

## Appendix 5 - **RETAIL TRENDS**

## Retail Trends

Over the next 15 years changes will occur in the retail industry shaped by new technologies, an ageing population, increased female participation in the workplace and changing consumer preferences. These changes will place increased pressure on the existing retail hierarchy to adapt or otherwise lose market share. The outlook suggested by many industry experts includes:

- Expansion of the regional centres with a stronger element of leisure/entertainment activity. The trend towards both larger stores and larger centres in Australia has been evident for decades. Super regional centres over 100,000 square metres have established themselves in most major metropolitan areas.
- Continued suburbanisation of office space and the growth of business parks.
- Strong growth in the bulky goods retailing centres with the big box retailers looking to capture market share from the department stores and some specialty retailers in traditional retail centres.
- Growth in the size of supermarket floor sizes, their trading hours and market share of the food and beverage household expenditure.
- Growth of mini-majors<sup>1</sup> and category killers<sup>2</sup>.
- Reduced share of expenditure captured by traditional department stores.
- Pressure from supermarket and big box retailers to develop outside commercial centres.
- Loss of many traditional speciality retailers but also new retailers entering the market (e.g. ALDI, Masters, Costco).
- Potential rise in electronic shopping.

In the 1980s, Australian retail floor space totalled approximately 1.8 square metres per person (excluding commercial space and automotive retailing), which was roughly divided into equal components of regional, district and neighbourhood/local centres. The retail industry's innovative nature is driven largely by the need to respond to, and anticipate, its customers' needs and desires. Changing demographics and lifestyles require individual retailers and shopping centres to constantly monitor these often subtle shifts and respond by repositioning their retail offer, presentation and mode of operation. The factors that are driving the changing face of retailing in Australia are detailed below.

## Socio-Demographic Changes

### Population Growth

First and foremost population growth drives the need for more retail space. Since 1981 Australia's population (excluding overseas visitors) has increased at an average annual rate of 1.3%.

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<sup>1</sup> Stores of between 400sqm and 2,000sqm

<sup>2</sup> Stores which provide an extensive range of goods within a single market segment

**Table A5.1 - Population Growth in Australia**

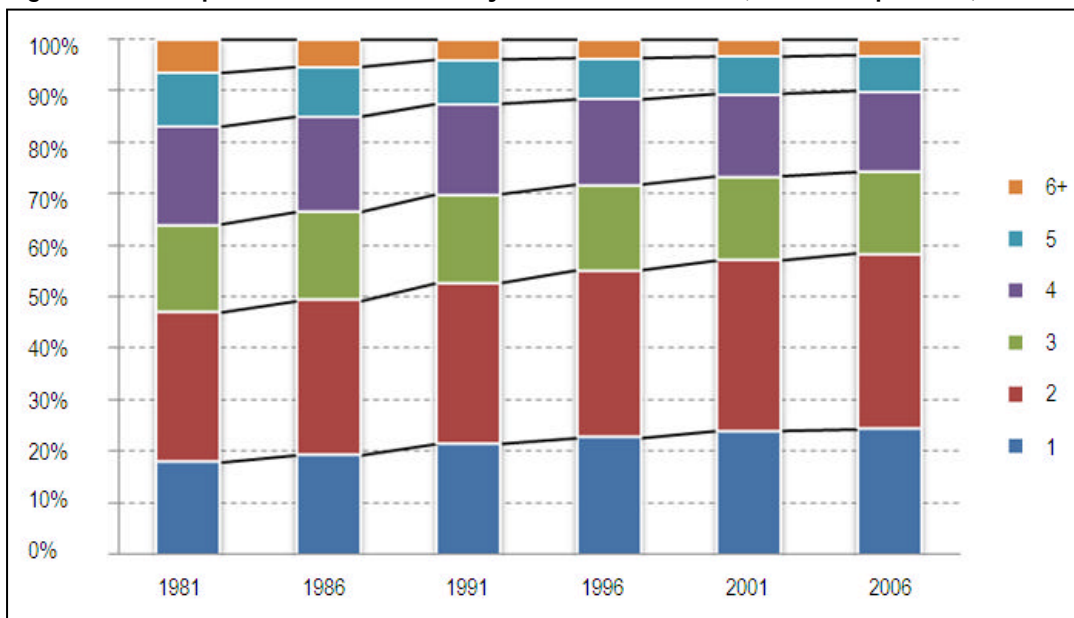
Year	Australia (m)
1981	14.58
1986	15.60
1991	16.85
1996	17.89
2001	18.97
2006	20.06

Source: ABS

### Decrease in Average Household Size

The decline in household size in Australia from 3.0 in 1981 to 2.6 in 2006 demonstrates a structural change in household type.

