bite into life supaBARN SUPERMARKETS

16 November 2011

Select Committee on the ACT Supermarket Competition Policy
Legislative Assembly for the Australian Capital Territory
GPO Box 1020
CANBERRA ACT 2601

By email committees@parliament.act.gov.au

Dear Sir/Madam

RE: Select Committee Inquiry into the ACT Supermarket Competition Policy

Thank you for providing us with the opportunity to present our comments on the ACT Supermarket Competition Policy which has been in place since 2008.

Supabarn is a locally owned and operated full line supermarket chain that has been operating in the ACT for almost 20 years and is one of the largest independent chains in Australia. It has three existing stores at Civic, Kaleen and Wanniassa and government pre-commitments for two new stores at Casey and Kingston. It also has stores in Sydney.[1] It has been recognized by the ACCC[2] and the Martin Report as the only full line supermarket competitor to the major supermarket chains in the ACT/NSW. Supabarn is expected to shortly reach the critical mass necessary to establish and operate a distribution centre facility, providing independent retailers an alternative to Metcash. Supabarn has commenced operation of a fast moving warehouse which has already resulted in demonstrably lower prices for consumers.

As a result of this previous experience, Supabarn is well placed to comment on the current ACT supermarket competition policy in so far as it interacts with the planning system, the manner in which ACT Government direct sales are managed from a private enterprise perspective, the impact of the policy on operators, and the possible future direction for the policy.

Supabarn Supermarkets Pty Ltd
Trustee for Teamhold Trust

Head Office
Level 1, Cooyong Centre
3 Torrens Street
Braddon ACT 2612

All Correspondence to
PO Box 999
Civic Square ACT 2608

Telephone 02 6257 1777
Facsimile 02 6257 6446

ABN 29 912 093 478

[1] Existing stores are located at Sutherland, Gymea, and Five Dock. Stores in Sans Sousi and Annandale will open shortly.
[2] Refer to the ACCC's 'Public Competition Assessment – Woolworths Limited – Proposed acquisition of Karabar Supermarket' dated 11 July 2008, Attachment A.

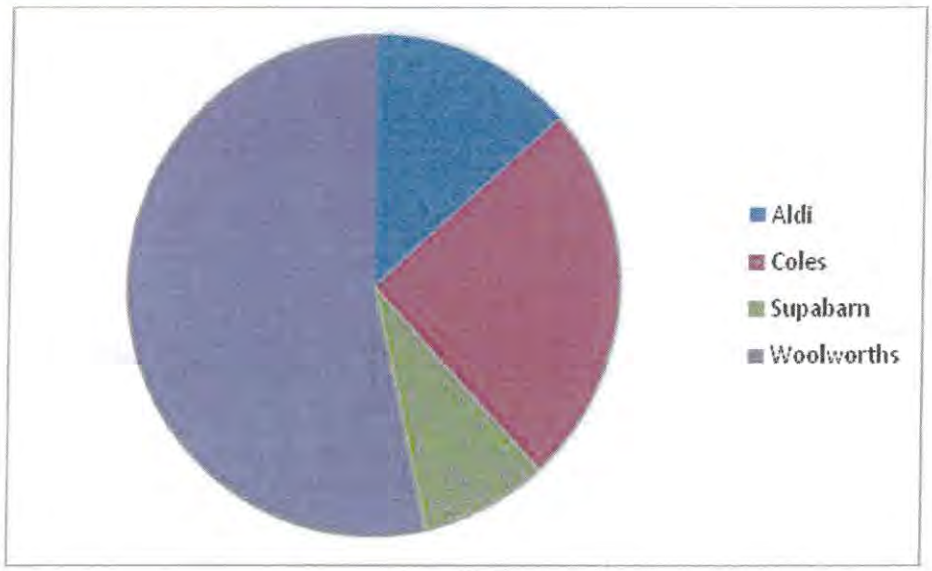
Background

Before presenting our comments, we feel it pertinent to explain the background to them.

In July 2008 the ACCC released a report addressing the competitiveness of retail prices for standard groceries. The report was commissioned by the Federal Government in response to the dominance of Coles, Woolworths and Metcash (wholesale market) in the Australian grocery market. A summary of the key findings of this report can be found at Attachment B.

Following the endorsement of the ACCC report by COAG, the ACT Government commissioned Mr John Martin (a former ACCC Commissioner) to review competition within the ACT grocery market. Notably, the resultant 'Review of ACT Supermarket Policy' (the Martin Report) found that in the ACT the strongest competitive tension and diversity came from the operation of ALDI and Supabarn.[3] The recommendations of the Martin Report were developed in a context influenced by the submissions of existing grocery retailers and a known deficit of supermarket floorspace. As a consequence, the recommendations were based on the (at the time likely) prospect that Franklins would re-enter the ACT market, that ALDI would continue to expand within the ACT, that Woolworths would continue to target full line supermarket (>2500m2+ GFA) sites, and that the local centre market would remain the domain of IGA and other independent operators who wished to expand up to 1000m^2.[4]

Figure 1 Floorspace at Group Centre Level (Martin Report 2009)[5]

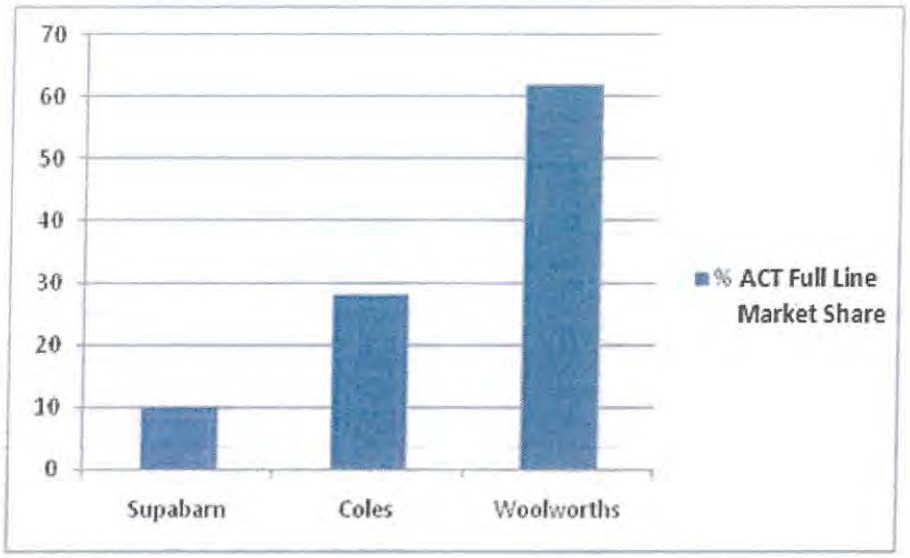


[3] Refer to the Martin Report, Section 6.5.2, page 73.

[4] We understand that IGA operators specifically advised Metcash (who represented their views to John Martin) that they would welcome the opportunity to expand their stores to 1,000sqm. Subsequently, Metcash conveyed to John Martin that IGA operators sought to expand up to 1,500sqm.

[5] A full line supermarket is accepted industry terminology for a supermarket of 2500m2 of greater with GFA being defined by the Territory Plan

Figure 2 Percentage of full line supermarket market share in the ACT



The Martin Report was endorsed by the ACT Government in October 2009, who subsequently released the ACT Supermarket Competition Policy Implementation Plan in January 2010. As a result of the Martin Report, ACT Government announced the following:

- The direct leases to Supabarn of supermarket sites at Casey and Kingston.
- The direct sale of land to an independent supermarket operator at Amaroo Group Centre (other than Supabarn).
- The direct sale of a site at Chisholm for an ALDI supermarket.
- The sale of a site at Dickson for a major but excluding Woolworths.
- The direct sale of a site at Dickson for an ALDI.
- The direct sale of sites for the expansion of existing Woolworths stores at Charnwood and the direct sale of land for the purpose of a new Woolworths store at Giralang. A direct sale application for the expansion of an existing full line supermarket currently operated by Woolworths at Kambah is currently under consideration.

These announcements addressed the key elements of the Martin Report and the ACT Supermarket Competition Policy Implementation Plan.

Since then there have been significant changes in the grocery market. Specifically:-

- A further 47,000m^2 of supermarket space has been planned. This volume has been partially implemented through new stores or extensions to existing stores and includes a 14,000m^2 Costco which started operating this year, and a new 4000m^2 Woolworths which will shortly open, both at Canberra Airport. Some increases resulting from direct sales and government pre-commitments have yet to be realised but are expected to come on line in the next 2-4 years. This is expected to increase total supermarket floorspace in the ACT by 38% from 2009 levels (from 113,778m^2 to 182,478m^2).[6]
- ALDI has turned down two direct sales of land at Kaleen and Wanniassa, reflecting their position that their retail niche market is saturated;
- Franklins has not entered the ACT market and has exited the Australian market all together;
- Metcash has acquired Franklins, although this decision is currently being appealed by the ACCC.
- Woolworths has consolidated its dominance in the market through the acquisition of new sites (particularly at the local centre level, with direct sale applications at Charnwood, Kambah and Giralang and development approval for the construction of stores at Bonner and Dunlop);
- Coles is pursuing opportunities to enter into the local convenience market, with smaller format stores collocated with service stations. These will compete with IGAs.[7]
- Household saving levels as a result of the GFC have increased from 2% to 10% from pre-GFC levels, reflecting a reduction in spending;
- The ACCC has:-
    - publically stated the need for an independent grocery warehouse in the ACT/NSW market place other than Metcash,[8]
    - identified Supabarn as the only supermarket operator which has the expertise and capacity to purchase the Franklins warehouse and retail stores to become a genuine competitor to the major supermarket chains,[9]
    - suggested that should their appeal against Metcash's acquisition of Franklins be set aside, grocery prices are likely to increase further.[10] This concern has since been confirmed (see below).
    - Outlined its opposition to any of the Franklins stores being sold to Coles or Woolworths.[11]

[6] Refer Don Fox Report dated 14 September 2011, Attachment C.
[7] Refer to Coles Local Ashburton Research and Consulting Presentation, Attachment D.
[8] Refer to ACCC News Release 9 September 2011, Attachment E.
[9] Refer to the ACCC's 'Public Competition Assessment – Woolworths Limited – Proposed acquisition of Karabar Supermarket' dated 11 July 2008, Attachment A.
[10] Refer to ACCC News Release 9 September 2011, and media articles, Attachment E.
[11] Outlined by the ACCC during the Franklins Metcash court proceedings.

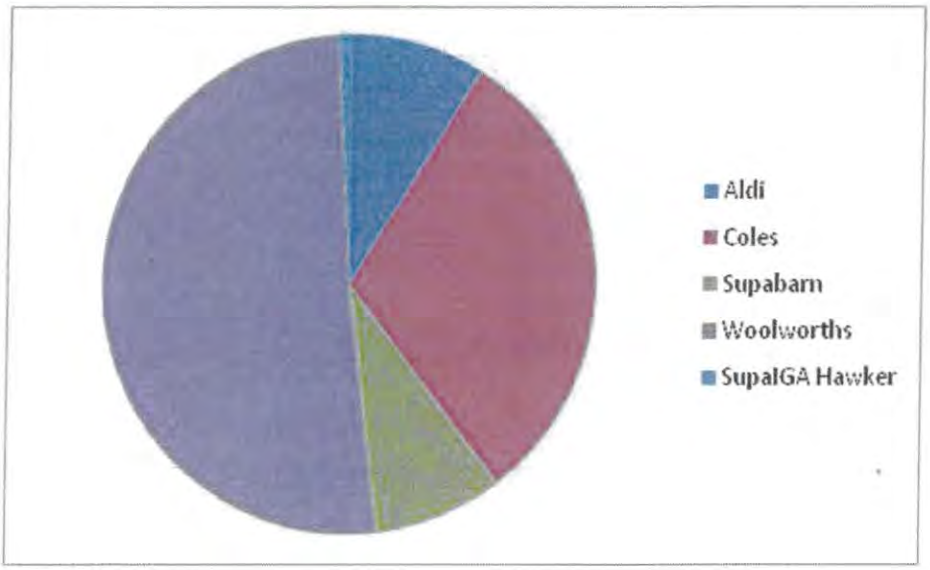
- Advised that IGA operators are unable to compete with the Majors as they do not benefit from and are precluded from developing the vertically integrated structures of the majors by reason of the dominance of Metcash.[12]

- The ACCC Chairman has stated that "the two major supermarkets have significant market power with many smaller suppliers feeling they lack a real ability to negotiate supply arrangements".[13]

- Metcash has, one week after the conclusion of the ACCC appeal into the sale of Franklins to Metcash in which Metcash indicated that the sale would not result in price rises, written to its retailers indicating a possible increase of charges.[14]

Attachment H comprises an extract from the Australian Food and Grocery Councils' report '2020 Industry at a crossroads', which confirms the growing dominance of the majors and the manner in which they have leveraged their dominance to increase barriers to entry and expansion in the grocery sector.

Figure 3 Proportion of existing floorspace by majors at Local, Group & Town Centre Level (2011 Retail Inventory)



[12] Refer to ACCC News release 10 October 2011, Attachment F.
[13] Refer to ACCC News Release 10 October 2011, Attachment F.
[14] Refer to Metcash letter to retailers, Attachment G.

