

8. FOOD RETAILING SECTOR

Food retailing remains a strategically important component of the centres covered by this Study with:

- One-third of visitors shopping at a supermarket;
- Food retailing accounting for approximately one-quarter of all retailers; and
- Food retailing in traditional strip centres not experiencing the same level of competition from larger free-standing enclosed centres, as had other retail sectors characterised by higher-order forms of retailing.

The food-retailing sector accounts for both a substantial proportion of household expenditure, and a significant proportion of the Australian workforce. The sector is relatively highly concentrated with the major chain supermarkets accounting for a large share of industry turnover. The future performance of traditional shopping centres will be in part determined by future developments in the food-retailing sector in terms of:

- Changing shopper behaviour in response to changing demographic, economic and social conditions; and
- The introduction of new food retailing formats by the major retailers in order to strengthen their competitive position and capture a larger share of households' expenditure on food.

In 2000, market researchers ACNielsen released the findings of an extensive survey of consumer behaviour with respect to grocery shopping. This survey is particularly useful in identifying emerging trends that will impact upon the future competitive position of traditional strip retail centres.

8.1 Current Retail Environment

Supermarkets as a form of food retailing have emerged as a result of their ability to offer consumers the convenience of 'one-stop shopping' and competitive prices achieved through economies of scale. Similarly, the increasing dominance of regional shopping centres and their ability to provide convenient parking, a range of speciality stores and new retailing concepts that combine entertainment and retailing has a significant impact upon household shopping patterns and the competitiveness of traditional retail centres. The ability of regional shopping centres to manage their tenancy mix, offer a range of opportunities for comparison shopping, regulate opening hours and implement effective marketing strategies has also strengthened their competitive position within the retailing sector.

The continued dominance of private motor vehicles as a preferred transport mode by shoppers has also supported the competitiveness of regional shopping centres. Increased accessibility to centres has been provided through the construction of arterial road networks, and the construction of the City Link and the extension of existing freeway systems (Eastern Freeway).

The dominant position of regional shopping centres and category killers (Harvey Norman, Ikea, Office Works etc.) is reflected in the proportion of total income generated by the retail sector by large business (those with 200 employees or more).

Table 8: Retail Sector*: Industry Concentration (1998-99)

Size of Retail Business	Proportion of Retailers	Share of Total Retail Income
Small (1 – 19 employees)	95%	38%
Medium (20 – 199 employees)	4%	21%
Large (200 + employees)	1%	41%

* includes non-food retailers

Source: ABS (2000) Retail Industry Cat. No. 8622.0

Large retailers increased their dominance in the supermarket and grocery stores sector during the 1990's, with their share of total retail income increasing from 77% to 85% over the period 1991-92 to 1998-99. This group's share of total income generated by the specialist food sector however remained relatively stable at around 20% over this period. However, the share of total income generated by the small specialised food retailers accounted for by small business however decreased from 69% to 57% over the same period.

8.2 Retailing Trends

Retailing is in a constant state of evolution reflecting the changing needs and preferences of shoppers and the desire of retailers to maintain and increase their market share of available household expenditure on retail goods. Similarly, innovative food retailers have responded to changes in consumer demand patterns, technological developments and strong levels of competition by restructuring their operations to ensure ongoing profitability and maintenance of market shares. This has resulted in the following:

- **Increased Size of Supermarkets and Product Lines**

The average floor area of Supermarkets has increased noticeably as a result of the growing concentration of larger supermarket chains in this sector, and increasingly sophisticated operations offering a wider range of products including speciality and fresh food products.

- **New Retail Formats**

The major supermarket chains have initiated new forms of food retailing in order to expand sales. These include the development of smaller more focused convenience-type stores such as 'Coles Express', the development of combined petrol / food retail outlets and the introduction of internet based ordering systems by the major chains. These new formats are principally aimed at that segment of the market seeking increased convenience at the expense of higher prices.

- **Deregulation of Trading Hours**

Trading hours for supermarkets have been progressively deregulated which has increased the competitive position of the chain supermarkets, and enabled them to offer a wider range of products such as pre-prepared meals etc.