**Figure A5.1 - Proportion of Households by Size of Households (number of persons)**



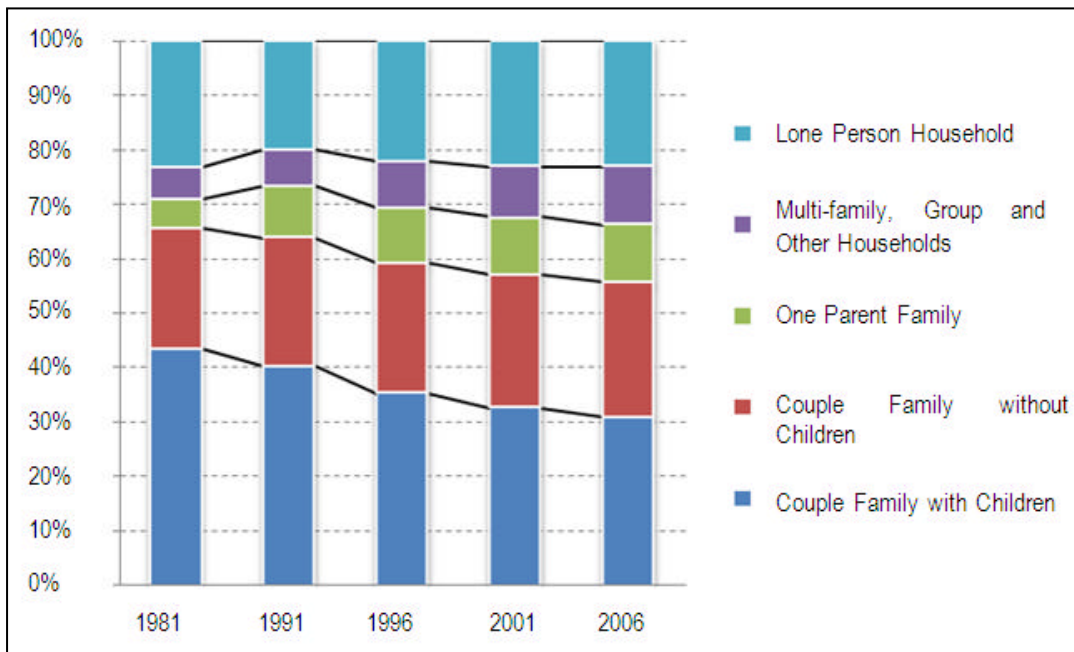
Source: ABS

### Changing Household Structure

Declining occupancy rate is a manifestation of changes in family formation patterns including:

- a higher level of single parent families resulting from relationship breakdown;
- couples postponing the raising of children;
- couples choosing to have fewer children or no children;
- a larger percentage of aged persons and empty nesters living alone;
- reduction in the proportion of households that match the 'traditional family' model; and
- an increase in the number of single persons and single parent households.

**Figure A5.2 - Changing Household Types**



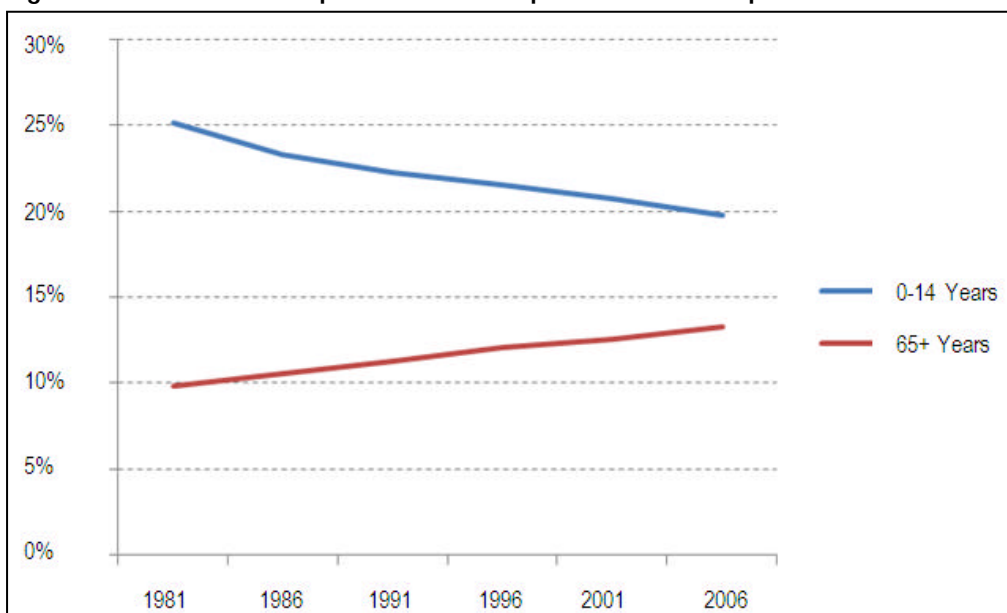
Source: ABS

The above chart clearly shows the decline in traditional couple with children families from 44% of all households in 1981 to 31% in 2006. There has been a strong corresponding increase in one parent families from 5% to more than 10% and lone person households from 20% in 1986 to 23% in 2006.