Figure 4 Proportion of floorspace by majors at Local, Group & Town Centre level, if all proposed floorspace implemented (2011 Retail Inventory plus details from Attachment C)

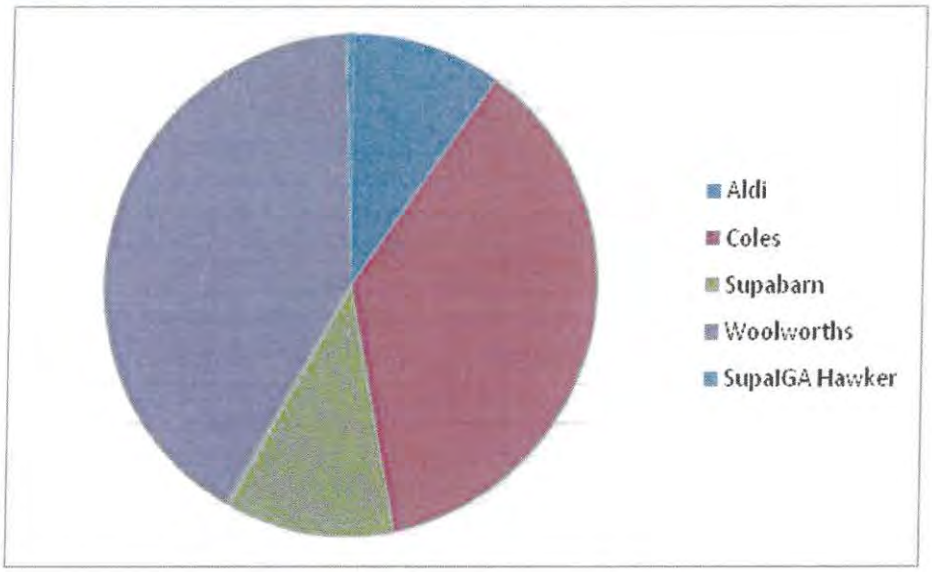
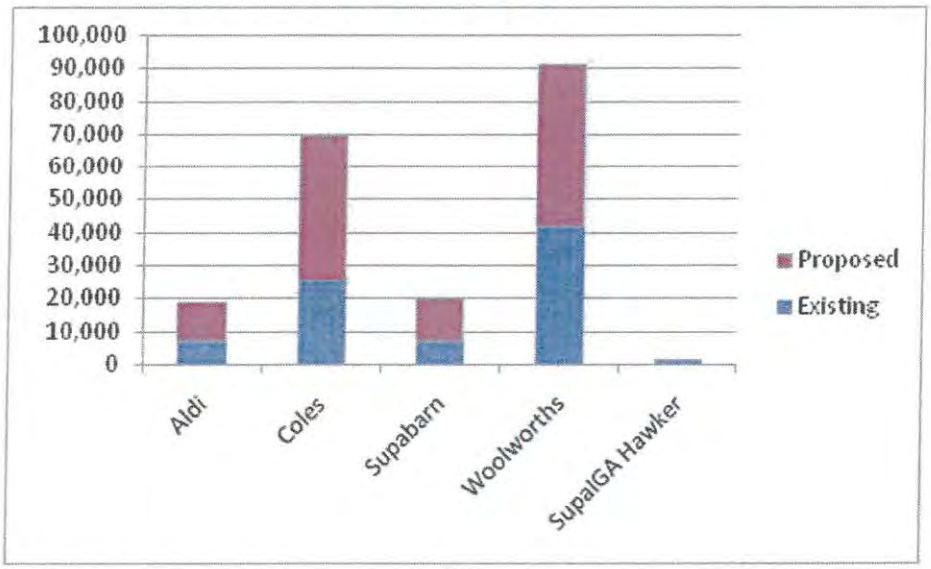


Figure 5 Existing and proposed floorspace (2011 Retail Inventory plus details from Attachment C)



Whilst supportive of the Martin Report's recommendations, we believe that these must be interpreted and applied in light of the context in which they were developed, and with regard to the significant changes that have occurred in the intervening time period.

Supabarn has also submitted a representation to the ACT Government Review of commercial Centres Planning Policy. We do not wish to unnecessarily duplicate commentary provided therein, but attach a copy of our submission for the Inquiry's reference (refer to Attachment I).

We now turn to address the Select Committee's terms of reference.

(a) The operation of the policy as it Interacts with the planning system

The policy reads:-

'The ACT Government believes that Canberrans are best served by a diverse and competitive retail grocery supermarket sector that supports consumer choice and convenience. In considering the use or sale of land for grocery supermarkets, the ACT Government will take into account the capacity of a retailer to access suitable sites as well as the nature of the benefits a particular type of supermarket may bring, such as product diversity, quality of service, environmental gains, integration with existing retail/commercial centre, footprint and car parking'

The ACT planning system addresses the allocation and use of land. In a perfect market the planning system would not be required to address competition requirement. However, and as has been consistently acknowledged by the ACCC and the ACT Government, the ACT and national grocery market operates as a duopoly with significant impediments to new entrants, with consequential costs in terms of high grocery prices borne by the consumer.

Supabarn is of the strong belief that the Supermarket Policy and the ACT planning system, because of its unique characteristics including the availability of direct sales, have the potential to mutually reinforce one another thus enhancing competition to the benefit of local consumers. Because of the need to maintain the hierarchy (discussed under (d) below), and thus the limited number of locations for supermarket development (notwithstanding the creation of new catchments and centres through Greenfield development), direct sales are an essential tool to managing access to markets for specific operators that would otherwise be precluded. This has successfully been done with ALDI when they have received multiple direct sales. However the manner in which the policy has been interpreted and applied through the ACT planning system has led to a high degree of confusion and at times lack of transparency in decision making processes.

The ACT Government has established the Supermarket Competition Coordination Committee (SCCC) to support the implementation of the Martin Report recommendations, monitor the implementation of policy, consult with industry stakeholders and report to the Government annually on progressing in implementing further supermarket competition in the ACT. Whilst a laudable initiative, this cannot address issues arising from the policy itself, or its relationship of the policy with the land use planning regime.

The policy neither recognises nor, despite its reference to land use, is recognised by the Territory Plan. Applications for direct sales are not required to demonstrate how they facilitate the reinforcement of the hierarchy. Development applications for supermarket proposals (other than those at the local centre level) are not assessed against any competition requirements. Once land has been acquired for supermarket purposes (which may or may not be subject to a GFA requirement or restriction), the scale of the development is limited only by the Planning Authority's discretionary assessment of appropriateness to the setting, and other quantitative controls such car parking and traffic generation relative to local road networks.

The policy does not specify criteria for identifying which centres are to expand, or defined tests to be used when assessing the sale of land on the assessment of a development proposal. Whilst requiring the ACT Government to take account of a range of factors, the Policy and its Implementation Plan do not specify which (if any) of these factors have priority over one another, the thresholds that should be achieved, or a comparative approach to the benefits an alternative grocery provider could bring to the market. While some clarity is provided by the Policy Implementation Plan, this document itself is poorly structured, does not include specific measures, targets, or timeframes[15], provides poorly worded definitions for large format/full line and convenience/local supermarkets,[16] and importantly, does not recognises the retail hierarchy which is a key element of spatial planning system in the ACT. This will be commented on further below.

Importantly, neither the Policy nor the Implementation Plan expressly recognise the eligibility criteria for direct sales as recommended in the Martin Report.[17] The eligibility criteria have the acknowledged result of limiting applications for direct sales to SupaIGA not controlled by Metcash, Supabarn, ALDI and Franklins; this is commensurate with the context in which the Martin Report was prepared and the object of increasing diversity and competitive tension by preventing the Majors from increasing their market dominance. It also reinforces our contention that references to 'new entrants' should be interpreted to refer to new entrants to the market, rather than new entrants to a particular centre, for the purpose of direct sales.

The Martin Report also promoted the development of a flexible approach to market indicators and a site by site basis to direct sales. [18] Supabarn does not dispute the need for these, but maintains that this cannot be at the expense of a transparent and well defined commercial centres hierarchy. Supabarn maintains that much of the confusion arising from the application of the ACT's Supermarket Competition policy derives from this lack of clarity.

The market dominance of Coles and Woolworths at the local and national levels has been commented on extensively by both Martin Report and the ACCC.[19] We note that the Majors also sell grocery lines through their service station operations (Caltex and Shell) and their discount department stores (Big W, Kmart and Target), and that Woolworths has recently announced that it will invest in promoting its home lines and internet supermarket shopping.[20] This has the potential to increase the market dominance of Woolworths, without the requirement for additional store locations.

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[15] Other than in respect of direct sales of land in Dickson, Kingston, Casey, Amaroo and Bonner

[16] The ACCC in the Karabar decision highlighted the differences in definition, noting that some market participants draw a distinction between basic full line supermarkets at 2500m2 and major full line supermarkets of at least 3000m2 and up to 4500m2.

[17] Refer to the Martin Report, Section 6.6.3.

[18] Refer to the Martin Report, Section 6.7.1.

[19] Refer to the July 2008 "Report of the ACCC inquiry into the competitiveness of retail prices for standard groceries', which states "Coles and Woolworths clearly dominate large supermarket sites with around 87% of supermarkets of sales area above 2,000sqm and around 96% of supermarkets of sales area above 3,000sqm." (pg 76). Also ACCC News Release 10 October 2011, Attachment F.

[20] Refer to media articles, Attachment J.

Coles has already invested heavily in online sales platforms, suggesting that the duopoly will continue to entrench itself.

As a result of ACT Government's implementation of the Martin Report, the major supermarket chains have exploited the lack of a comprehensive approach to competition issues in the planning system to continue to increase their market share. Woolworths have exploited the Local Centre Policy to establish new 2000m2 GFA stores at Bonner, Dunlop and Giralang local centres, thereby opening up a new tier of 'majors' competition. Coles have submitted direct sale applications for sites at Kambah, Erindale, Weston Creek and Kippax group centres, and are using the ACTPLA Master Planning Process of group centres to incorporate second full line supermarkets to be operated by them. Woolworths have responded by contemplating the use of master planning to obtain further full line supermarkets at Jamison and Curtin.

These actions have not increased competition,[21] but, if they proceed to approval, will further entrench the existing duopoly and result in the following:

- Substantially increasing the market share of the two major supermarket chains in the ACT despite the recommendations of the ACCC Grocery Inquiry Report and Martin Report.
- Substantially decreasing the market share of new entrants such as Supabarn, Costco and ALDI.
- Substantially decreasing the market share of local independent supermarket operators, local independent suppliers, as well as independent small businesses such as bakers, delicatessens, chemists, liquor stores, fruit and vegetable retailers and butchers.
- Substantially decreasing the volume of independent supermarket operators in the ACT which would result in stifling the independent wholesale warehouse being established by Supabarn.
- Create an oversupply of supermarket space in the ACT, effectively closing the operation of independent supermarket businesses.[22]
- The lessening of competition, choice and range for the consumer.

Supabarn is therefore of the opinion that while the recommendations of the Martin Report should be implemented as part of the Supermarket Policy, they need to be considered within the context they were developed and treated accordingly.

(b) The Appropriateness of Settings as it Applies to ACT Government Direct Sales, Group Centres and Local Centres

[21] Refer to Dr Rhonda Smith 'Proposed Acquisition of Supermarket Sites in the ACT by Coles', paragraphs 26 and 27, Attachment K.

[22] Refer to Don Fox Report 15 September 2011, p 6, Attachment L.

Direct Sales

ACT Government has directly sold sites to new entrant supermarket operators to encourage competition in the market place. This has been generally successful; ALDI would have never had the representation they have in Canberra if it were not for the direct sale of sites at Kippax, Condor, Jamison and Chisholm. The ACT Government has also previously direct sold service stations to Woolworths for the purpose of encouraging competition between service station operators.

Direct sales are an appropriate tool which may enhance competition by facilitating new entrants (ALDI, Supabarn) into the market place. A comparison may be drawn from the recent entry of Supabarn into the Tuggeranong market through the acquisition of an existing supermarket operation at Wanniassa Group Centre and the expansion of the shop by way of a direct sale of adjoining land. As a consequence of this, Woolworths operations at Erindale and Kambah immediately reduced their prices.[23] Direct sales are envisaged by the Supermarket Competition Policy, but are subject to consideration of the benefits that the direct sale may bring.

The value of direct sales in meeting the benefits sought by the policy reduce to zero or less when those sales are made to the Major supermarket chains. Direct sales of this nature do not bring new players to the market, but entrench existing patterns of market dominance. The Martin Report contemplates direct sales as a means of facilitating new entrants, and we refer to our earlier commentary regarding the interpretation of this term. Supabarn contends that Coles and Woolworths, who collectively have 90% of the Canberra full line supermarket market, are not new entrants and should not be provided new supermarket sites through the direct sale process.

Group Centres

There are seventeen group centres in Canberra. Coles and Woolworths are currently established at fourteen of these centres. ALDI has been introduced into six group centres (both existing stores, direct sales and pre-commitments) and provides genuine competition to Coles and Woolworths. Supabarn maintains a presence in two group centres.

[23] Refer Woolworths promotional flyers for Erindale and Kambah Stores, Attachment M.

It is our opinion, supported by independent economic experts[24] that with the exception of Dickson and possibly Weston Creek there is no other group centre that can sustain two full line supermarkets. Manuka, which is considered one of Canberra's largest group centres had both Coles and Woolworths trading in the centre and eventually Woolworths closed. ALDI has recently refused two direct sales of land in group centres, indicating that the market is saturated. Introducing Coles (or any other second full line supermarket) into group centres will only lead to an oversupply of supermarket retail space and result in the closure of surrounding small businesses whilst taking away market share away from surrounding Group and Local Centre independent supermarkets which may eventually lead to their closure. [25]

Both of the majors are known to have significant resources and market share, operating approximately 800 stores nationally each. Both of the majors are able to support an ailing store in order to maintain a competitive presence in a centre. This could easily lead to a 'war of attrition', whereby two underperforming stores are maintained to no benefit of the community in terms of product diversity or grocery prices, in the hope that one will outlast the other. Ultimately this could lead to planning blight, where large volumes of unused and surplus retail floorspace remain in prime locations within centres, detracting from the attractiveness and viability of the centre as a whole.

Local Centres

Local centres are defined in the Territory Plan relative to local residents (within the immediately surrounding suburb) convenience needs.