- **Increased Popularity of One – Stop Shopping**

Increasingly, shoppers are visiting only one store in order to undertake their food and grocery shopping as convenience, service and competitive prices become increasingly important in a time-poor society.

- **Development of New Product Ranges**

The shift towards eating out has prompted the development of new food products such as pre-prepared meals that are offered for sale in supermarkets.

- **Emergence of Store Branding**

There has been a move towards store branding by Supermarket chains over recent times. An example of this is Coles' promotion of its Farmland brand for fruit and vegetables. Australia's major supermarket chains have a unique position in fresh food retailing, primarily due to their proximity to consumers. Given the consumer driven nature of food retailing, the branding of fresh food is likely to become increasingly important as the major supermarket chains seek to establish a competitive advantage in this relatively under-developed area of retailing.

- **Increasing Focus on Fresh Food Retailing**

Woolworth's (Safeway) have shown increasing interest in expanding the fresh food component of their product range. Given that there is considerable scope for them to increase their share of the fresh food market, this is likely to continue to attract attention in the future. This move is a response to the availability of higher gross margins for fresh foods, and their ability to attract shoppers into stores for other purchases.

8.3 Changing Shopper Behaviour

Many of the trends that have emerged in the retail sector are a reflection of underlying changes in the structure of Australian society and households, and the impact of these upon shopping patterns and preferences. Such changes include:

- Increasing levels of participation in the workforce by women;
- Declining household size, combined with an ageing of the population;
- Emergence of a 'cash rich – time poor' segment of the population; and
- Increased importance of discretionary spending in the household budget.

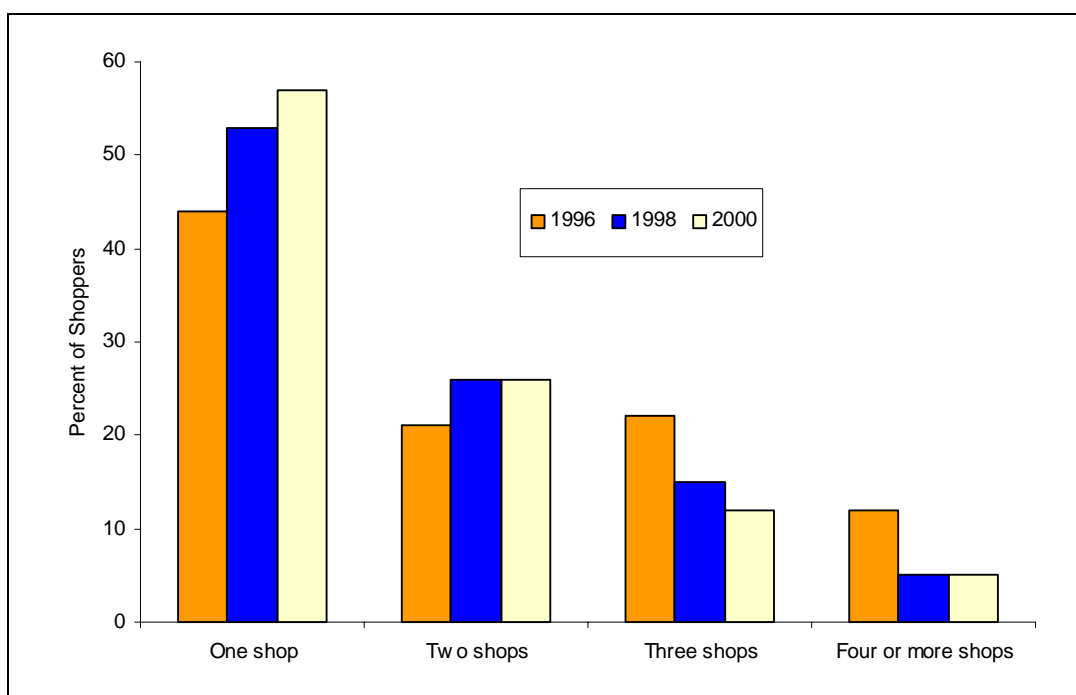
During 2000, market researchers AC Nielsen undertook a detailed survey of consumer behaviour with respect to grocery shopping. The study, published under the title "*The Way We Shop 2000 – Grocery Shopping in Australia*", provides details of emerging trends in shopper preferences and behaviour based on a survey of over 750 metropolitan households across Australia. There are a number of key trends which have been identified as being of relevance to the future role of traditional shopping centres and which have been summarised below.