**An Ageing Population**

The ageing of population as demonstrated in the chart below will increasingly dictate the profile and needs of shopping focusing on community services, social amenity and increased household expenditure.

**Figure A5.3 - Australian Dependents as a Proportion of Total Population 1981-2006**

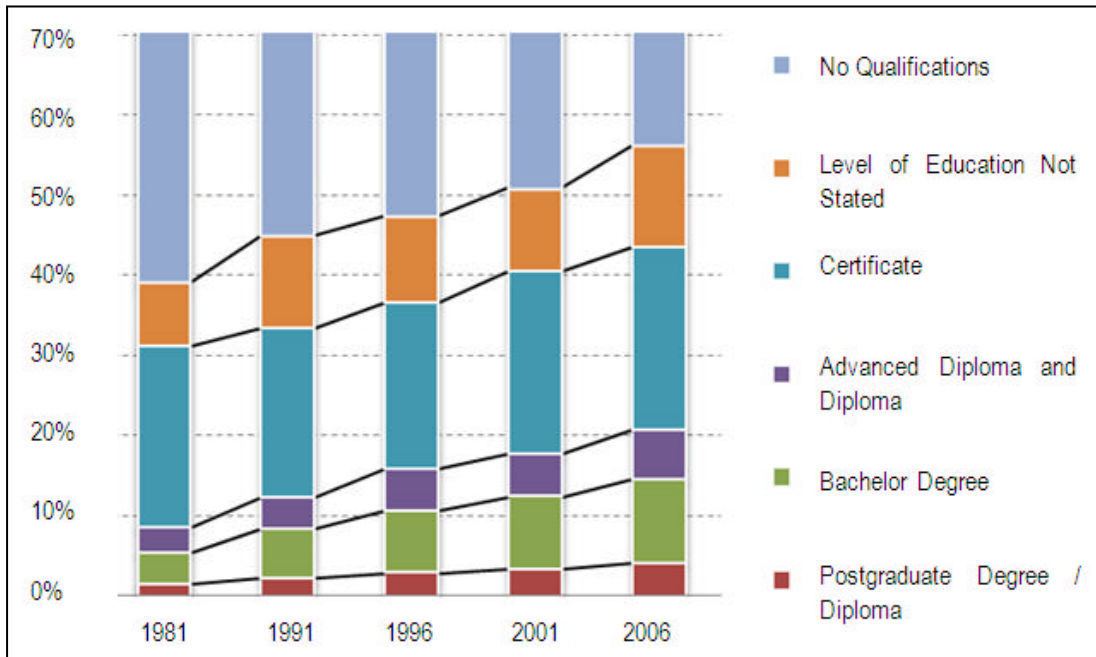


Source: ABS

## Changing Nature of Work

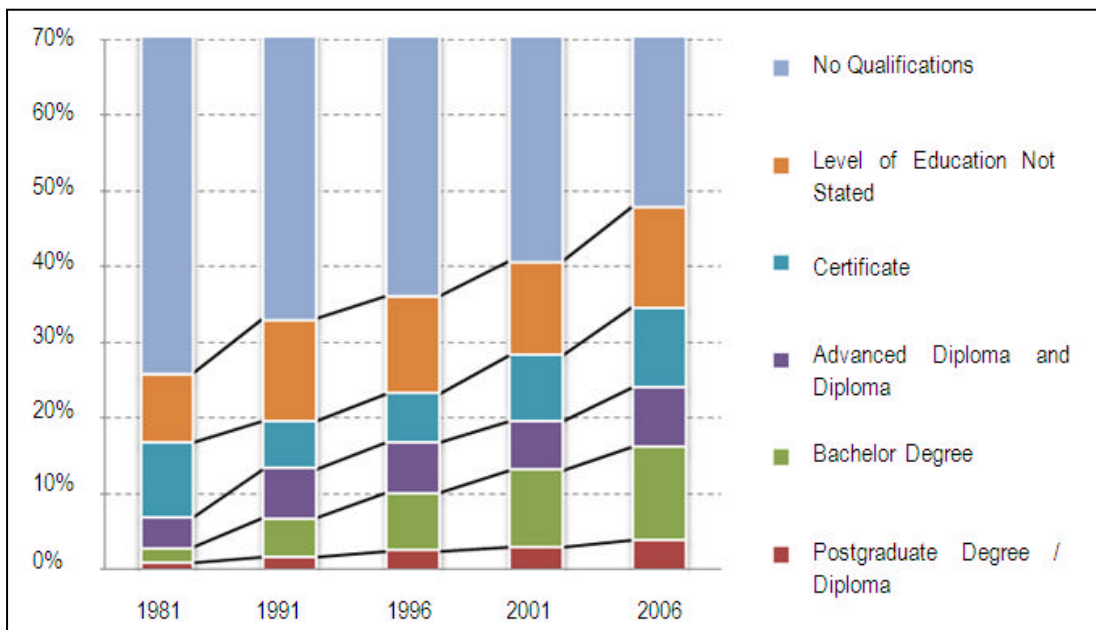
The Australian workforce is getting smarter which reflects the changing nature of work. Industry demands higher qualifications as professional and “white-collar” jobs replace traditional labourer and other “blue-collar” jobs. Growth in professionalism – particularly amongst the female population is strongly evident in the following charts.