It is important to note that the term 'convenience retail or 'convenience shopping' in planning has a specific meaning. It means a relatively small shop tailored to meet the daily (ie, milk, bread and newspaper) needs of a local community. A corner shop or mini-mart would be classic examples. A convenient local location is a key element, with a limited range of goods. This is always (in planning terms) clearly differentiated from the weekly (or fortnightly) trolley shop facility which caters for the major weekly shopping trips to obtain groceries for a family. This is typically catered for by a full line supermarket. For this type of shopping a large supply of car parking is a key element together with a very wide range of goods.

Any direct sales entertained in local centres must be for a purpose commensurate with the role of that centre in the hierarchy.

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[24] Refer to Don Fox Reports dated July 2011, Attachment L, and 31 August 2011 Attachment N, addressing new supermarket proposals in Erindale and Kambah respectively.

[25] Refer to Urbis findings as reported in Don Fox report dated 14 September 2011 (Attachment C) that there is an estimated 316m2 of supermarket floor space per 1000 population in Canberra. This compares to 366m2/1000 in Brisbane, 345m2/1000 in Perth, 244m2/1000 in Sydney, and 298m2/1000 in Melbourne. Assuming that all already approved direct sales and Government pre-commitments are implemented and that no additional space is developed, there would be over 450m2 of supermarket floorspace per 1000 population by 2016, well in excess of other capital cities. See also Supabarn Submission to the Commercial Centre's Review, pg 5-6, Attachment I.

(c) the impact of the policy on operators and consumers

The policy, as it is currently interpreted and implemented, will have the effect of decreasing the market share of independent supermarket operators, resulting in the closure of many independent supermarket operators and small independent businesses (butcher, baker, deli etc) throughout Canberra. The flow on effect of such closures will be the loss of jobs. Independent business is the largest single employer in the ACT outside the public service and Supabarn is the largest locally owned private enterprise employer in the ACT. More importantly closures and market share loss will result in higher prices and less choice for the consumer.

Local suppliers to Supabarn and other independent businesses will also be detrimentally affected as they rely on the success of these operators to continue to trade effectively. Woolworths, which already benefits from strong vertical integration, has recently announced it will increase its focus on home brands which in turn will significantly narrow the market for suppliers. In contrast, Supabarn actively supports a significant number of ACT and regional suppliers who would not otherwise have access to the market.

We attach economic impact studies[26] which confirm that the expansion of the duopoly in most areas of Canberra will have a severe detrimental effect on independent supermarket operators and ultimately consumer choice and price points. This includes the assessment prepared in opposition to the QIC proposal, Coles proposal at Kambah and Erindale and a possible third full line supermarket at Casey. Whilst Giralang is subject to a Supreme Court hearing, several economic impact studies tabled during the possible ACAT hearing confirmed that surrounding local and group centres would possibly be no longer viable.

It must be remembered that Canberra consumers currently have access to all major supermarket retailers within a five to seven minute travel time (with the exception of Costco and Supabarn). Woolworths, Coles and Aldi are easily accessible within these time frames. Canberra has the best road networks and travel times of any major capital city nationally. Therefore, the suggestion that more major supermarket stores are required for the benefit of consumers is simply an argument put to Government to camouflage the real intention of increasing market share to stop new entrants from entering the Canberra market.

(d) Impacts on the retail hierarchy

The structure of urban development in the ACT is predicated on a hierarchy of commercial centres, as expressed through the Territory Plan. The hierarchy derives from a logical spatial analysis process which has sought to locate different scales of centre appropriately relative to their catchment, whilst ensuring the most efficient provision of infrastructure (including public transport), social services and retail offer. A cursory examination of the positioning, layout and access provisions of local centres to group centres and then town centres, with Civic as the metropolitan node, clearly reflects this hierarchy as it has been implemented across the Territory.

[26] Refer Attachments C, L, N, and O.

As an example, group centres are well positioned relative to arterial roads for accessibility purposes (both car and bus), whereas local centres are positioned within the immediate neighbourhood that they serve. As a consequence, group centre scale development is not typically appropriate in a local centre location, due to the traffic impacts relative to the road network that serves them. This relationship can be also been seen when considering the provision of infrastructure, social services and so forth.

Within this context it is appropriate to ensure that the social and community provision of a centre is appropriately scaled relative to its retail offer. These activities mutually reinforce one another, and contribute to the long term sustainability, viability and vitality of a centre. The Territory Plan Community and Recreational Facilities Location Guidelines General Code sets out the locational requirements for a broad range of community assets, and states that *'community facilities generally should be located near retail centres in a position that is relatively central to their long term catchment and at a level of the urban hierarchy that is appropriate to their size and scale'*. Attachment N comprises a list of those facilities addressed by the code, and their desired location relative to the hierarchy.

Until recently the centres hierarchy has been well understood and supported by both planning policy and development application decisions. Even relatively recent policy documents (such as the concept plans released for new Gungahlin local centres) demonstrate a consistent approach to the scale of local centres. It was consequently considered to be a robust basis for investment decisions. However more recent planning decisions, purportedly made in line with the Supermarket Competition Policy have blurred the line between local and group centres, with what has previously been understood to be group centre scale development approved (and facilitated by direct sales) in local centres.

A continuation of this policy approach will ultimately result in a loss of investor confidence, the decentralisation of group centre functions to local centres, and a lessening of the community, infrastructure and efficiency dividends arising from the hierarchy. Increased retail development in local centres will inevitably reduce the competitiveness of other competing local centres, and detract from the viability of group centres. A reduction in investor confidence will reduce ongoing investment in maintenance and upgrades of existing centres, thus hastening decline.

Should the integrity of the hierarchy be further undermined by the loss or decentralisation of retail facilities, the policy imperative of co-location of community assets would also be undermined, thereby reducing community convenience and benefit. In the case of Kaleen, the loss of the anchor supermarket as a result of competing local centre development could ultimately result in the decline or loss of a post office, banking facilities, aged care facilities, sports and community centres and churches . This would further undermine the ability of the centre to fulfil its role, while also compromising the robustness of the wider hierarchy by perverting the direction of trade and reducing beneficial transport planning outcomes arising from linked trips.

Supabarn strongly supports moves to more clearly define the centres hierarchy and a spectrum of development appropriate within those centres, provided that a clearer distinction is drawn between the role and function of each tier of the hierarchy and the scale of supermarket provision in any one centre. These distinctions should be consistent across and recognised in both the Territory Plan and the Supermarket Competition Policy. Quantitative thresholds may assist in this regard and our proposals can be found under point (e) below.

(e) Future applications of planning and competition policies

Supabarn acknowledges that competitive forces should act to lower prices to the benefit of consumers. However this is dependent on the assumption that a perfect market exists; it is clear from recent ACCC actions and statements that an imperfect market exists. Within this context, regulation of land sales and land use is a justified means of addressing market inequities.

The ACT Government is in a unique position in terms of its ability to regulate land sale and land use. The ACT Government needs to make a clear decision as to whether they wish to assist new entrants to compete against the Coles and Woolworths duopoly, which supports the ACCC position.

The Martin Report, the Grocery Inquiry Report, and the ACCC's arguments in the case against Metcash all support Government intervention in establishing competitors to Metcash Coles and Woolworths. Supabarn is an acknowledged competitor, with sufficient expertise and experience in development and supermarket operation to generate real competitive tension, and with the volume to support the establishment of an independent distribution centre providing wholesale product to all independents, not limited to Supabarn. Simply put, an independent warehouse which is vertically integrated with independent supermarket operators would provide cheaper groceries for the consumer.[27] It would also assist in making small independent operators very competitive against Coles and Woolworths. Independent supermarket operators cannot compete with Coles and Woolworths whilst they are purchasing items from a profit centre i.e. Metcash.

This model has been very successful in New Zealand under the trading name Pak N Save. Moves to support Supabarn's position within the market will assist in the achievement of this, thereby addressing overarching policy issues of competition and grocery prices which individual direct sales to facilitate the entrance of second major supermarkets in group centres could not achieve.

[27] Dr Rhonda Smith Attachment K.

Currently, ACTPLA does not consider competition issues when assessing Development Applications and nor should they but the Government should consider competition as a major factor in direct sale decisions. However, it would seem that the major supermarket chains are using planning to overcome policy. Once again Woolworths are attempting to increase their market share by placing large supermarkets in local centres and Coles are using the master planning process of group centres to locate second full line supermarkets next to Woolworths in group centres to achieve greater market share. Ultimately this will result in the possible closure of independent local businesses, as well as undermining the retail hierarchy (i.e. one centre gets too large, the neighbouring centres close resulting in the loss of these facilities for local residents).

Accordingly, we make the following recommendations.

Recommendation 1

Make explicit reference to the Centres Hierarchy in the Supermarket Competition Policy and its Implementation Plan, and ensure that future direct sale applications are assessed with regard to their impact on the integrity of the hierarchy.

Recommendation 2

Vary the Supermarket Competition Policy, its Implementation Plan and the Territory Plan to include consistent definitions for supermarket activities in each tier of the centres hierarchy.

Recommendation 3

Vary the Territory Plan Local Centres Development Code to include the following mandatory requirement:

The maximum Gross Floor Area (GFA) for any supermarket is 1,000sqm gross floor area. For the purpose of assessing GFA, the definition in the Territory Plan should be applied and for the avoidance of doubt, this is to include any associated loading docks and storage areas, whether shared or not, and any commercial or other shop premises within the same building or centre associated with or related to the supermarket or the operator of the supermarket (for example, offices, bakeries or liquor stores).

Any new Crown leases for supermarket activities in local centres should include similar terms.

The imposition of a 1000m2 GFA limit on supermarkets in local centres would marry with the desires of IGA operators as expressed to the Martin Report, and would allow a significant increase in the volume of supermarket floorspace at this level. It would also respond to the issues identified in our submission to the Commercial Centres Review.[28]

[28] Refer to pages 8 to 10, Attachment I.

Recommendation 4

Vary the Territory Plan Group Centres Development Code to impose a mandatory limit of one full line (1500m^2 plus GFA) supermarket in all group centres except Dickson, for which there is a demonstrable need for a second full line supermarket. For the purpose of this proposal an ALDI, SupaIGA or similar complementary retailer under 1500m^2 GFA is not considered to be a full line supermarket. For clarity, this is not intended to place an upper limit on the size of the full line supermarket serving a centre. Most group centres are served by 2500m^2+ full line supermarkets.[29] This threshold would not preclude existing full line supermarkets from expanding further or being established in new group centres.

The proposal to limit the number of full line supermarkets in group centres to one also recognises that competition extends in multiple directions within the hierarchy. Supermarket competition can exist within any one centre (where two or more grocery retailers are located), between centres on the same rung of the hierarchy, and between centres on different rungs of the hierarchy. As identified by Dr Rhonda Smith, given characteristics that are peculiar to the ACT, such as better road networks, detailed planning in relation to the location of stores and the like, the geographic dimension of the grocery retail market may be as broad as the ACT and nearby areas.[30]

Consumers will gravitate towards the centre which best meets their needs notwithstanding the appropriateness of that location, although such needs can be distinguished into retail, social and community needs, and within grocery retail needs, convenience and full line grocery needs.

A 1500m^2 plus full line supermarket in most group centres is more than adequate to cater for the catchment's grocery needs. As discussed above, previous attempts to introduce two supermarkets in a single group centre have resulted in the closure of one.. It is far more satisfactory from an economic health perspective to have a single well functioning full line supermarket in a group centre than to have two poorly performing supermarkets. Allowing more than one supermarket operator in any one centre could provide sufficiently resourced operators the opportunity to wear out the competition, thereby reducing competition and diversity over the long term. The setting of a 1500m^2 threshold rather than, say, a 2500m^2 threshold will ensure that the majors do not have the opportunity to enter the market at, say 2,400m^2 (ie, a basic full line supermarket) whilst facilitating complementary retailers such as ALDI and SuperIGA.

If a second 1500m^2+ GFA supermarket is proposed in a single group centre, the development application should be supported by a retail impact assessment which considers the impact of the development on all levels of the retail hierarchy. Appropriate controls should be inserted into the Territory Plan to secure these outcomes.

[29] Kambah group centre has the smallest supermarket, being a 1600m2 Woolworths.
[30] Dr Rhonda Smith Attachment K.

Accordingly, the restriction of a single full line supermarket in group centres will ensure that centres compete against other centres, whilst ensuring that each centre remains viable in its own right and able to provide the full range of complementary retail and community services needed by the community. Clearly defined limitations that are adhered to in government decisions are essential. If over time, with densification, and in response to economic trends thresholds are to be raised, any movement in the thresholds of one level of the hierarchy must be mirrored by similar movements in the thresholds for other tiers, so to ensure that the hierarchy remains robust and defensible.

Recommendation 6

That the Supermarket Policy expressly adopts the recommendations of the Martin Report; specifically that it is implemented on a case by case basis and that direct sales can only be considered for new entrants. The open slather approach, whilst preferable in a perfect market for competition outcomes and where all operators are starting from the same base (ie, the duopoly has market share to protect), will only serve to assist the incumbents in this highly imperfect market. Any new supermarket site must take economic impact into consideration and must prove that surrounding centres must remain viable and sustainable.

Supabarn believes that should the Inquiry adopt the recommendations set out above, a new distribution centre open to all independent supermarket operators could be established in the ACT. This would generate true competition within the grocery market, enabling independents to be vertically integrated into the supply chain. Local suppliers would prosper as a result of this integration and the opportunity to supply groceries into NSW.[31]

This is supported by federal Industry Minister Kim Carr who has publically accused the majors of 'constricting choice and killing innovation'.[32] Consumers would benefit from lower prices and greater product diversity.

Supabarn urges the Inquiry to be mindful of any measures that would assist the duopoly in maintaining or increasing their dominance in the ACT market. The ACCC's report confirmed that 'found that "vigorous competition between the major supermarket chains is unlikely in the future". In addition Dr Rhonda Smith has advised that any increases to the number of Duopoly supermarket stores in the ACT will not change the number of players at the retail level. [33]

[31] This is supported by the ACCC in their arguments in the Franklins v Metcash case. This is also supported by Dr Rhonda Smith, one of Australia's leading experts in the field of competition economics and a former ACCC Commissioner, Attachment K.