8.3.1 Increased Popularity of One Stop Shopping

The proportion of shoppers visiting only one store to purchase groceries increased from 44% in 1996, to 53% in 1998, and to 57% by 2000. As a result, the average number of shops visited per shopping trip has fallen from 2.0 stores in 1996 to 1.7 by 1998 and 1.6 stores by 2000. The proportion of people who are most likely to shop in just one store is partly dependent upon age. 65% of shoppers over 55 years likely to fall into this group compared to around 56% of 25 – 39 year olds and 40 – 54 year olds, and 43% of 18 – 24 year olds. Based on this information, it is likely that the general ageing of the population will provide further support for this trend towards one – stop shopping.

An implication of this trend is that competition between the main supermarket chains will continue to increase as they attempt to attract customers through providing an expanded range of products. Should this trend towards shopping at a single selected store continue, it would be to the detriment of smaller specialist food stores.

Figure 16: Australia – Number of Stores Visited Per Grocery Trip



Source: ACNielsen, Charter Keck Cramer

8.3.2 Preferred Shopping Days and Times

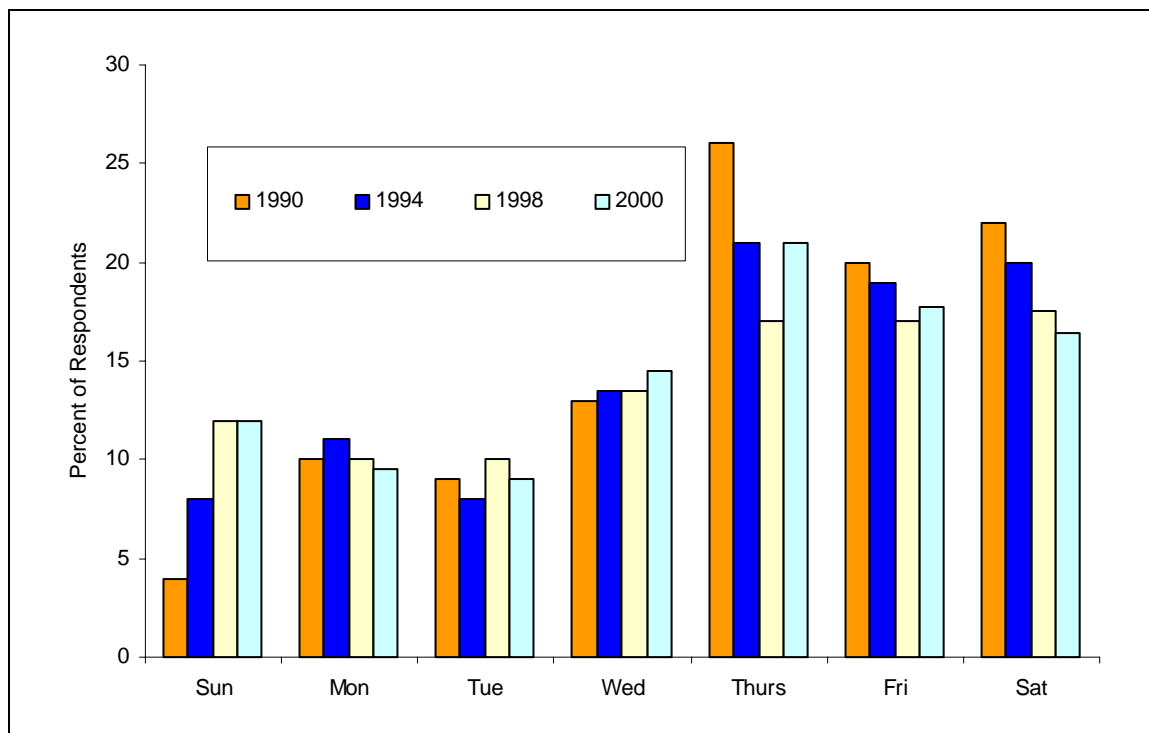
In Melbourne, 38% of respondents to the AC Nielsen survey nominated either Thursday, Friday or Saturday as their preferred shopping day, with an additional 37% of respondents nominating no special day for shopping.