Figure A5.4 - Qualifications of Men (15 years plus) in Australia 1981 - 2006



Source: ABS

Figure A5.5 - Qualifications of Women (15 years plus) in Australia 1981 - 2006



Source: ABS

## Increase Participation of Women in the workforce

The participation of women (over 15 years old) in the work force has steadily increased from 43% in 1981 to 55% in 2006. This is a significant level of growth particularly given the ageing of the female population and the increase in dependents (over 65 years old). The proportion of men on the other hand has fallen from 73% to 68% over the same period largely due to growth in aged dependency.

**Table A5.2 - Australian Labour Force by Sex**

	1981	1991	1996	2001	2006
<b>Males</b>					
Full-time	61.7%	52.3%	51.6%	50.1%	51.9%
Part-time	7.9%	9.2%	9.5%	10.8%	11.6%
Other	3.5%	3.4%	3.3%	4.4%	4.3%
Total Working	73.1%	64.9%	64.4%	65.3%	67.8%
Unemployed	4.2%	9.2%	7.0%	5.7%	3.7%
Not in Labour Force	22.7%	25.9%	28.6%	29.1%	28.5%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Females</b>					
Full-time	25.1%	25.0%	25.3%	25.8%	27.1%
Part-time	14.1%	19.4%	20.4%	22.2%	24.2%
Other	3.2%	2.5%	2.8%	3.7%	3.7%
Total Working	42.5%	46.8%	48.4%	51.7%	54.9%
Unemployed	3.1%	5.5%	4.4%	3.7%	3.1%
Not in Labour Force	54.4%	47.7%	47.2%	44.6%	42.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

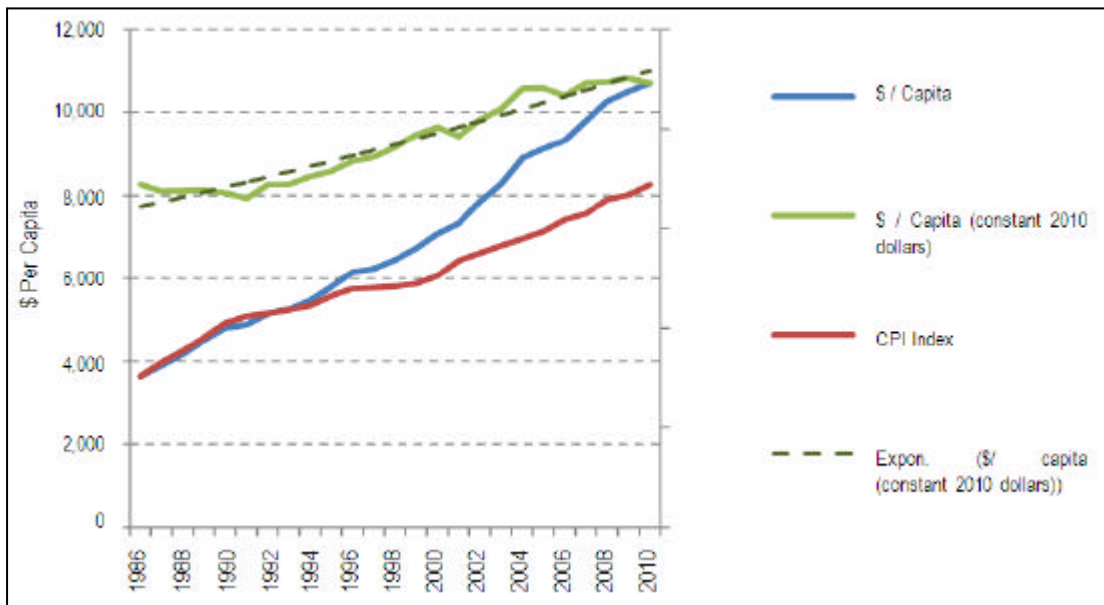
Source: ABS

People are working longer and the growth in female participation in the work force, and the increase in families where both parents work outside the home, means people have less time to shop.

