 domestic locations are in-state—including three to five new sites in OC to join a Mission Viejo site.

Gloria Jean's is mall-focused and sells treats—"White Chocolate Caramel Cookie Chiller" is a top-seller—to shoppers getting coffee to go. Balconi calls It's A Grind a "neighborhood coffee house" where people sit and chat or pop open a laptop for a few hours.

"The stores do have hard-core followings."

Franchise filings show U.S. sites for both chains cost \$181,000 to \$488,000 to open. Initial franchise fees are \$15,000 to \$25,000, with discounts on future stores and master franchises or area development agreements available.

Royalty and marketing for both run 8% of sales. Filings show Gloria Jean's annual volume can range from \$388,000 to \$440,000. Restaurant tracker **Technomic Inc.**, in Chicago puts It's A Grind's at \$610,000.

Grounds

Kevin Burke, a principal at L.A. investment bank **Trinity Capital LLC**, said the U.S. coffee business is strong and still growing via "embellished (flavored) drinks and more penetration" from buyers who drink more often and start younger.

In-house roasting helps.

"It's about flow-through. Having your own roaster lets you buy raw, which gives you advantages" on price and quality.

Di Bella roasts the chains' coffee and wholesales in the U.S. to Greensboro, N.C. grocery chain **Fresh Market Inc.** and a two-unit coffee house, **Rush Espresso**, in Charlotte.

Roastmaster **David Sager** produces 24,000 pounds of coffee a week on a system made by **Brambati SPA** in Italy. A small roaster for flavor-testing newly arrived beans is by **Emmerich am Rhein** in Germany.

Sager said he buys only specialty-grade beans—an industry term for higher quality than commercial grade.

"Specialty beans have less variation," he said. "Commercial grade allows for more defects."

Green beans hit the loading dock "from the equatorial belt between the tropics" of **Cancer** and **Capricorn**—the global coffee-growing region—he said, and ship within a month. Some roasted beans are "marinated" in liquid flavors. A few get chopped almonds, raspberries or coconut.

A tour of the plant revealed some roasting intricacies. Central American beans tend to be lighter in flavor and end up in house blends or flavored coffees. Higher growing altitudes produce denser varieties. Darker roasts come as bean moisture roasts away—green beans look like sunflower seeds before expanding "like popcorn" when roasted.

"There are a million ways to roast coffee."

Buys

RFG Ltd. bought Australia-based Di Bella in December 2014 for \$35 million and got the two chains through a \$122 million acquisition of Australia-based **Jireh International Pty. Ltd.** in October 2014.

Jireh included a U.S. unit, **Praise International North America Inc.**, that ran the U.S. coffee chains, which were once based in Irvine and owned by **Diedrich Coffee**—plus coffee roaster **Maranatha**.

RFG folded Maranatha into Di Bella, the chains into its franchising, and hired Balconi in September 2015. He's been general counsel at **Little Caesar Enterprises Inc.** in Detroit and counsel at **Dunkin' Brands Group Inc.** in Canton, Mass.

RFG USA leases 49,000 square feet in Santa Fe Springs, using 22,000 and subleasing the rest. ■