ACNielsen identified Sydney as serving as an indicator of future grocery shopping behaviour given that it is Australia's most affluent city, and because it offers shoppers the broadest range of days and hours in which to shop. In Sydney, a noticeable shift in shopping patterns over the past decade was identified (refer Figure 17) with:

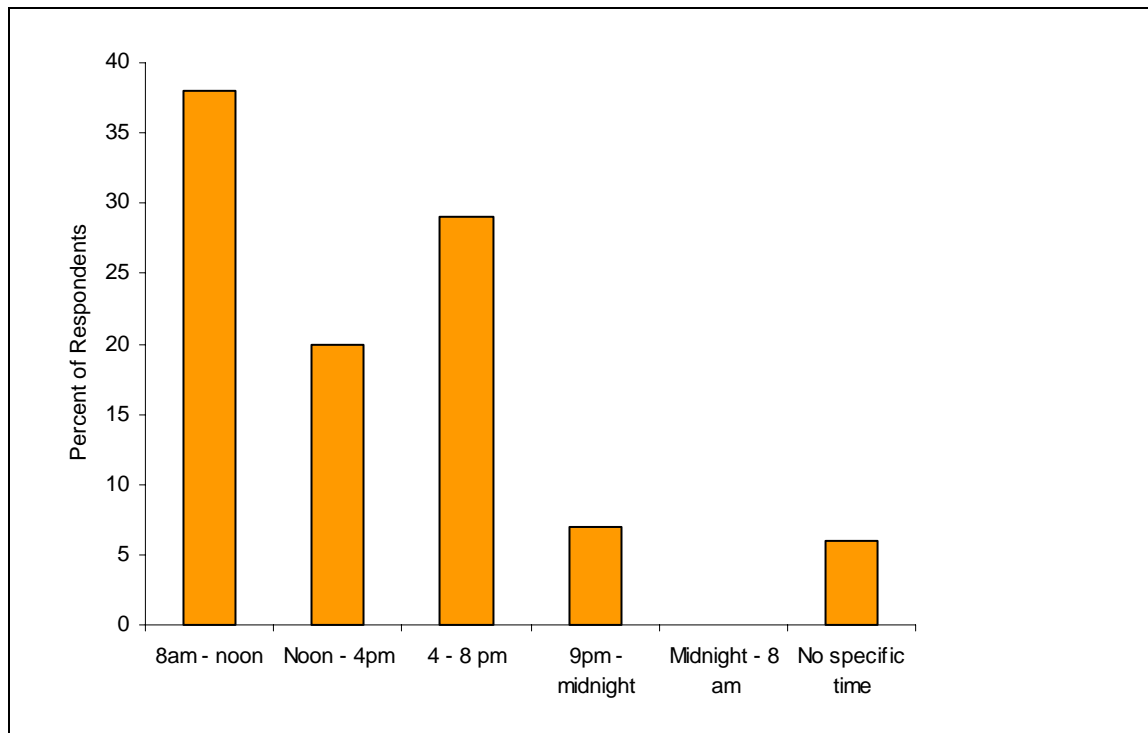
- a significant increase in the importance of Sunday; and
- Declining importance of Friday and Saturday as a shopping day.

Shoppers are much less flexible with respect to the time of day when they undertake their grocery shopping (refer Figure 18). In Melbourne, only 6% of respondents claimed to have no specific time for doing grocery shopping. The preferred times are 8.00 am - Noon (38% of respondents), Noon - 4.00 p.m. (20%) and 4.00 p.m. - 8.00 p.m. (29%).