## Increasing Wealth

Australians are getting wealthier. Over the past several decades rising affluence brought about by technological changes, micro-economic restructuring, longer working hours and increasing workforce participation rates (particularly women) has resulted in growing affluence. Much of this has translated to increased housing costs and long-term investments, but much added wealth has also translated to increased consumerism – bigger homes, more furniture and electrical appliances, an increase in dining out, etc.

Figure A5.6 - Spend on Retail Goods per Capita in Australia



Source: Hill PDA, ABS, CBA

Since 1986 Australians spend on retail goods and services have increased at an average rate of 1.1% every year in real terms (adjusted for CPI). 1986 to 1991 consumer spend per capita fell by 4.1%. Since 2005 to 2010 it was bumpy but fairly flat. The strongest period of growth happened between those years 1991-2004 (with "economic rationalism") where average growth per annum was 2.2%.

Real spend per capita increased 28% from 1986 to 2004. Around half of this growth was translated into growth in occupied retail floor space. The increase in retail space was believed to be approximately 15% for each person from 1.8sqm to 2.1sqm. The balance of real growth in retail spend has translated to real growth in turnover per square metre.

### Disparity of Household Income

Economic rationalism over the past couple of decades has resulted in increasing household income disparity. Today there are many families with high disposable incomes as well as families that struggle on the poverty line. Families are typically cash-rich/time-poor or time-rich/cash-poor. Very few families are both time-rich and cash-rich, which provides interesting challenges for the retail industry.

## Retailing Industry's Response

Population growth, rising real disposable incomes, and innovation and change within the retail industry have underpinned a rapid increase in the supply of retail floor space throughout Australia. Population growth and increasing levels of disposable income have provided the means to support new retail development, but it is the innovative nature of the industry itself that has generated major increases in more and sometimes larger centres.

The industry's response to these changes has led to the growth and introduction of:

- the regional and 'super-regional' centre (such as Westfield) which incorporate a large diversity of shops complemented by leisure activities and other facilities with an extensive trade area;

- 'convenience community centres' usually dominated by a supermarket to meet daily and weekly shopping needs;
- 'stand alone supermarkets' offering a just-in-time 'one stop shop' (petrol, video, pharmacy, groceries, fast food, etc);
- 'convenience service centres' being petrol stations on main highways but offering a just-in-time shop with a range of groceries and fast foods (e.g. 7 Eleven, Coles Express, Caltex Woolworths, BP Shop, etc);
- Highway service centres;
- 'Category killers' that provide an extensive range and depth of competitively priced merchandise within a single market segment – e.g. Bunnings, Harvey Norman, Freedom, Toys R Us, Dick Smith, JB Hi-Fi, etc.
- Bulky Goods that integrate warehousing with retailing;
- Power Centres that incorporate multiple category killers and bulky goods retailers in one large centre;
- Factory Outlets.

These changes may be summarised into three broad categories:

- Indoor shopping centres;
- Convenience shopping; and
- Bulky goods retailing.

### **The Indoor Shopping Centre**

Traditionally retailing has followed a hierarchy from regional through district to small neighbourhood centres. In the 1950s Australia's first planned suburban shopping centres replaced the traditional strip centres that had built up around train stations. The ample, off-street parking and shopper amenity offered by these new enclosed malls appealed to customers, especially as motor vehicle usage increased and became more widely affordable. Top Ryde was one of the first such centres to open in Australia.

The introduction of the discount department store in the mid 1960s spawned a wave of new centre development and expansion, which continued throughout the 1970s and early 1980s. In the late 1980s and early 1990s, retail innovations such as food courts, in-centre cinemas, family entertainment centres and larger supermarkets further fuelled increases in centre size and numbers.

Regional centres of more than 60,000sqm of floor space began during this time. These centres incorporated a national department store, large major tenants and supermarkets. Roselands was the first of these to be built in 1965 and today there are around 90 shopping centres across Australia with a leasable floor area greater than 45,000sqm.