[32] Refer to media articles, Attachment Q.

[33] Dr Rhonda Smith correctly notes that the introduction of additional duopoly supermarkets will not change the number of players at the retail level. Attachment K.

Any policy initiatives which simply increase the number of Woolworths or Coles stores in the ACT, without reference to market share or the benefits that an independent distribution centre could bring to the market as a whole, will not result in any real change for the consumers benefit.

Postscript

In addition to the attachments referred to in the text above, we attach a number of secondary attachments which may be of use or interest to the Select Committee. They are as follows:-

- Attachment R - Dimas Report dated 12 July 2007, addressing supermarket provision in the ACT
- Attachment S - Urbis Report dated 20 July 2007, addressing supermarket provision in the ACT
- Attachment T - Chief Minister Press release dated 6 August 2008, supporting supermarket competition
- Attachment U- Letters of support
- Attachment V – Map illustrating distribution of major full line supermarkets in Canberra.

Yours sincerely
FOR AND ON BEHALF OF
SUPABARN SUPERMARKETS PTY LTD

James Koundouris AAPI
Director

Australian Competition & Consumer Commission

Public Competition Assessment

11 July 2008

Woolworths Limited - proposed acquisition of Karabar Supermarket

Introduction

1. On 25 June 2008, the Australian Competition and Consumer Commission (**ACCC**) announced its decision to oppose the proposed acquisition of the Karabar Supabarn supermarket by Woolworths Limited (**the proposed acquisition**). The ACCC was of the view that the proposed acquisition would be likely to have the effect of substantially lessening competition in the local retail supermarket market in the Queanbeyan region (including Karabar and Jerrabomberra) in contravention of section 50 of the *Trade Practices Act 1974* (the **Act**).

2. The ACCC formed its view on the basis of the information provided by the merger parties and information arising from its market inquiries. This Public Competition Assessment outlines the basis on which the ACCC has reached its decision on the proposed acquisition, subject to confidentiality considerations.

Public Competition Assessment

3. To provide an enhanced level of transparency and procedural fairness in its decision making process, the ACCC issues a Public Competition Assessment for all transaction proposals where:

   - a merger is opposed;
   - a merger is subject to enforceable undertakings;
   - the merger parties seek such disclosure; or
   - a merger is not opposed but raises important issues that the ACCC considers should be made public.

4. This Public Competition Assessment has been issued because the proposed acquisition was opposed by the ACCC.

5. By issuing Public Competition Assessments, the ACCC aims to provide the public with a better understanding of the ACCC's analysis of various markets and the associated merger and competition issues. It also alerts the public to the

circumstances where the ACCC's assessment of the competition conditions in particular markets is changing, or likely to change, because of developments.

6. Each Public Competition Assessment is specific to the particular transaction under review by the ACCC. While some transaction proposals may involve the same or related markets, it should not be assumed that the analysis and decision outlined in one Public Competition Assessment will be conclusive of the ACCC's view in respect of other transaction proposals, as each matter will be considered on its own merits.

7. Many of the ACCC's decisions will involve consideration of both non-confidential and confidential information provided by the merger parties and market participants. In order to maintain the confidentiality of particular information, Public Competition Assessments do not contain any confidential information or its sources. While the ACCC aims to provide an appropriately detailed explanation of the basis for the ACCC decision, where this is not possible, maintaining confidentiality will be the ACCC's paramount concern, and accordingly a Public Competition Assessment may not definitively explain all issues and the ACCC's analysis of such issues.

The parties

The acquirer: Woolworths Limited

8. Woolworths Limited (Woolworths) is Australia's largest grocery retailer. It operates approximately 777 supermarkets across Australia. Woolworths is also the owner or joint owner of approximately 1058 liquor outlets. Woolworths owns two supermarkets near the target; in the Queanbeyan CBD and at Jerrabomberra.

The target: The Karabar Supabarn supermarket

9. The Karabar Supabarn supermarket (the Karabar supermarket) is an independent supermarket and retail liquor outlet owned by Forager Pty Ltd (Forager). The Karabar supermarket operates under the Supabarn brand via a licence agreement with the Supabarn Group. It is located at the Karabar Shopping Centre in Karabar, a suburb about 2km from the town centre of Queanbeyan, NSW, which lies to the east of the ACT.

10. The Karabar supermarket is approximately 1250 sqm. Its range is considerably smaller than that of a full-line supermarket[1]. The ACCC considered that it does not currently provide a strong competitive constraint on the major supermarkets in Queanbeyan and Jerrabomberra.

[1] The ACCC's inquiries indicate while some parties disagree on the precise definition of a full-line supermarket, it is generally considered to be a supermarket of at least 2500sqm with a full range of goods including packaged groceries, fresh meat, bakery and deli departments, fresh fruit and vegetables and frozen foods. Some market participants draw a distinction between basic full-line supermarkets at 2500sqm, and larger, major full-line supermarkets of at least 3000sqm and up to 4500sqm.

The alternative bidder: The Supabarn Group

11. The Supabarn Group is not a party to the proposed acquisition but was also seeking to acquire the Karabar supermarket.

12. The Supabarn Group operates three supermarkets in the ACT (Civic, Wanniassa and Kaleen) and one in Sydney (Five Dock) and has further supermarkets planned, including at Sutherland and Sans Souci in NSW.

Other industry participants

13. In the Queanbeyan region the only other full-line supermarket is operated by Coles (Australia's second largest supermarket operator). It is located in the Queanbeyan CBD. There is also an Aldi supermarket in the Queanbeyan CBD which offers a much smaller range of goods. In addition, there is an independent specialty store called Mother Nature's in the Queanbeyan CBD which offers a range of fresh produce and deli products but limited dry grocery items.

The proposed acquisition

14. Woolworths proposed to acquire the supermarket and packaged takeaway liquor outlet located at Karabar Shopping Centre from Forager.

Areas of overlap

15. The main areas of overlap between the activities of the parties are in supermarket and liquor retailing in the Queanbeyan region.

Timing

16. The following table outlines the timeline of key events in this matter.

Date	Event
07-Apr-2008	ACCC commenced review under the Merger Review Process Guidelines.
24-Apr-2008	Closing date for submissions from interested parties.
29-Apr-2008	Timeline delayed by negotiations on confidentiality restrictions.
01-May-2008	Timeline restarted following negotiations on confidentiality restrictions.
14-May-2008	Proposed date for announcement of ACCC's findings amended from 21 May 2008 to 18 June 2008 to allow for consideration of further information and additional market inquiries.
04-Jun-2008	ACCC published a Statement of Issues outlining preliminary competition concerns. Proposed date for announcement of ACCC's findings amended from 18 June 2008 to 25 June 2008.
12-Jun-2008	Closing date for submissions relating to Statement of Issues.
25-Jun-2008	ACCC announced it would oppose the proposed acquisition.

Market inquiries

17. The ACCC conducted market inquiries with a range of industry participants, including competitors, potential competitors, customers and consumer representatives, wholesale suppliers, government bodies and other interested parties. Submissions were sought in relation to the substantive competition issues.

18. The ACCC also exercised its formal information gathering powers to obtain information and documents from a number of interested parties.

Statement of Issues

19. The ACCC published a Statement of Issues on 4 June 2008 identifying a number of competition issues arising from the proposed acquisition. The Statement of Issues identified a likely lessening of competition in the local retail supermarket market (including between the Karabar supermarket and the Woolworths supermarket at Jerrabomberra) as the main issue of concern.

20. The Statement of issues is available on the ACCC website (www.accc.gov.au) at the informal merger clearances register.

With/without test

21. In assessing a merger pursuant to section 50 of the Act, the ACCC must consider the effects of the transaction by comparing the likely competitive environment post-merger if the transaction proceeds (the "with" position) to the likely competitive environment post-merger if the transaction does not proceed (the "without" position).

22. Based on strong evidence provided by a number of parties on a confidential basis, the ACCC considered that in the absence of the proposed acquisition it was likely that the Karabar supermarket would be acquired by the Supabarn Group, and be expanded and upgraded to a full-line supermarket. Accordingly, this formed the basis of the "without" position for the purposes of the ACCC's competition assessment.

Market definition

Local retail supermarket market

23. Consistent with the ACCC's approach in other matters, the ACCC considered a local retail supermarket market of a 3-5km radius surrounding the Karabar supermarket.

24. The ACCC considered a number of unique geographic factors which were likely to impact on market definition. These included:

    - road barriers between the Karabar supermarket and the Woolworths supermarket located in the neighbouring area of Jerrabomberra;

- the proposed residential development approximately 7km south of Karabar, at Googong; and

- the proposed extension of the Edwin Land Parkway linking eastern Jerrabomberra with Old Cooma Road, approximately 1km south of Karabar, which the ACCC considered would provide a shorter and more direct route for residents travelling from Jerrabomberra to Karabar and/or Queanbeyan and provide an alternative route for residents of Googong to access Canberra. This road passes approximately 1km from the Karabar supermarket.

25. The ACCC considers market definition using a forward looking, purposive approach. Accordingly, the ACCC took into account the likelihood that a larger, more attractive Supabarn Group supermarket offering a greater range, better quality and lower prices than the current Karabar supermarket would likely draw customers from further away. The ACCC also took into account the likely road developments making travel between Jerrabomberra and Karabar easier.

26. The ACCC concluded that the local market included supermarkets both in the Queanbeyan CBD and at Jerrabomberra. Although there is no supermarket in the area to the south of Karabar (including the Googong area), the ACCC noted that many residents of that area shop at the supermarkets in the relevant local market, and that Karabar is their closest supermarket. The ACCC concluded that this will also be the case for residents of the new development at Googong, such that the catchment area of the Karabar supermarket would include Googong, at least during the 5-10 year period prior to the development of Googong's first full-line supermarket.

Other supermarket-related markets

27. Consistent with its approach in other matters, the ACCC also considered the effect of the proposed acquisition in:

- the state wide market for the procurement of products sold in supermarkets by supermarket wholesalers from growers and suppliers of products sold in supermarkets; and

- the state wide market for the wholesaling of products sold in supermarkets.

Liquor markets

28. The ACCC also considered the proposed acquisition in the context of a number of relevant liquor markets. For reasons similar to those outlined above in relation to supermarkets, the ACCC considered the effect of the proposed acquisition in:

- the local market for the retail sale of packaged liquor for off-premises consumption;
- the state wide market for the procurement of packaged liquor for subsequent sale by retail liquor outlets for off-premises consumption; and
- the state wide market for the wholesale of packaged liquor for subsequent sale by retail liquor outlets for off-premises consumption.

Competition analysis – local retail supermarket market

29. The ACCC considered it likely that if the proposed acquisition did not proceed, the Supabarn Group would acquire and expand the Karabar supermarket to accommodate a large format full-range supermarket. The ACCC considered that, when compared to the "with" situation, the entry of the Supabarn Group would lead to higher levels of competitive tension between the Karabar supermarket and the other supermarkets in Queanbeyan and Jerrabomberra.

Supermarket offering at Karabar without the acquisition

30. To determine whether the proposed acquisition was likely to lead to a substantial lessening of competition, the ACCC considered the various components of the likely alternative supermarket offer at Karabar if the proposed acquisition did not proceed. The relevant aspects of the supermarket offer considered by the ACCC are discussed in further detail below.

31. Specifically, the ACCC considered that when compared to the situation 'with' the acquisition, the 'without' position would entail a higher level of competitive tension in the market, resulting in increased competition on pricing and promotions, range, quality of fresh produce, service levels. There may also be an additional competitive response by existing players to the opening of the supermarket by a new operator.

Pricing and promotions

32. The Supabarn Group seeks to compete with other full-line supermarkets on everyday shelf pricing by offering prices which are similar to or lower than those of its competitors.

33. In addition, the Supabarn Group runs a number of weekly promotions offering consumers discounts on certain items. Woolworths, Coles and Aldi run similar promotions.

34. Promotional discounts offered to consumers usually differ between each of the supermarket chains so that at any given time, Woolworths is offering promotional discounts on certain items, while the Supabarn Group, Coles and Aldi are offering promotional discounts on other items. Promotional discounts are often deep discounts on a limited range of known value items (KVIs), used to attract customers to a particular supermarket. Customers are made aware of the weekly

discounts through a range of advertising channels including catalogues, newspaper advertisements, television advertisements and in-store advertising.

35. The net result of having access to each of these supermarkets in a local market at the same time, with the ability to shop around for specials, provides a benefit to consumers arising from competition.

36. The ACCC considers that many consumers value the opportunity to shop around at a variety of supermarkets in their local area, seeking the benefits of multiple supermarket offers, including differences in prices and promotions. The ACCC understands that most consumers shop at more than one supermarket each week. The benefits of having access to a larger number of separately owned supermarkets in a local market include the ability to purchase different items at lower prices at each supermarket, since each supermarket has lower prices than its competitors on some items, but no supermarket has the lowest price on every item. Consumers can select their own 'basket' of items, purchasing each item at the cheapest available price, thereby paying a lower total price than they would if they shopped at only one supermarket, even if that supermarket is cheaper on average.

Range

37. Supabarn Group supermarkets are large format full-line supermarkets that offer a broad range of products that, in number, is similar to or greater than that offered by Woolworths or Coles. In addition, there are a number of differences in the composition of the range of products from those offered by Woolworths or Coles; for example, the Supabarn Group is well placed to supply local and specialty products from suppliers that are either too small or otherwise unable to supply the larger supermarket chains.

Fresh produce

38. The Supabarn Group promotes itself as providing high quality fresh produce and a different range of produce to Woolworths and Coles and seeks to use this as a point of difference in competition with them.