Figure 17: Sydney – Expenditure on Packaged Groceries by Day



Source: ACNielsen, Charter Keck Cramer

Figure 18: Melbourne – Time of Day for Grocery Shopping

Source: ACNielsen, Charter Keck Cramer

8.3.3 Factors Influencing Shopping Behaviour

The main factors influencing shopping behaviour were found to be:

- Convenience of location (47% of respondents);
- Cheap prices (32%)
- Easy car parking (29%); and
- Range of merchandise (26%).

8.4 Fresh Food Retailing

Fresh food accounts for approximately 25% of total household food (consumed at home) expenditure, with the remainder being accounted for by packaged food items. This, combined with the fact that fresh produce is a component of virtually every household's shopping basket, means that this sector of food retailing is strategically very important to retailers and retail centres. In addition, there are opportunities for higher margins to be achieved on fresh produce compared to packaged food, provided there are adequate supply chains in place. The gross margin for fresh produce is reported by the Australian Bureau of Statistics to be over 30% compared to margins of 15 - 25% for the majority of packaged food items.

The major supermarket chains have recognised the strategic opportunities offered by the fresh food sector, as a basis for attracting shoppers to their stores, combined with the potential profits to be achieved. Prior to the recent demise of the Franklins supermarket chain, the share of total sales turnover accounted for by fresh food in the three major supermarket chains was:

- | | |
|-------------------------|-----|
| ▪ Franklins | 17% |
| ▪ Coles | 25% |
| ▪ Woolworth's / Safeway | 29% |

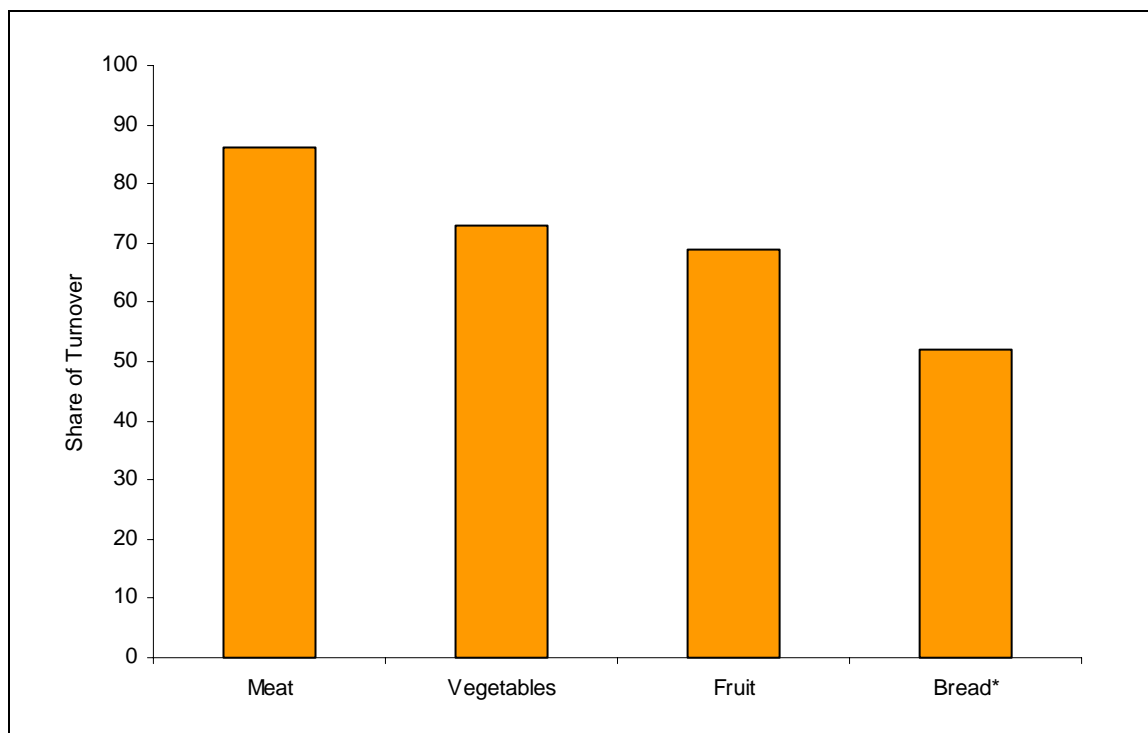
The market share of fresh produce sales held by the major supermarkets varies considerably between categories as shown in Figure 19. The variation in the market share of each category may partly reflect the relative success of supermarkets in the marketing and presentation of each