By 1990 super-regional centres were opening in metropolitan Sydney comprising both a David Jones and a Grace Bros department store and having a total floor area of over 100,000sqm. These centres each have between 300 and 500 stores including at least two large supermarkets and discount department stores. There are now 6 such centres in NSW being Westfield Parramatta, Hornsby, Miranda and Bondi Junction, Castle Towers in Castle Hill, Warringah Mall and Erina Fair.



NSW has 15 major regional centres each with a leasable shop front space of 50,000 to 90,000sqm. The ACT has 4 major regional centres being Canberra Centre, Tuggeranong Hyperdome, Westfield Belconnen and Westfield Woden.

These centres continue to diversify their offer with department stores, discount department stores and supermarkets and provide a wide and diverse range of specialities. More recently these centres are expanding the range of "mini-majors" which are stores between 400sqm and 2,000sqm. Many of these are "category killers" that provide an extensive range of goods within a single market segment. Examples include Freedom Homewares, Toys R Us, Baby Kingdom, Lowes, Reject, Priceline, Kathmandu, Dick Smith Powerhouse, JB Hi-Fi and Bing Lee.

The larger indoor centres are including more non-retail and entertainment uses such as multi-screen cinemas, ten-pin bowling, medical centre, Council library, etc. Lifestyle components are being developed in some of these centres in an effort to reverse the trend of expenditure being increasingly captured by bulky goods centres.

The primary aim of the bigger centres is to draw people from a wide area and once inside the centre to keep them there by providing a large offer – entertainment, dining, shopping, etc. These are "destination" shopping centres which offer a wide range for "comparative" goods and "leisure" shopping (as opposed to "chore" shopping). Leisure shopping includes shopping for homewares, fashion, leisure goods and electrical goods. Unlike food and grocery shopping shoppers are prepared to spend more time comparing shops, items, brands, quality and price. Whilst they are in the centre, shoppers can also undertake food and grocery shopping in one of the large supermarkets all under the one roof.

### **Convenience Shopping**

Convenience shopping is centred around quick, fast-in / fast-out or "just-in-time" shopping largely catering for workers travelling home by car, but also for consumers on week-ends that prefer to spend less time shopping for food and grocery shopping and other weekly needs.

This is particularly the case for food and groceries and other regular shopping requirements. This type of shopping is considered to be "chore shopping". Shoppers do not like to spend a lot of time undertaking this type of shopping, nor do they like to travel far.

One response from the retail industry has been the development of "convenience community centres". These are usually dominated by a supermarket to meet daily and weekly shopping needs but they also include a range of specialty shops such as butcher, fruit shop, liquor shop, take-away food, video rental and petrol station. Where they differ from traditional neighbourhood centres around railway stations is that a large proportion of their turnover comes from commuters in the PM peak on the way home and so they have generally located themselves on the PM peak side of main roads. They also provide ample parking and convenient access in and out to the main road. The Woolworths Marketplace is a good and successful example. In these cases the supermarket is a "full trolley" supermarket between 2,500 and 4,500sqm in size and the number of specialities is between 10 and 25. These centres are popular for both main food and grocery weekly shopping and for the occasional "on the way home" shopping.

Another retail type has been the emergence of 'convenience service centres' which are petrol stations on main highways but also offering a "just-in-time" shop with a range of groceries and fast foods (e.g. 7 Eleven, Quix,

Ampol Shop Stop, BP Shop, Coles Express, Caltex Woolworths, etc). Typically the size of the food, groceries and take-away foods component is between 100 and 500sqm.

Highway service centres have been gaining in popularity largely due to convenience and time-savings. Generally these stores are not the main destination for food and grocery shopping but they offer a range of products for 'just-in-time' shoppers. They include the convenience services centres mentioned above but also include fast food, drive-in and restaurants such as McDonalds Family Restaurant, Burger King, KFC, Subway, Al Porto's, etc.

### **Out of Centre Retailing**

In the late 1980s new forms of retail centres emerged such as the category killer and the power centres. Category killers are large stores, typically from 400sqm to 2,000sqm (but can be as large as 10,000sqm) that provide an extensive range and depth of competitively priced merchandise within a single market segment. Bunnings, Toys R Us, IKEA, Officeworks and Harvey Norman are notable examples in Australia. Others include JB Hi-Fi, Katmandu, Dick Smith Powerhouse, etc. The financial success of these stores has been mixed as demonstrated by the failure of Coles World 4 Kids and Coles Megamart and the strong growth of Harvey Norman, Freedom Furniture, JB Hi-Fi and Bunnings. Category killers can be found in regional shopping centres, on free-standing sites and in power centres.