39. The Supabarn Group provided evidence that it has a short supply chain for its fresh produce, which allows it to offer fresh produce to customers in-store on the same day the as it is purchased from the markets.

40. In addition, the Supabarn Group's procurement and supply arrangements for fresh items differ from those used by Coles and Woolworths. This means that the Supabarn Group is able to offer discounts and specials on some fresh items at certain times while Woolworths and/or Coles are better able to offer discounts on other items. Similar to the benefit arising from promotions as outlined above, the net result of having access to each of these supermarkets in a local market at the same time provides consumers with the ability to shop around and to take advantage of the differing specials on fresh produce.

Service levels

41. The ACCC received submissions from consumers and others suggesting that the Supabarn Group offers higher service levels than its competitors. For example, the Supabarn Group promotes itself as employing more staff per customer in each store, meaning that staff are more readily available to customers and checkout queues are shorter.

42. More generally, the presence of an additional strong competing supermarket in the same local market provides a strong incentive for each supermarket to offer shorter queues; customers faced with long queues may leave without making a purchase, and expected queuing time based on past experience may influence the customer's choice of supermarket.

Bundled liquor

43. Where liquor licensing laws allow it to do so, the Supabarn Group offers a full range of liquor for purchase adjacent to its supermarkets (as do Woolworths and Coles). Liquor and supermarket shopping trips may be complementary and the Supabarn Group would be in a position to offer such a "bundle" in Karabar, which increases the attractiveness of its supermarket offer to customers seeking a one-stop-shop.

44. The ACCC considers that a combined liquor and supermarket bundle is attractive to some customers and would enhance the competitive offer of the Supabarn Group at Karabar under the 'without' position. The proposed acquisition by Woolworths would reduce the number of supermarket operators offering a combined supermarket and liquor bundle in the Queanbeyan region from three to two, since Woolworths and Coles both have attached liquor stores (Aldi's NSW stores do not sell liquor).

Additional competitive response to entry

45. The ACCC's inquiries confirmed that some supermarket operators respond to the entry of new full-line supermarkets (such as the Supabarn Group) in a number of ways, including by offering discounts and additional promotions in their nearby supermarkets.

46. Some of the details of these responses are confidential, but broadly, the ACCC is aware that some supermarkets operators distribute catalogues offering discounts on a number of KVIs in the local area surrounding some new supermarket entrants and supermarkets which have been refurbished or upgraded. These competitive responses are additional to the normal promotional activity conducted by these supermarkets and chains.

Conclusion on supermarket offering at Karabar without the acquisition

47. The ACCC considered that the Supabarn Group's offer, which includes a large range which differs from those of Coles and Woolworths, a high level of service, high quality produce, and price and promotional competition, is an attractive

bundle to many supermarket customers, and would impose a strong competitive constraint on other full-line supermarkets.

48. The ACCC considered that the entry of the Supabarn Group into the Queanbeyan region, via an expanded Karabar supermarket, would likely lead to significantly higher levels of competition and competitive tension between large format full-line supermarkets in the local market when compared with the likely outcome if the proposed acquisition by Woolworths proceeds.

49. On the basis of this, the ACCC formed the view that the proposed acquisition would be likely to substantially lessen competition in the local retail supermarket market when compared to the 'without' position.

50. The ACCC notes that it conducted its analysis on the basis of the 'without' position, namely that if the proposed acquisition did not proceed, the Supabarn Group would acquire, expand and operate the Karabar supermarket as a new competitor in the local market. While the analysis may differ to some extent if, instead of the Supabarn Group, a different independent operator acquired the supermarket and pursued a similar proposal (i.e. entering the local market at Karabar and seeking to expand to offer a full-line supermarket), it is still likely that the new independent operator would seek to compete via the various components of its offer, as outlined above. While an alternative independent full-line supermarket's offer would differ from that of Supabarn, it would provide an alternative full-line supermarket in the local market and enhance competitive tension.

Additional local considerations

51. In addition to the analysis of the local market described above, which led the ACCC to conclude that the proposed acquisition would be likely to result in a substantial lessening of competition in the relevant local market, the ACCC considered a number of factors specific to the region which are likely to further impact the level of competition in the local market with and without the acquisition. A number of these factors strengthened the ACCC's view that the proposed acquisition would substantially lessen competition.

52. These include local geographic factors, local road design, the proposed residential development at Googong, to the south of Karabar, and the proposed extension of the Edwin Land Parkway which will provide a more direct link between Jerrabomberra and Karabar.

53. A brief outline of the ACCC's inquiries into these proposed developments and their likely effect on supermarket competition is provided below.

Proposed residential development at Googong

54. The ACCC considered the impact on competition of a proposed residential development located at Googong, approximately 7km south of Karabar. The proposed development is likely to consist of 5,500 new dwellings built over the next 25 years. It is likely Googong will eventually be serviced by several retail areas, including one primary retail area containing a large format full-line

supermarket. The ACCC considered that the Googong development is likely to occur but that it may be at least two to three years before construction begins and a further five to ten years before Googong has its own large format full-line supermarket.

Proposed extension of the Edwin Land Parkway

55. The ACCC considered the prospect of the proposed development of the Edwin Land Parkway and the effect this would have on competition. It is proposed that Edwin Land Parkway will be extended to link Jerrabomberra to Old Cooma Road approximately 1km south of the Karabar supermarket.

56. While there are a number of processes that need to occur prior to construction commencing, given the information available, the ACCC considers that construction of the Edwin Land Parkway extension is highly likely to occur. The exact timing of the extension is unclear. While construction may commence as early as mid 2009, given the steps still requiring completion, the ACCC considers that construction is more likely to occur either in late 2009 or early 2010.

Competition between Woolworths Jerrabomberra and the Karabar supermarket

57. The ACCC considered the effect of the proposed extension of Edwin Land Parkway and the Googong developments on competition in the local market generally, as well as the impact on competition between the Karabar and Jerrabomberra supermarkets specifically.

58. First, the ACCC considered the effect on competition of the current level of road access between the Woolworths supermarket at Jerrabomberra and the supermarkets in the Queanbeyan CBD. Currently, since Karabar is not a full-line supermarket, the closest full-line supermarket to the Jerrabomberra supermarket is located in the Queanbeyan CBD, where Woolworths, Coles and Aldi each have supermarkets. The Jerrabomberra supermarket is located within a 4.5km radius from the Queanbeyan CBD. However, there are a number of barriers that prevent direct access between Jerrabomberra and Queanbeyan. By road, the distance between the Jerrabomberra supermarket and the Queanbeyan CBD is approximately 5.5km on back streets or 6.5km on main roads.

59. In addition, a large proportion of the dwellings in Jerrabomberra are located to the south and east of Jerrabomberra which means that travelling distance to the Karabar supermarket and Queanbeyan CBD for those residents is significantly increased. The ACCC considered that these factors currently limit the possibility and degree of substitution between the supermarket at Jerrabomberra and the supermarkets in the Queanbeyan CBD.

60. However, the extension of Edwin Land Parkway is likely to improve access to the Karabar supermarket, particularly for those residents located in the south and east of Jerrabomberra. This will have the consequence of increasing the ease of substitution, and therefore the potential for competition, between the Jerrabomberra supermarket and an expanded, full-line Karabar supermarket.

61. While the extension of Edwin Land Parkway will also improve access for residents of Jerrabomberra to the Queanbeyan CBD, the ACCC noted that Karabar lies between Jerrabomberra and the Queanbeyan CBD. Following the opening of the Edwin Land Parkway extension, the Karabar supermarket will be the closest competitor of the Woolworths supermarket at Jerrabomberra and will therefore provide a closer competitive constraint than the supermarkets in the Queanbeyan CBD, but only if the Karabar supermarket and Jerrabomberra supermarkets are separately owned.

62. The ACCC also considered the effect on competition of the proposed residential development at Googong. The relevance of this development is that Jerrabomberra and Karabar supermarkets will be the two closest supermarkets to this development and, if they are separately owned, are likely to compete for the business of Googong residents, particularly in the years before Googong has its own full-line supermarket. The proposed acquisition would foreclose the possibility of any such competition because both the Karabar and Jerrabomberra supermarkets would be owned by Woolworths.

63. The ACCC considered it likely that the new road and residential developments, when combined with the entry of a full-line Supabarn Group supermarket at Karabar, will lead to an increase in competitive tension between the Karabar supermarket and the supermarket at Jerrabomberra. Residents of Karabar and Jerrabomberra would no longer need to travel to the Queanbeyan CBD to access a second full-line supermarket, and the Karabar supermarket would provide the closest full-line supermarket for Googong residents during the 5-10 year wait for development of Googong's first full-line supermarket. In comparison, if both the Jerrabomberra and Karabar supermarkets were owned by Woolworths, there would be no incentive for competition between them.

64. Given the location of Karabar between Jerrabomberra and the Queanbeyan CBD, the ACCC considered that the strength of this competitive tension could not be fully replaced even by a new entrant (for example, the Supabarn Group) in the Queanbeyan CBD.

Conclusion on local considerations

65. On the basis of the above, the ACCC formed the view that the proposed acquisition was likely to prevent competition between the Woolworths supermarket at Jerrabomberra and the Karabar supermarket.

New entry in the local market

66. As outlined in the ACCC's Draft Merger Guidelines, the ACCC considers that if there is a high likelihood of timely and sufficient entry in all relevant markets post-merger, the merged firm is unlikely to have market power either pre- or post-merger and therefore the merger is unlikely to result in a substantial lessening of competition.

67. The ACCC assessed the likelihood of new entry, or the threat of new entry, in the local market and whether any such likely entry or expansion would act as a

sufficient constraint on Woolworths to alleviate the ACCC's competition concerns in relation to the proposed acquisition.

68. The ACCC noted that the Queanbeyan City Council (QCC) has called for expressions of interest to develop one of two sites in the Queanbeyan CBD – either the Queanbeyan Leagues Club Site (also know as the Rutledge St Car Park Site) or the Morrisett St Car Park Site. Following its inquiries, the ACCC formed the view that it is likely that one of these sites will be developed in the foreseeable future, but not both. It is a possible that a supermarket will form part of the development of whichever of these sites is chosen by the QCC.

69. However, as developers are responsible for determining the composition of the development proposals submitted to the QCC, there is considerable uncertainty as to whether the successful development proposal will include a supermarket. While a supermarket often acts as an anchor tenant in retail developments, it is possible for a range of alternative retail stores to anchor such developments; for example, a Discount Department Store (e.g. Big W) or cinemas. It is up to each developer to decide whether to include a supermarket in their proposal. As such, the question of whether a supermarket will form part of any development on one of the aforementioned sites will be dependent on the plans of the successful developer following the QCC process.

70. Further, if a new supermarket were developed on the site, there is no certainty that this would be a new entrant rather than an existing supermarket operator.

71. While the QCC included supermarkets on a list of possible developments in its document seeking expressions of interest, it has not indicated a strong preference either for or against the inclusion of a supermarket. It has, however, expressed a desire to construct a cinema complex in the development. The QCC will need to wait until expressions of interest are finalised before making a decision on the preferred proposal.

72. Apart from those sites mentioned above, the ACCC considered it unlikely that any additional sites in the area will become available for a full-line supermarket development in a sufficiently timely manner to prevent a substantial lessening of competition.

Conclusion on new entry

73. The ACCC considered that while there is some prospect of the development of an additional supermarket in the Queanbeyan region, this prospect is highly uncertain. Importantly, even if a new supermarket were to open, there is no certainty that it would be a new entrant to the local market (like the Supabarn Group) rather than an additional Woolworths or Coles store. Given this uncertainty and the lack of other suitably located and zoned sites, the ACCC considered that access to suitable new sites constitutes a high barrier to entry, and that there was not sufficient prospect of competitive new entry to alleviate the competition concerns raised by the proposed acquisition.

Conclusion on competition in the local market

74. On the basis of the above the ACCC formed the view that the proposed acquisition of Karabar Supabarn by Woolworths Limited would be likely to result in a substantial lessening of competition in the local retail supermarket market.

Competition analysis – procurement and wholesale markets

75. The ACCC considered the effect of the proposed acquisition on competition in the market for the procurement of goods sold in supermarkets from suppliers and the wholesale market for goods sold in supermarkets.

76. Supermarket chains compete with each other and with independent supermarket wholesalers to acquire products from growers and other producers for subsequent retail sale. The proposed acquisition would lead to a small increase in the volume of supermarket products acquired by Woolworths, and a similar decrease in the amount acquired by its competitor Metcash, which supplies products to the Supabarn Group. Similarly, the proposed acquisition would lead to a small reduction in the wholesale volume of Metcash.

77. However, given the size of the transaction relative to the size and number of players in the relevant procurement and wholesale markets, the ACCC considered that the proposed acquisition is unlikely to result in a substantial lessening of competition in these markets.

Competition analysis – markets for the retail, procurement and wholesale of liquor

78. The ACCC also conducted an assessment to determine whether the proposed acquisition would lessen competition in the relevant liquor markets.

79. There are a number of competitors who will continue to impose a constraint on Woolworths if it acquires the Karabar liquor licence. Further, and in contrast to the situation with respect to supermarkets, the "with" and "without" scenarios (whereby Woolworths and the Supabarn Group would respectively operate the liquor store adjacent to the Karabar supermarket) are not substantially different.

80. Accordingly, the ACCC has formed the view that no substantial lessening of competition is likely in the local market for the retail sale of packaged liquor for off-premises consumption, although the ACCC notes that the ability of the Supabarn Group to offer liquor adjacent to its supermarket would enhance its ability to compete with Woolworths and other existing players for supermarket customers.

81. The ACCC's assessment of the likely impact of the proposed acquisition on the wholesale and procurement markets for packaged liquor mirrors its assessment for these markets in relation to supermarkets. The ACCC considers that no substantial lessening of competition is likely in these markets.

