10. CAFÉ AND RESTAURANT SECTOR

This sector has played an important role in the gentrification of inner urban centres. Across the five centres surveyed, this sector accounts for 18% of street frontage.

10.1 Industry Structure

Within the centres surveyed and the wider inner Melbourne area, this sector is predominately characterised by small, highly individual, owner-operated businesses. Typically cafés and restaurants are family run establishments employing fewer than 20 people, mainly on a casual basis. This sector is highly competitive with Castlemain and Chin (2002)[3] identifying the following five competitive forces within the industry.

Table 10: Competitive Forces within the Café and Restaurant Industry

Competitive Force	Nature of Competition
Threat of new entrants	High threat of new entrants because of low barriers to entry and popularity of small restaurants
Threat of substitute products	High threat from other prepared food outlets (including transnational franchises), take-home packaged foods and home-prepared food
Bargaining power of suppliers	Medium level of power. Many sources of supply exist but a restaurant needs reliable quality and a good understanding of its needs
Bargaining power of buyers	Buyers' bargaining power is relatively high because the demand for restaurant meals is elastic. It is mitigated by a variety of factors including buyers' tendency to search locally rather than go further afield; and also by the relatively large number of diners and their tendency not to be too influenced by pricing.
Rivalry among existing competitors	This is intense within the industry.

Source Castleman,T. and Chin, C. (2002)

10.2 Industry Performance

The café and restaurant sector has performed well over recent years, increasing its share of total retail turnover nationally (refer Figure 21). This is largely a reflection of strong economic conditions, which have supported discretionary forms of expenditure by households. As already indicated over 80% of the volatility in turnover in the hospitality and services sector[4] is the result of changing economic conditions. Longer term demographic shifts which have resulted in an increasing number of 'couple only' or 'lone' households have also supported the longer term increase in café and restaurant's share of retail turnover that has occurred since the mid 1980's.

The performance of the industry has also been enhanced by shifts in household income distribution, particularly within the inner and middle areas of Australian capital cities where gentrification has occurred. Expenditure on meals in café's, restaurants, hotels etc increases substantially with income (refer Figure 22), reflecting the discretionary nature of this form of expenditure. This has impacted significantly upon the performance of retail centres where the number of higher income households in their catchment has increased significantly.

[3] Castleman, T. and Chin, C. (2002), eCommerce and the competitiveness of small enterprises: A Study of the Restaurant Industry, *Deakin University Faculty of Business and Law Working Paper*
[4] Café's and restaurants account for 30% of this sector, with the majority of the remainder represented by hotels and licenced clubs.

10.3 Implications

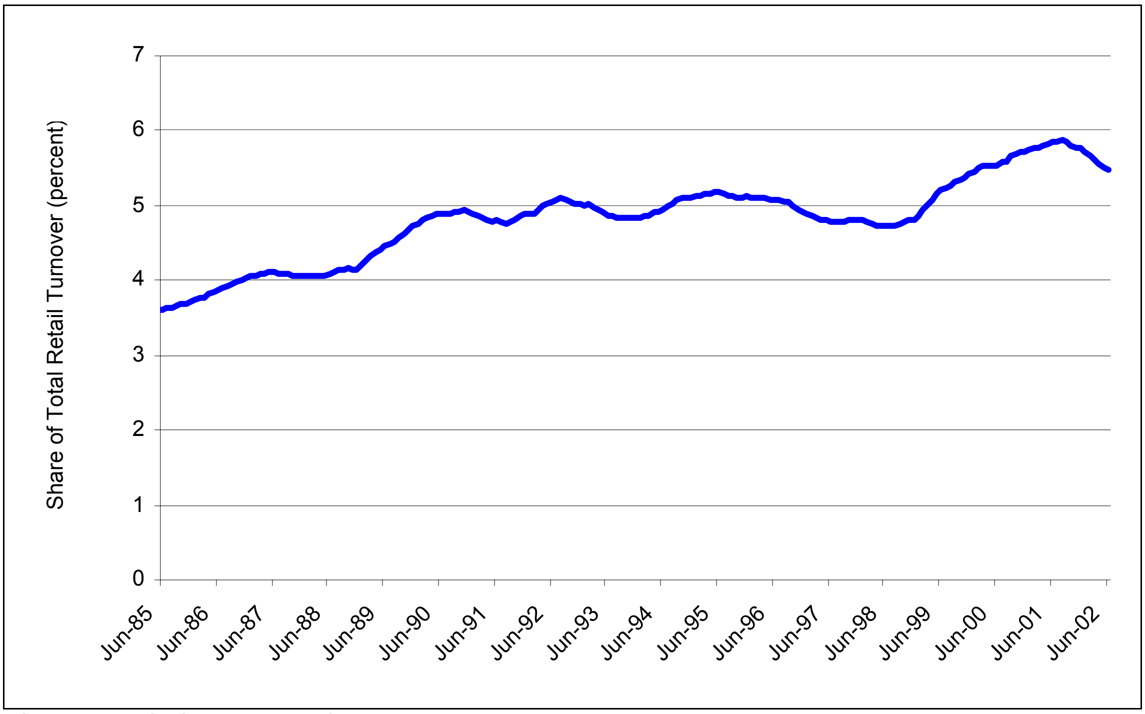
The demise of many traditional retail strip centres, in response to the concentration of the food-retailing sector into larger centres anchored by a chain supermarket, has in many cases been averted through their transformation into strong café and restaurant precincts. The gentrification of the surrounding local area combined with an availability of affordable rents for retail premises has underpinned the emergence of such precincts, examples of which include Ormond Road, Elwood, Anderson Street, Yarraville, The Strand, Williamstown. There are also a number of centres within Melbourne's inner northern suburbs where gentrification is expected to generate sufficient demand to allow a critical mass of cafes and restaurants to be supported and recognisable precincts to emerge. Centres where this has already begun, or is expected to occur in the future include:

- Station Street, Fairfield;
- St Georges Road, North Fitzroy (between Transmere and Stotchmer Streets);
- High Street, Northcote; and
- High Street, Westgarth.

The development of these centres as café / restaurant precincts will also be supported by the relative availability of carparking and public transport, and in the case of High Street, Westgarth, the existing cinema.

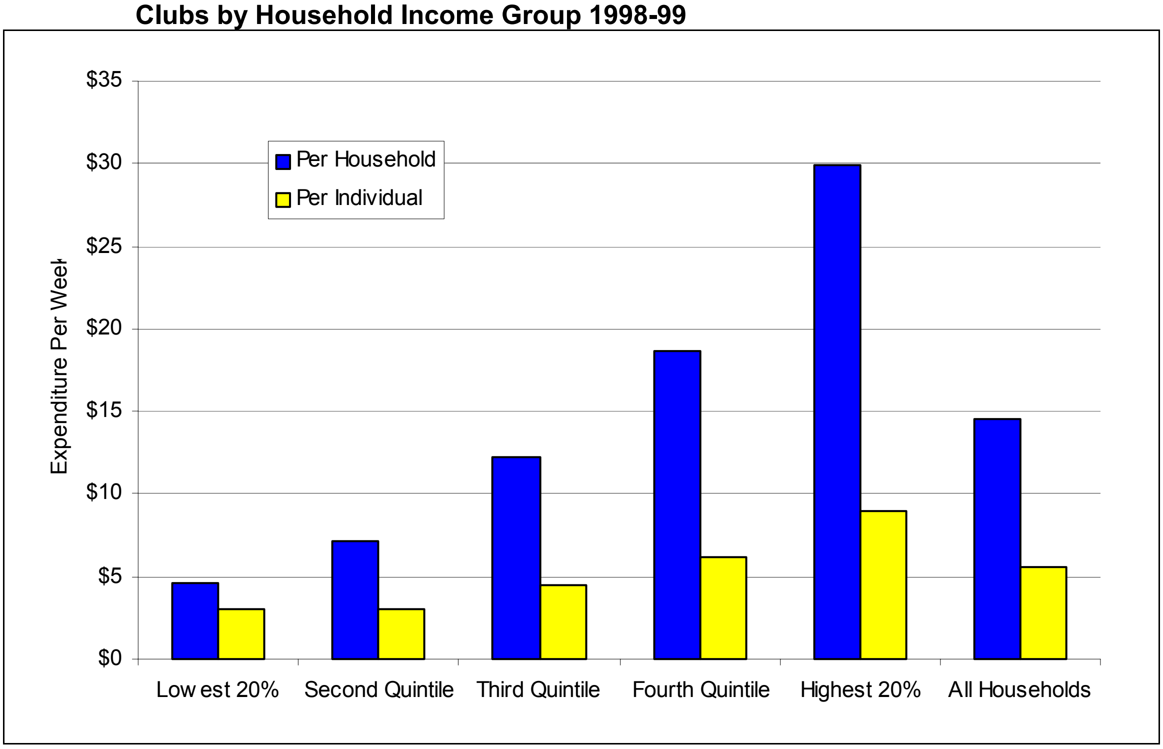
The emergence of cafes and restaurant precincts within Melbourne's inner northern suburbs represents a source of increasing competition for centres within the City of Yarra, particularly Brunswick Street which is already impacted upon by a shortage of convenient carparking. In order for Brunswick Street to maintain its competitive position, there is a need for it to be differentiated from emerging centres through building upon the "alternative" theme that already exists. It should be noted that it is substantially more difficult to replicate a theme than it is a generic café and restaurant precinct. Accordingly, Council should endeavour to work with businesses and property owners to promote the image of Brunswick Street via a dedicated marketing strategy. The future performance of Brunswick Street will be largely determined by the ability to attract visitors to experience Brunswick Street for all that it offers, of which cafes and restaurants are only one part.

Figure 21: Australia – Café and Restaurant Share of Total Retail Turnover 1985 – 2002



Source: ABS, Charter Keck Cramer

Figure 22: Australia – Weekly Expenditure on Meals at Cafés, Restaurants, Hotels and Clubs by Household Income Group 1998-99



Source: ABS, Household Expenditure Survey 1998-99, Charter Keck Cramer