Beginning in the 1980s and expanding considerably through the 1990s were power centres. Power centres, also known as 'big box' centres, consist of a collection of category Killers and other specialist retailers (often retailers of bulky goods) and are usually located in secondary areas such as light industrial zones. Fit out is minimal and rents per square metre are significantly lower than in traditional centres.

Some power centres have a theme, such as a homemaker centre (hardware, carpets, tiles, furniture, kitchen/bath, etc). Examples include the Crossroads Homemaker Centre in Liverpool LGA and Moore Park SupaCenta. Power centres however can also trade successfully with a wide mix of traders (auto accessories, toys, sports, clothing). These are destination shopping venues and people are prepared to travel further to access a larger range at more competitive prices than can be offered by traditional department stores, discount department stores and specialty stores.

Bulky goods retailing, factory outlets and clearance centres in traditional industrial areas integrating warehousing with retail space are also recent innovations. As with power centres, they rely on low rents. While purpose-built factory outlets are common in the United States, most of Australia's major factory outlet centres occupy premises formerly occupied by traditional retailers, factories or other uses – e.g. Birkenhead Point and DFO Homebush.

Harbourtown has recently built large purposely designed brand outlet centres in Melbourne Docklands and the Gold Coast of around 25,000sqm each. They are actively looking to build one or more similar centres in Sydney.

### **Deregulated Trading Hours**

One of the biggest changes the retail industry has made over the past 2 or 3 decades has been the introduction of seven day trading.

Peak shopping times in NSW use to be Thursday night (or Friday nights in some other States and Territories) and Saturday mornings. More people are juggling careers and family and increasingly must squeeze shopping in

where they can rather than adhere to a standard schedule. With longer working hours for many people and both parents working these shoppers are now shopping later at night and on Sundays.

Busy shoppers today are also less inclined to spend as much time as they once did wandering through vast shopping complexes. While younger shoppers, and especially teenagers, do stay longer in shopping centres, the trend is towards a decline in average time spent shopping.

### **Changing Supermarket Formats**

30 years ago supermarkets varied in size but very few were larger than 2,500sqm. Supermarkets generally were "dry goods" style excluding fresh fruit and vegetables, meats, seafood, delicatessen products and pharmaceuticals.

During the 1980s supermarkets began increasing in size to "internalise" many traditional specialty shop merchandise including pharmaceuticals, fruit and vegetables, meat, fish, delicatessen foods, ethnic (e.g. Asian) foods, breads, toiletries, etc. Today some of the large 4,000sqm supermarkets stock small appliances, toys and even some clothing items.

The sole reason for this change was to improve convenience – providing a wider range of regular shopping all in one store with one checkout.

The other change in supermarkets related to expansion in processed or prepared food – from mixed sliced vegetables to marinated kebabs and prepared pizzas. Again the reason for this change is to improve convenience. Rather than buying several ingredients the time-poor shopper buys only one and it there is considerable time savings in food preparation.

As a result of these changes supermarkets have had to stock more lines and hence expand in size. The large full-line supermarkets have also required more back of house area for food preparation.

During the 1990s Woolworths and Coles began selling petrol at supermarkets and launched loyalty rewards with discounts on petrol.

Not all supermarkets are large. There is an increasing diversity of supermarket types. Woolworths have introduced small supermarkets at Caltex outlets, Thomas Dux and Macro Wholefoods. Both Woolworths and Coles have introduced smaller store types, small trolley supermarkets and even multi-level supermarkets in mixed use developments. Primarily this has occurred because of difficulties in delivering large supermarkets with ample on-site parking in established areas – particularly inner city suburbs.

### **Shifts in Trade**

More and more there appears to be a shift in trading patterns in a number of areas. In competing for consumer dollars some centres are winning and others are losing. The trends are:

1. Regional and super-regional centres are expanding and taking trade away from district centres and even some neighbourhood centres. These regional centres are capturing a larger proportion of trade by increasing their retail offer and offering a range of activities including entertainment, comparative goods shopping and convenience shopping with large supermarkets.

2. Convenience centres on major roads are taking trade away from the traditional neighbourhood centres that are based around train stations. This is evident with some traditional retail centres that have experienced rising vacancies and the introduction of “low rental” tenants without fitout costs to fill the vacancies (e.g. liquidators, etc).
3. Supermarkets have increased in size to “internalise” many traditional specialty shop merchandise including pharmaceuticals, fruit and vegetables, meat, fish, delicatessen foods, ethnic (e.g. Asian) foods, breads, toiletries, etc.
4. Traditionally most bulky goods were purchased in the CBD and the national department stores (such as David Jones, Grace Brothers / Myer and Waltons). Much of that trade has been lost to the bulky goods retailers and category killers on the fringe of large shopping centres and in “out-of-centre” industrial areas. In 1991 over 40% of department stores’ turnover was in bulky goods commodities (furniture, floor coverings, electrical appliances, hardware, homeware, sports and camping goods, soft furnishings). This figure fell to 25% by 1998<sup>3</sup>. Today it is probably less than 20%.