Conclusion

82. On the basis of the above the ACCC formed the view that the proposed acquisition of the Karabar supermarket by Woolworths Limited would be likely to result in a substantial lessening of competition in the local retail supermarket market in contravention of section 50 of the Act. As such, the ACCC decided to oppose the proposed acquisition.

PAGE	EXTRACTS FROM THE ACCC INQUIRY REPORT	COMMENTARY
XVII	<u>Competition in grocery retailing</u> There are a number of factors that currently limit the effectiveness of price competition. ▪ The most significant underlying factor explaining the nature of competition in the grocery sector is the high barriers to entry. ▪ It is the ACCC's view that the appropriate policy response is to attempt to lower barriers to entry and expansion, in both retailing and **wholesaling to independent supermarkets and potential new entrants.** ▪ Australian consumers would significantly benefit if Coles and Woolworths faced more competitive threats that encouraged more aggressive pricing strategies. **ACCC found that large independent stores add competitive price tension to grocery retailing (page 169).**	"High barriers to entry" means poor site availability. A unique opportunity exists in Canberra to tackle this problem because Canberra is the only jurisdiction in Australia where a single government controls the land supply and the planning regime. The provision of sites for development for full line competitors as recognized by the ACCC would achieve the desired outcome. ACT Government are in a unique position where they are able to direct sale land to independent supermarket operators who are recognised by the ACCC as competitors to the major supermarket chains. The provision of sites for development for full line competitors as recognized by the ACCC would achieve the desired outcome.
XIX	<u>Is access to sites a problem?</u> ▪ Access to suitable sites is a critical barrier to entry or expansion. The ACCC investigated the relationship between Coles and Woolworths and shopping centre developers very closely. ▪ Because of the reputation that Coles and Woolworths have in driving sales both retailers are considered almost "must have" tenants for any successful large-scale shopping centre. **This does create a significant barrier for other supermarket operators.**	Any proposal which includes the expansion of an existing centre or the development of a new centre which includes Coles or Woolworths as a tenant only exacerbates this problem. This is essentially what Coles is planning at Erindale, Kippax and Weston.
76	**Coles and Woolworths clearly dominate large supermarket sites with around 87% of supermarkets of sales area above 2000m2, and around 96% of supermarkets of sales area above 3000m2.** **Other operators face difficulties in establishing large, full-line supermarkets.**	Competitors to the major supermarket chains must grow to continue to improve buying power with the ultimate goal being its own distribution centre in Canberra. This would allow even more aggressive discounting. NB: It is well documented that both Coles and Woolworths run different pricing at each location depending on competition. The more players the more competition, the lower the pricing.

Summary of ACCC Inquiry Report

PAGE	EXTRACTS FROM THE ACCC INQUIRY REPORT	COMMENTARY
120	**ACCC found more vigorous competition between the major supermarket chains unlikely in the future.**	A proposal from Coles to expand in the ACT will not result in greater competition. Coles already have eight stores in Canberra with a new store at Dickson imminent and a further expansion of their Gungahlin store to 7,000m².
120	**ACCC found that major supermarket chains do not seek market share through aggressive price discounting.**	Coles and Woolworths already dominate the Australian and ACT market. Further sites to Coles would only accentuate the duopoly. Coles and Woolworths do not genuinely compete with each other as it is a battle neither can afford to have.
XIV	**The ACCC has identified the following key findings that currently limit the level of price competition including the following.** ▪ High barriers to entry and expansion particularly in relation to difficulties in finding new sites for development. ▪ **The limited incentives for Coles and Woolworths to compete aggressively on price.**	New supermarket entrants who compete directly with Coles and Woolworths are unable to expand into new sites because of the strong market share of the two majors. This is because they are able to use their market share to out bid their competitors – whether it be at auction to purchase a new site or when leasing a site from a developer by simply raising their prices in a geographical area where they have a strong hold. Ultimately the consumer pays for the purchase of the site. A more streamlined process of releasing Territory owned sites for supermarket development targeted to new entrants who are considered by the ACCC as full-line competitors of Coles and Woolworths.
XVI	▪ "Statistics analysed by the ACCC suggest that Coles and Woolworths account for approximately 70% of packaged grocery sales in Australia and approximately 50% of fresh product sales". ▪ Coles and Woolworths are much more significant in relation to larger stores accounting for around 87% of all supermarkets above 2000m2.	New/existing full line operators who have been identified by the ACCC as being able to compete at the same (or better) level of product and service as the majors.

PAGE	EXTRACTS FROM THE ACCC INQUIRY REPORT	COMMENTARY
105	<u>Competition between the Major Supermarket Chains (Coles and Woolworths)</u> **Key Points** ▪ Stronger price competition between the Major Supermarket Chains is most likely to occur through disruption of the prevailing pricing behaviours caused by entry or expansion of other grocery retailers.	This finding confirms the need for the facilitation of entry of independent full line supermarket operators through planning and land release mechanisms.
121	<u>Barriers to entry and expansion</u> There are several factors that suggest the Major Supermarket Chains can expect the future competitive environment to be relatively stable. Each of the chains.... **The prospect of other competitors entering the sector in direct competition also remains low at the moment.**	Where the market is stable and, expected to remain so, there is little likelihood that the level of competition on prices will increase to the long term detriment of consumers. The only way to reverse this situation is to help new entrants into the market and disrupt the "stable" market.
169	<u>ACCC's view</u> Many large Metcash-supplied independent grocery retailers add competitive price tension to grocery retailing. The evidence available to the ACCC suggest that in some cases Metcash-supplied independent retailers **may offer grocery prices comparable to, or cheaper to the major supermarket chains.**	In Canberra, Metcash supplies the IGA branded supermarkets. Whilst these do not compete with Woolworths and Coles on range of product - a typical IGA store is only say 10 – 20% the size of a full line supermarket - they are never the less a significant element in the market. Even so, they do not have the potential to resolve the competition issues identified by the ACCC because the vast majority of IGA stores have no significant capacity for expansion. Most IGA stores are either individually owned or do not have the volume to price competitively. A single full-line store operator is not competition as they do not have the buying power and are an easy target for the majors.
241	<u>Recommendation</u> The ACCC recommends that all appropriate levels of Government consider ways in which zoning and planning laws and decisions in respect of individual planning applications where additional retail space for the purpose of operating a supermarket is contemplated should have specific regard to the likely impact of the proposal on competition between supermarkets in the area. **Particular regard should be had to whether the proposal will facilitate the entry of a supermarket operator not currently trading in the area.**	Coles currently has eight (8) stores in the ACT. This will increase to nine (9) shortly with Dickson. Any proposal which facilitates the further expansion of the duopoly should be refused by Government as it will not facilitate the entry of a new competitor.

PAGE	EXTRACTS FROM THE ACCC INQUIRY REPORT	COMMENTARY
264	<u>Will new entry occur?</u> Large format independent supermarkets do exist and in some cases offer serious competition to the Major Supermarket Chains in particular local areas. **However, the barriers to entry are substantial and any change in the current structure of the package grocery large format supermarket shopping environment is likely to be slow.**	Supabarn has three stores in Canberra, two in Sydney and a further two under development in Sydney. It would like to establish several more stores in these markets, but this will only be possible with pro-active assistance from Governments, particularly the ACT Government, where both land supply and planning are controlled by Government. Supabarn is now the largest independent supermarket chain in ACT/NSW. With the opening of their new sites in Sydney, Supabarn will be one of the largest full line independent operators nationally.

SUMMARY

The 2008 Grocery Inquiry Report conducted by the ACCC was initiated by the Federal Government in response to the market share of the Coles/Woolworths duopoly. Accordingly, a proposal by Coles to substantially further increase its market share in the ACT will only further diminish the market share of ALDI, Supabarn and other independents. Such a proposal is anti-competitive and certainly in conflict with the Martin Report and the 2008 Grocery Inquiry Report.

Ultimately such a proposal will have the effect of preventing the establishment of an independent warehouse (short/medium term) which requires a certain amount of volume in order to commence operations. The importance of such a warehouse is demonstrated by the ACCC in its decision to block the purchase of Franklins by Metcash.

In summary, the ACT supermarket market cannot sustain an additional 64,000m² of supermarket floor space. The total unplanned supermarket floor space is 33,000m² of which Coles represents 15,000m² under the Coles proposal (Weston, Erindale, Kippax, Gungahlin Super Store). Such a proposal, if it were to proceed, would not only result in the closure of independent supermarkets as they do not have the market share to support stores operating at a loss but the opportunity for an independent warehouse would also be jeopardised.

JAMES KOUNDOURIS AAPI

Don Fox Planning
Incorporating Hirst Consulting Services

planning consultants

town planning
economic & retail assessment

Celebrating 30 years 1981–2011

14 September 2011
Our Ref: 7718A.2ER

Koundouris Group
GPO Box 77
Canberra City ACT 2601

Attention: James Koundouris, Development Manager

ACT Supermarket Floorspace Provision

Dear James

Some economic planning specialists place significant weight on the quantum of retail floorspace that is provided on a per capita basis (ie – the amount of retail floorspace provided based on xm^2/person).

In our opinion, the application of such a subjective methodology as a benchmark for the supply of floorspace (be it retail or supermarket floorspace) is somewhat risky unless it can be demonstrated what floorspace has been included and what parameters for determining the population base have been used. And even if these matters can be determined, the supply of supermarket floorspace can be influenced by many other outside factors.

For example, the amount of supermarket floorspace 'required' by a population (based on a per head of population) may be reduced if an area has a higher provision of specialty food and grocery stores.

In addition, the trade area of a supermarket (which needs to be defined in order to ascertain the supply benchmark) is not always rigid. This may be due to a number of factors including the potential for there to be degree of overlap between catchments of different stores and centres.

Supermarkets can also function appropriately in areas where there may only be a limited resident population because they have access to other sources of trade such as workers and passing trade. In such an instance, the supply benchmark would be skewed to suggest that the supermarket floorspace has been provided at a much higher rate (in terms of m^2/person) compared to the supply benchmarks of other areas.

Furthermore, if there is a significant amount of supermarket floorspace immediately outside an estimated trade area, measuring supermarket floorspace provision per capita within a defined trade area holds little relevance.

As demonstrated below, there does not appear to be a 'standard' in terms of the supply of supermarket floorspace per capita throughout Australia.

In terms of considering a supply 'benchmark' for supermarket floorspace, the following table compares the supply of supermarket floorspace within Australian capital cities in 2009/10.

11 Dartford Road
Thornleigh NSW 2120
ABN 24 551 441 566

PO Box 230
Pennant Hills NSW 1715
DX 4721 Pennant Hills NSW

t : 02 9980 6933
f : 02 9980 6217
e : dfp@donfoxplanning.com.au

www.donfoxplanning.com.au

Table 1 Provision of supermarket floorspace		
Location	**Supermarket floorspace provision (m^2/person)**	**Supermarket floorspace provision (m^2/1,000 persons)**
Melbourne	0.298m^2/person	298m^2 per 1,000 persons
Brisbane	0.366m^2/person	366m^2 per 1,000 persons
Perth	0.345m^2/person	345m^2 per 1,000 persons
Sydney	0.244m^2/person	244m^2 per 1,000 persons
Canberra	0.35m^2/person (2008/09)	350m^2 per 1,000 persons
Australia	0.32m^2/person (2009)	320m^2 per 1,000 persons
Source: Urbis Retail Averages Report 2009/2010 for all cities except Canberra Canberra: Background Paper Supermarket Retailing in the ACT (ACTPLA September 2009)		

According to the data in **Table 1**, Brisbane has the highest supply of supermarket floorspace (in terms of m^2 per person) at 0.366m^2 per person whereas Sydney has the least amount.

According to the Background Paper Supermarket Retailing in the ACT (ACTPLA September 2009), in 2009 there was 113,778m^2 of supermarket floorspace in ACT.

Since the publishing of the Background Paper, there has a significant increase in the supply of supermarket floorspace in ACT. A Costco development has commenced operation near Canberra Airport. In addition to this facility a Woolworths supermarket will commence operation at the airport in late 2011/early 2012. These two facilities have a combined floorspace of 18,000m^2.

In addition to these two 'unplanned' facilities, a further 29,000m^2 of planned supermarket floorspace is proposed to be introduced into the market in the near future. Some of these planned facilities have commenced operation or will do so in the near future. The planned supermarket floorspace is described in **Table 2** below.

Table 2 Planned Supermarket Floorspace in ACT		
Centre	**Store/operator**	**Floorspace (m^2)**
Casey Group Centre	Supabarn	3,500
Casey Group Centre	ALDI	1,500
Crace Local Centre		1,500
Amaroo Group Centre		3,500
Bonner Local Centre		2,000
Gungahlin Town Centre	Coles (expansion)	3,000
Chisholm Group Centre	ALDI	1,500
Kambah Group Centre	Woolworths (expansion)	2,000
Charnwood Group Centre	Woolworths (expansion)	2,000
Kingston Group Centre	Supabarn	3,000
Dickson Group Centre	Coles	4,000
Dickson Group Centre	ALDI	1,500
	Total	**29,000**
Source: ACT Government		

Based on these floorspaces, the population of ACT would need to increase by more than 134,000 persons to 'absorb' the increase in planned and newly provided supermarket floorspace (based on the current supply benchmark of 0.35m^2/person in the ACT). According to the population projections undertaken by ACTPLA in October 2007, the population of Canberra is only likely to increase by 18,900 persons between 2010 and 2016.

Therefore, if all the planned supermarket floorspace proceeds there will be an oversupply of supermarket floorspace (in terms of m^2 per person) compared to supply benchmarks for other areas including current supermarket floorspace provision in ACT (which is already greater than that of Sydney and Australia).

In addition to the planned supermarkets listed in **Table 2** there are a number of new facilities under consideration. These 'unplanned' facilities include:

- Coles, Erindale 4,000m^2
- Coles, Weston Creek 4,000m^2
- Coles, Kippax 4,000m^2
- Canberra Centre 4,200m^2
- Woolworths, Giralang[1] 1,500m^2

In addition to these unplanned facilities, the potential for a third supermarket of 4,000m^2 to be provided within the Casey Group Centre needs to be factored in.