category. The pre-packaging of meat combined with opportunities for advertising and grading, has enabled supermarkets to gain a significant share of the national market for this category. On the other hand, the proliferation of 'franchised' bakeries (Brumbies, Bakers Delight) using effective branding strategies and product mix, and the emergence of bakery / café establishments has prevented the supermarket chains from gaining a dominant market share.

The retailing environment for fresh fruit and vegetables is becoming increasingly sophisticated as the chain supermarkets compete for an increased share of households' expenditure in this category. Innovations in the marketing of fresh fruit and vegetables include:

- The pre-packaging of items;
- Improved presentation and range of items;
- Increased focus upon freshness;
- Increased market research into customer requirements and tastes; and
- A trend towards fuel based convenience centres offering fresh food items.

Figure 19: Share of Fresh Produce Sales Held by Supermarkets by Category



* Excludes packaged bread

Source: AC Nielsen

8.5 Outlook

The major supermarket chains have responded to the needs of the modern shopper through enabling them to shop 24 hours a day, 7 days a week. This has largely been in response to the increased participation of women in the workforce, and the resulting demand for greater shopping convenience. While there is evidence to suggest that many shoppers are not completely satisfied with shopping at supermarkets, any negatives are largely outweighed by the high level of convenience they offer.

Future developments in the food retailing sector will be primarily determined by the continuance of observed trends in patterns of shopper behaviour, and growing competitive pressures from the major chain supermarkets. Shoppers are expected to increasingly seek out opportunities to undertake their traditional shopping activities in a manner, which suits their lifestyle requirements. This will include undertaking shopping activities either as conveniently and efficiently as possible, or incorporating them with other activities. This will act to further enforce the popularity of 'one-

stop' shopping and the mixing of activities such as shopping and recreation activities such as eating out. Future generations of shoppers will be increasingly aligned with, and more flexible towards, new retail formats as they have grown up with the concept of supermarket shopping, convenience shopping, and shopping as a form of entertainment. The major retailing chains are expected to continue to increase their share of the food and grocery market as they introduce new retailing formats that are responsive to the needs of current and future generations of shoppers. This has already been evidenced by new store formats such as Coles Express, the co-location of convenience stores with petrol stations and the development of retailing / entertainment complexes.

In order for traditional forms of retailing to remain viable there is a need to re-invent themselves in order to establish and maintain niche markets. This may be done through building upon features that distinguish them from the major chain supermarkets, while also recognising the needs of future generations of shoppers. Many of Melbourne's traditional shopping strips have been particularly successful in re-inventing themselves as café / restaurant precincts in response to the growing dominance of both supermarkets and regional shopping centres. In doing so they have been able to maintain their viability as shopping destinations. These shopping strips have been successful due to their ability to differentiate themselves through emphasising their traditional and historical influences, outdoor orientation as opposed to enclosed shopping centres, exposure to passing trade as well as their organic character. These factors combine to provide a lifestyle experience that is unable to be replicated by modern shopping centres. In doing so however individual retailers have been particularly responsive to the needs of shoppers with respect to opening hours, lifestyle needs etc.

8.6 Implications

The performance of food retailers is generally dependent upon their proximity to a major chain supermarket being a major anchor tenant in centres. Smith Street, Bridge Road and Swan Street have either a Safeway or Coles, together with a number of supporting speciality store. In order for the food-based retail centre to perform well there is a need it to comprise five key additional retailers being a newsagent, butcher, greengrocer, pharmacy and bakery. All these retailers have strong synergies with each other, as well as a supermarket. In order for the City of Yarra's food-based centres to perform well there is a need for these individual retailers to be conveniently located near each other, yet sufficiently apart to enable other retailers to benefit from the movement of shoppers between each.