### **Retailing Trends Conclusions**

The historic trend towards larger stores and centres may continue for some time but increasingly it is becoming more difficult and costly to expand existing centres due to land scarcity and fragmentation of land ownership. Neighbourhood centres might not increase in overall size (4,500 to 6,000 square metres) but future supermarkets are likely to become larger as they internalise more specialty shop functions. Strip centres will continue to be challenged by purpose built, neighbourhood centres anchored by major supermarkets and a growing number of small (1,000 to 2,000 square metre) convenience centres, typically containing a small 24 hour grocery store, bottle shop, cafe and smaller, fast food outlets.

All the above demographic and employment trends point to the need for more flexible trading hours to provide convenience for what is termed the “time-poor” shopper. In other words, we are steadily replacing the once-a-week shop with a series of small shopping trips as and when we need to buy various goods. This is called “just in time” shopping. The increasing percentage of working couples has demanded this change. An increasing profile of the “asset rich, time poor consumer” is emerging.

## **Internet Retailing**

Internet shopping (also called e-tailing and electronic retailing) is a retail format in which the retailer and customer communicate with each other through an interactive electronic network. A growing proportion of Australians have access to the internet at home. The rate of access has increased significantly in recent years, from 16% of households in 1998 to 79% in 2010-11<sup>4</sup>.

However, Australia lags behind other western country with regards to the penetration rate of internet retailing with a market share of 3.9% in 2009<sup>5</sup>. Most online sales are made by higher socio-economic households. This compares to a rate of 7.6% in the UK and 5.0% in America. Among the reasons for the lower penetration rates in Australia are:

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<sup>3</sup> Source: ABS Retail Surveys 1991-92 and 1998-99

<sup>4</sup> Source: ABS Household Use of Internet Technology 2010-2011

<sup>5</sup> J.P. Morgan Australian Equity Research 2011; US Census Bureau; M. Baker Retailing in the Online Channel: A Global Overview 2011; Urbis

- Strong physical store present in Australia with 80% of the population within a 7 minute drive of a supermarket;
- Slow uptake of the online medium by high street retailers;
- Limited mail order/ catalogue culture in Australia;
- Distance involved in transporting goods to Australia and inter-State;
- Historic lack of broadband speeds.

In 2010, the total value of online retail sales made by Australian residents was estimated to be \$9.5bn<sup>7</sup>. Shopper spend on goods online varies across different categories of good, with the most popular items purchased online being 'computers, hardware and software' with a 26% market share, 'books' (12% market share), 'clothes' (11%) and 'food and groceries' (10%)<sup>8</sup>.

The most popular .com.au listed websites for online retail sales in 2010 were<sup>9</sup>:

1. ebay.com.au
2. dominos.com.au
3. colesonline.com.au
4. brandsexclusive.com.au
5. catchoftheday.com.au
6. pizzahut.com.au

The most popular non-.com.au listed websites for online retail sales in 2010 were:

1. ebay.com
2. amazon.com
3. apple.com
4. bigpondmovies.com
5. hp.com
6. bookdepository.co.uk

Consumer research indicates that the most popular reasons for shopping online are: price, convenience and greater range. Conversely, the three main negativities points about online shopping are considered to be the lack of immediacy, the lack of opportunity to touch or try on the items, and concerns over fraud.

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<sup>6</sup> Source: PCARetail Seminar Retail Trends November 2011

<sup>7</sup> Source: Commonwealth Bank Global Markets Research: Online Retail Data – 27th July 2011

<sup>8</sup> Source: Urbis

<sup>9</sup> Source: Nielsen Online Panel

Electronic retailing is generally considered to have some growth potential and recently high street retailers have been stepping up their online representation and offer. But the extent of online shopping growth will be dependent on whether or not it can, and is perceived to be able to, provide superior benefits over existing retail formats. The critical benefit that electronic retailers can offer is the opportunity for consumers to search across a broad range of alternatives, develop a smaller set of alternatives based on their needs, and get specific information about the alternatives they want.

Whilst there may be some opportunity for internet shopping to capture an increasing proportion of total retail sales, the impact will not be as dramatic as initially forecast as shoppers still preferring to shop physically as the best method of comparing goods, brands, stores and prices and as a means of entertainment / leisure and socialising. Accordingly the impact to traditional bricks and mortar retailers is not likely to be as significant or detrimental as initially forecast.