If the third supermarket at Casey proceeds, together with the 'unplanned' supermarkets, there is the potential for a further 21,700m^2 of supermarket floorspace (in addition to that already considered and/or built) to be developed.

If all planned and unplanned supermarkets proceed, there could be a total of **182,478m^2** of supermarket floorspace within Canberra. This amount of floorspace comprises:

- 113,778m^2 of existing supermarket floorspace in 2009.
- 29,000m^2 of planned supermarket floorspace.
- 18,000m^2 of unplanned supermarket floorspace already constructed and operating.
- 21,700m^2 of unplanned supermarket floorspace (including the third supermarket at Casey).

Table 3 is a comparison of supermarket floorspace provision in Canberra factoring in existing and all known planned and unplanned floorspace. Assumptions as to when floorspace might be provided have been made however, given that consideration of these supermarkets has been undertaken, it has been assumed that all planned and unplanned facilities will be provided by 2016. Population projections are the projections for Canberra based on the 2007 ACTPLA projections.

The estimates in Table 3 do not include convenience stores in service stations or other small grocery stores less than 100m^2 in area. These facilities provide a valuable service in terms of supplementing supermarkets and attract a proportion (albeit small) of the retail expenditure directed to supermarkets. Therefore the presence of these facilities will impact on the amount of supermarket floorspace provided for a population.

[1] This supermarket has been approved by ACTPLA

Table 3 Estimates ACT Supermarket Floorspace Supply 2009 - 2016			
Year of provision	**Population (persons)**	**Supermarket floorspace supply (m^2)**	**Supply (m^2/person)**
2009	347,600	113,778	0.33m^2/person
2011	355,300	131,778 [1]	0.37m^2/person
2012	358,450	138,778 [2]	0.39m^2/person
2013	361,550	153,778 [3]	0.42m^2/person
2014	364,750	160,778 [4]	0.44m^2/person
2016	370,750	182,478 [5]	0.49m^2/person

Notes:

[1] Includes Costco at 14,000m^2 and Woolworths at Canberra Airport of 4,000m^2

[2] Includes 2,000m^2 at Bonner local centre, 1,500m^2 ALDI at Chisholm, 2,000m^2 expansion of Charnwood Woolworths, 1,500m^2 Giralang Woolworths

[3] Includes Supabarn at Casey (3,500m^2), ALDI at Casey (1,500m^2), Supabarn at Kingston (3,000m^2), Coles at Dickson (4,000m^2) , Coles at Gungahlin (3,000m^2)

[4] Includes supermarket at Crace local centre (1,500m^2), supermarket at Amaroo Group Centre (3,500m^2), expansion of Woolworths at Kambah (2,000m^2)

[5] Includes Coles Erindale (4,000m^2), Coles Weston Creek (4,000m^2), Coles Kippax (4,000m^2), supermarket in Canberra Centre (4,200m^2) ALDI at Dickson (1,500m^2) & third supermarket at Casey (4,000m^2)

Based on the ACTPLA 2007 population projections there could be 370,750 persons in Canberra in 2016. If all of the above supermarket floorspace was provided by 2016, there would be 0.49m^2 of supermarket floorspace/person which is significantly more than the supermarket floorspace provision in any other Australian capital city.

As previously discussed, in our opinion, there are a number of shortcomings of utilizing a supply benchmark methodology instead of a conventional economic assessment technique which considers a number of factors including population characteristics and growth potential and the existing and potential retail network.

The provision of floorspace based on an arbitrary supply benchmark ignores the many other factors which could impact on the capacity of a new or existing facility to trade effectively. However it does suggest that the ACT appears well supplied in terms of existing supermarket floorspace and is likely to experience an oversupply if all planned and unplanned facilities proceed.

We trust this advice is of assistance. Should you have any questions regarding the matters discussed in this letter please contact Ellen Robertshaw of DFP on 9980 6933.

Yours faithfully

DON FOX PLANNING PTY LIMITED

ELLEN ROBERTSHAW
PARTNER
erobertshaw@donfoxplanning.com.au

him!
research &
consulting

Coles Local

Ashburton, Victoria

Coles Local

- Coles currently operate supermarkets, liquor outlets and Convenience Stores
- They are the number 2 player in supermarkets and Liquor and number 3 in the convenience channel
- Fuel Discounts through the supermarket division have created loyalty between the existing the business
- The opportunity though to use Convenience stores as "top up" destinations like the UK have been limited by the offer and pricing
- Hence Coles Local has been born…

coles

coles.com.au

LIQUORLAND

VINTAGE CELLARS

1ST CHOICE LIQUOR SUPERSTORE

coles express

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Entry

- Traditional forecourt space
- Maintains fuel alignment
- No pumps on one side next to store, so it becomes a drive through for easier parking access (15 car parks)

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Greater Fresh Involvement

- A real statement on the fresh offer
- On entry this is straight ahead with the counter to the left
- Single unit purchases rather than per kg on fruit and veg (e.g. Mandarin @ 35c or apple @ 95c)
- Both fresh bakery and branded national offer
- Milk @ $2 for 2 litre…Out of Stock!

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Meals...Yes Meals!

- A full two bays of ready to eat meals with pricing positioned either in line or slightly above grocery
- A front gondola end of either a salad gnocchi and salad @ $12 or Indian meal for two @ $25
- The front unit selection is line priced with grocery

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Grocery Gondola Ends

- All "grocery product" front ends with grocery pricing
- Full ends of featured products
- Sharp price strategy
- If you were only walking to the front counter this is what you would pass

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Grocery Exposure

- 5 aisles of groceries with a mix of branded and private label products…not overdone on private label
- Pricing on Coles brand is in line with grocery pricing while branded sits marginally above the supermarket
- Major "snack", "top up" or "entertaining" focus

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Impulse Presence

- A presence however not a focus
- 11 Doors of beverages…significant
- Ice Cream Unit on back end not near counter plus take home in freezer
- Confectionery on "walk way" to counter however not at counter
- Impulse pricing on marginally above "grocery" pricing…significantly below "traditional Convenience"

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Food to Go

- Front of store next to counter
- All self serve
- More a presence than a focus with limited Hot Food, sandwiches and bakery items
- Permanent Combo deals available

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Front Counter

- An open front of store/exit
- Newspapers and cigarettes only items available near counter
- You have one entry and one exit point
- No confectionery at front counter only on walk up to it
- Room for baskets on front counter

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Thoughts...

- A real step into an area in between traditional grocery and convenience
- No doubt the strong grocery presence/pricing is a way of using current market place advantage
- While ranging impulse lines it is not "the" focus, although pricing may shake up the market
- Fresh presence with Coles branding gives the store credibility
- Parking initiative alleviates some of the traditional issues within the market
- Baskets at front door (no trolleys) give to the traditional "top up" shop
- Confectionery away from the front counter is going to be an interesting experiment

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Australian Competition & Consumer Commission

GPO Box 3131 Canberra ACT 2601
23 Marcus Clarke Street Canberra ACT
tel: (02) 6243 1111 fax: (02) 6243 1199
www.accc.gov.au

NEWS RELEASE

ACCC appeals Metcash judgment

The ACCC today announced it is appealing against the Federal Court's judgment dismissing the ACCC's application to prevent Metcash from acquiring the Franklins supermarket business.

"We are appealing this case for two reasons," ACCC Chairman Rod Sims said today. "First, because of the adverse effect of the proposed acquisition on independent supermarket retailers, consumers and competition in the NSW and ACT grocery sector. Metcash, with this proposed acquisition, will have an ability to increase prices and/or reduce service to independent supermarket retailers.

"Second, the ACCC is appealing because, if left unchallenged, the Court's interpretation of some fundamental principles of merger analysis could have serious implications for the ACCC's ability to block anti-competitive mergers and so protect consumers in the future," Mr Sims said.

The ACCC has carefully considered the judgment and believes the Court made a number of significant legal and factual errors in dismissing the ACCC's application to stop the proposed acquisition.

The ACCC sought an injunction in the Federal Court in December last year to prevent the proposed acquisition proceeding.

The ACCC took this action because it considered that the proposed acquisition was likely to result in a substantial lessening of competition through the removal of Metcash's only real competitor for the wholesale supply of packaged groceries to independent retailers in NSW and the ACT.

"We remain concerned that the proposed acquisition would remove any future ability for those independent retailers to choose from whom they get their grocery supplies," Mr Sims said.

"We have had a number of submissions from independent retailers and others that competition to Metcash at the wholesale level is necessary for them to control the cost of their goods."

An alternative wholesale option provides a direct competitive constraint on Metcash. For example, in response to Franklins offering franchise agreements to independent retailers in NSW and the ACT, Metcash offered independent retailers in NSW and the ACT an additional rebate of up to 1.2 per cent on their wholesale purchases if they entered into a five year supply agreement with Metcash.

"To put that into perspective, rebates represent a significant proportion of an independent retailer's profit. The total rebate paid by a wholesaler to a retailer is typically only around 2 to 3 per cent; so the additional rebate of 1.2 per cent represented an increase in the order of 40-60 per cent to the rebates of those retailers. The increased rebate was a huge benefit to independent supermarket retailers who received it; and it would not have come about without wholesaling competition between Metcash and Franklins," Mr Sims said.

The ACCC has closely examined the grocery industry over the years, including the role of Coles and Woolworths, who are by far the largest players. The ACCC has consistently

noted the competitive constraint these chains impose at the retail level, particularly on larger independent supermarket retailers located close to a Coles or Woolworths store. However, the most immediate competitive constraint on Metcash is direct competition at the wholesale level. The acquisition of Franklins would remove the only option for independent retailers who are unhappy with what Metcash offers them.

The ACCC's second concern is the Court's interpretation of some fundamental principles of merger analysis.

In relation to market definition, for example, the decision taken by the Court in the Metcash case is at odds with the Full Federal Court's decision in the 1994 Davids Holdings case. In that case the Court affirmed that there was a market for the wholesale supply of packaged groceries to independent retailers.

"The key question in relation to market definition is 'what product is supplied to independent retailers, and where could they turn for alternatives?' The answer is clear: the product is the wholesale supply of packaged groceries to independent retailers, and unhappy Metcash customers in NSW and the ACT can only turn to Franklins and in rare cases Spar for alternative supply," Mr Sims said.

"Another important issue in merger analysis is that the ACCC has an obligation to examine the competition effects of alternative outcomes. A fundamental question is how certain do these alternative outcomes need to be before being accepted as the relevant benchmark against which to measure any anti-competitive effects of the merger," Mr Sims said.

"The Court's approach, through its application of an onerous test, would make it an unrealistic task for the ACCC in future matters to establish what is likely to happen in the market if a merger doesn't proceed. For example, in applying the test to the circumstances of this case, where the ACCC contended that a consortium of independent retailers was likely to acquire all or a large part of Franklins if the Court stopped the Metcash acquisition, the Court appeared to expect that the consortium satisfy stringent and commercially unrealistic standards. Amongst other points, this included satisfying the Court that Franklins' owner Pick n Pay would likely accept the offer (when the ACCC believed it may have an incentive to ensure that the Court is not satisfied of this point) and to provide evidence as to who would buy or take a franchise of any unwanted stores should the consortium choose not to retain all 80 stores," Mr Sims said.

The Court also gave considerable weight to the stated preferences and intentions of the seller in determining the likely market outcome if the merger does not proceed. This raises the important general question of how the Court assesses a seller's reaction in such circumstances. Clearly a seller will realise they will receive a higher price from a close competitor, who expects competition to diminish, than from other buyers.

"If this judgment goes unchallenged it may entrench the principle that the intentions and preferences of the seller are critical to deciding how likely it is that alternative buyers will have a real chance of success," Mr Sims said.

Media inquiries

- Mr Rod Sims, Chairman, (02) 6243 1108 0408 995 408

General inquiries

- Infocentre 1300 302 502

Release # NR 167/11

Issued: 9th September 2011

Metcash ruling undermines retail competition, says ACCC

Michael Evans
October 25, 2011

Ads by Google

GroceryRun.com.au GroceryRun.com.au
As seen on A Current Affair Save up to 80% OFF groceries

Price hike ... Metcash has been allowed to purchase Franklins. Photo: Jim Rice

SUPERMARKET shelf prices could rise if a Federal Court judge's decision to allow grocery wholesaler Metcash to buy Franklins and become a monopoly supplier to independent supermarkets is not overturned.

On the opening day of an appeal to the judgment allowing Metcash to proceed, the Australian Competition and Consumer Commission argued the court had failed to identify a competitive market in the supermarket wholesale industry. The ACCC said that if its appeal succeeded, it would seek orders forcing Metcash to divest Franklins stores.

Allan Myers, QC, for the ACCC, argued that the original judgment that a beefed-up Metcash would allow independent retailers to be more competitive against supermarket chains Woolworths and Coles was wrong. Instead, the deal created a significant reduction in competition in wholesale supply to independent supermarkets.

"On the commission's pleaded market, Metcash is now a monopolist," the ACCC argued. "The pricing differentials and pricing discretion inherent in Metcash's wholesale pricing indicate that Metcash will have the ability to implement price increases to a material number of independent retailers it supplies compared with the likely use of the Franklins assets without the merger."

In response, Metcash said the ACCC was changing tack after having failed in its original case to establish there is a separate market for the wholesale supply to independent supermarket retailers of packaged groceries. The ACCC said price rises would be "significant at the wholesale level" and may be passed on at the retail level even though the "price increase at the retail level will be relatively small".

The ACCC submission said Metcash actively sought to "exclude other firms from supplying packaged groceries to independent retailers, for example, the purpose of Metcash's plan to acquire the Franklins assets was to remove Franklins as an alternative source of supply.

"The competitive harm from the merger arises from the fact that Metcash, by its acquisition of the Franklins assets, has become the sole source of supply for the range of packaged groceries needed by independent retailers," the ACCC said.

It said the deal would allow Metcash to offer favourable pricing to stores in a competitive market environment against the major supermarkets, and not to others.

Regulator predicts Metcash price rises

Hannah Low

Grocery wholesaler Metcash will jack up prices if it is allowed to hold on to 90 Franklins stores, the competition regulator has warned.

Metcash would become a monopolist in the wholesale independent groceries market if its $215 million acquisition of rival Franklins was not knocked back by the court, the Australian Competition and Consumer Commission argued yesterday.

The arguments are part of the ACCC's appeal to the full Federal Court in a bid to overturn a decision of judge Arthur Emmett that the deal was pro-competitive and should be allowed to proceed.

"The compelling inference is that Metcash will likely 'behave persistently in a manner different from the behaviour that a competitive market would enforce on it' and competition as a consequence will have been substantially lessened", the ACCC says in its written opening submissions.

Metcash would also have an "incentive to increase prices", the ACCC claims, unless there is an alternative for supply for independent retailers.

Allan Myers, QC, for the ACCC, told the court there was "close competition" between Metcash and Franklins, creating a direct constraint, whereas the major supermarket chains represented only an "ultimate" or indirect constraint.

"There's no doubt in a sense that the major supermarket chains dominate the entirety of the grocery industry ... but that does not mean there are not separate areas of close competition which it is the function of [the law] to protect."

Metcash was not part of the same market as the major supermarket chains, Mr Myers argued, because it had pricing discretion and "pricing dispersion at the retail level".

The market propounded by the commission was artificial and divorced from commercial reality.

Metcash submission

It was not correct to say independent stores had to price the same as the majors, Mr Myers told the court, referring to a Metcash pricing analysis.

Another reason why Metcash was not directly constrained by Coles and Woolworths, he said, was because of its discriminatory pricing, where it charged some customers more for the same product. There were also examples of Metcash's "significant" and "direct" response to Franklins entering the wholesale market.

The appeal is being run despite judge Peter Jacobson refusing to grant an injunction in favour of the ACCC to prevent Metcash and Franklins from pushing ahead with the deal.

The supermarket rivals completed the deal at the end of September, but can be ordered to divest the assets if the commission's appeal succeeds.

It needs to overturn a number of findings by Justice Emmett to be successful.

It contends the merger would remove Franklins' only genuine rival in supplying packaged groceries to independent retailers in NSW and the ACT. But the trial judge said the merger was "quite likely" to help independents such as IGA take on Coles, Woolworths and Aldi.

Metcash and Franklins both support the decision of the trial judge and are defending the appeal.

"The market propounded by the commission was artificial and divorced from commercial reality,' Metcash contends in its written opening submissions.

Metcash will continue its argumen today.

Australian Competition & Consumer Commission

GPO Box 3131 Canberra ACT 2601
23 Marcus Clarke Street Canberra ACT
tel: (02) 6243 1111 fax: (02) 6243 1199
www.accc.gov.au

NEWS RELEASE

ACCC WILL CLOSELY WATCH USE OF MARKET POWER WARNS ACCC CHAIRMAN

Rod Sims, new chairman of the Australian Competition and Consumer Commission made his first address to the Melbourne Press Club today, putting a number of sectors on notice, including the major supermarket chains.

"The two major supermarkets have significant market power, with many smaller suppliers feeling they lack a real ability to negotiate supply arrangements. The ACCC can and will watch closely to ensure any such dealings do not involve unconscionable conduct by the supermarkets," Mr Sims said.

"To give another example, supermarkets sell both branded and their own private label products. This vertical integration in the supply chain needs close scrutiny to ensure the supermarkets do not misuse their market power under Sector 46."

Mr Sims pointed to a number of other areas where bargaining power was an issue, and outlined a range of methods to deal with imbalance.

"Telecommunications, particularly the National Broadband Network, and the operation of our major airports are sectors where ACCC oversight will be vigilant in the interests of both consumers and access seekers," Mr Sims said.

On telecommunications, Mr Sims expressed particular concern about the rollout phase of the NBN where service providers will continue to be reliant on Telstra's copper network.

"During the transition it is crucial that there is equivalence of outcomes, that there is a level playing field so that the competitive landscape is not distorted as the NBN is rolled out."

The ACCC has raised concerns about the monopolistic practices of Australia's major airports for some time. Mr Sims outlined an approach to encourage true commercial negotiations between airports and their users, free of the use of market power.

"When airport users are negotiating with the airports, they can have access to an outcome arbitrated by the ACCC if required. This is part of our most recent submission to the Productivity Commission on the subject," Mr Sims said.

Mr Sims also said the ACCC would embrace the challenge to "keep the competition torch burning to see competition introduced into new areas."

"Sound competition policy – when it is carefully thought out – provides benefits for consumers and for society overall.

"Under my chairmanship I intend that the ACCC will be a sometimes noisy proponent of this view. We are the major Federal Government agency with the word '*Competition*' in our title. So I believe it is part of our job."

Media inquiries
Mr Rod Sims, ACCC Chair, (02) 6243 1108 or 0408 995 408
General inquiries
Infocentre: 1300 302 502
NR 189/11
10 October 2011

IGA DISTRIBUTION

LEADING INDEPENDENTS FORWARD

IGA Distribution Pty Limited
ABN 67 004 391 422
50 WATERLOO ROAD
MACQUARIE
NSW 2113 AUSTRALIA

PHONE: 02 9741 3000
FAX: 02 9741 3399
WEB: www.metcash.com

20th October 2011

[redacted]

Dear Customer

RE: Service Fee Variation

In 2006/2007 IGA Distribution introduced a service fee via a five cents per case charge. After a review of the method used (five cent per case charge) in the application of the service fee increase, we have formed the view that this method is inappropriate.

We have therefore decided to remove the five cent per case charge and adjust the service fee gates. The service fee gates will be adjusted to reflect the current service fee value plus the value of the five cent per case fee.

This change will be effective week commencing 31st October 2011. Your current service fee is 2.9% and from 31st October 2011 your service fee will change to 3.29%. Attached is a copy of the current service fee schedule and the new service fee schedule for your records.

In summary

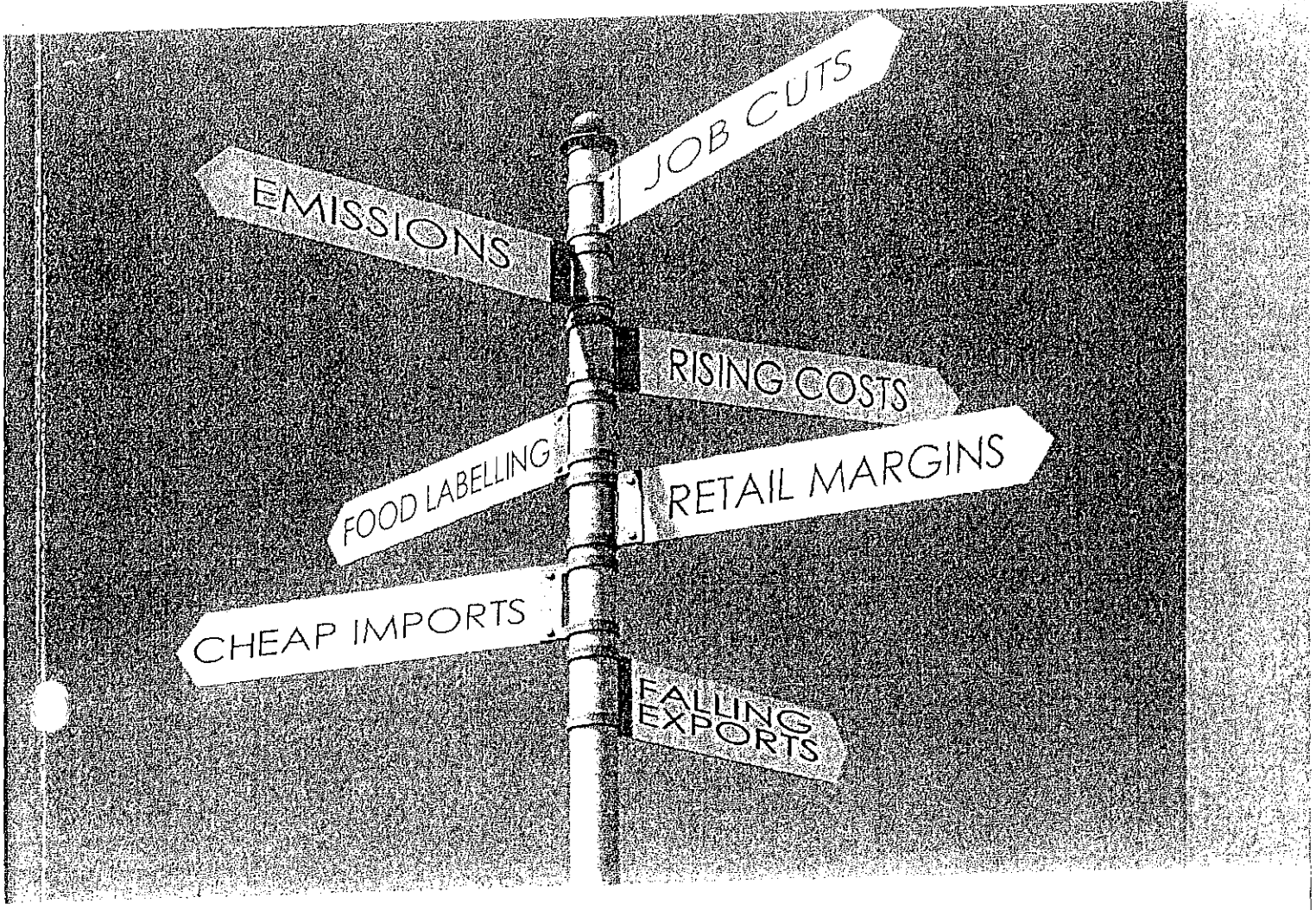
- The five cent per case service fee will be removed as at the effective date.
- The current service fee gate will be increased to reflect the current service fee plus the five cents per carton.
- Tobacco currently attracted a five cent per case service fee as from 31st October 2011 there will be no service fee charge on tobacco products.

If your store is host supported and you want the new total cost in one file, please contact Retail Systems on (02) 8822 3640 or email on nretsys@metcash.com

Yours sincerely,

Derek Lundberg
General Manager NSW

Average Weekly Withdrawals ($'000)				
Gate #	Withdrawal	Service Fee % Current	Service Fee % New Rate	Increase
1	0 to 5	6.50%	6.60%	0.10%
2	5 to 7.5	5.30%	5.58%	0.28%
3	7.5 to 10	4.80%	5.34%	0.54%
4	10 to 12.5	4.40%	4.85%	0.45%
5	12.5 to 15	4.10%	4.62%	0.52%
6	15 to 17.5	4.00%	4.32%	0.32%
7	17.5 to 20	3.90%	4.26%	0.36%
8	20 to 22.5	3.80%	4.22%	0.42%
9	22.5 to 25	3.70%	4.06%	0.36%
10	25 to 27.5	3.60%	3.97%	0.37%
11	27.5 to 30	3.55%	3.90%	0.35%
12	30 to 35	3.50%	3.86%	0.36%
13	35 to 40	3.45%	3.79%	0.34%
14	40 to 45	3.40%	3.73%	0.33%
15	45 to 50	3.35%	3.68%	0.33%
16	50 to 55	3.30%	3.64%	0.34%
17	55 to 60	3.25%	3.56%	0.31%
18	60 to 70	3.20%	3.52%	0.32%
19	70 to 80	3.15%	3.44%	0.29%
20	80 to 90	3.10%	3.41%	0.31%
21	90 to 100	3.05%	3.36%	0.31%
22	100 to 110	3.00%	3.34%	0.34%
23	110 to 120	2.95%	3.32%	0.37%
24	120 to 150	2.90%	3.30%	0.40%
25	150 to 200	2.85%	3.16%	0.31%
26	200 +	2.80%	3.09%	0.29%

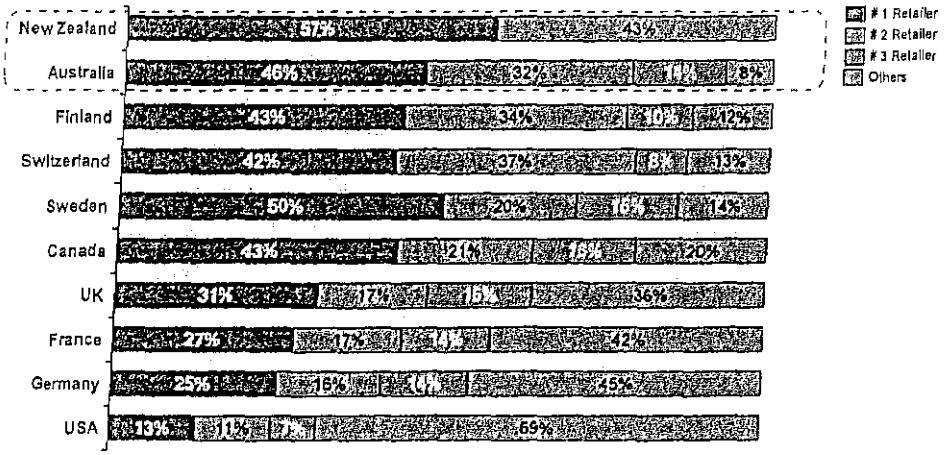


Australian Food and Grocery Council

A.T. KEARNEY

The top three supermarket retailers in Australia comprise ~92 per cent[9] of total supermarket sales, which places it in the top two most concentrated food retail markets in the world. Only New Zealand, which is a relatively small market (population 4.3 million) and often a 'satellite' of Australian based Retail Operations, is materially more concentrated than Australia.

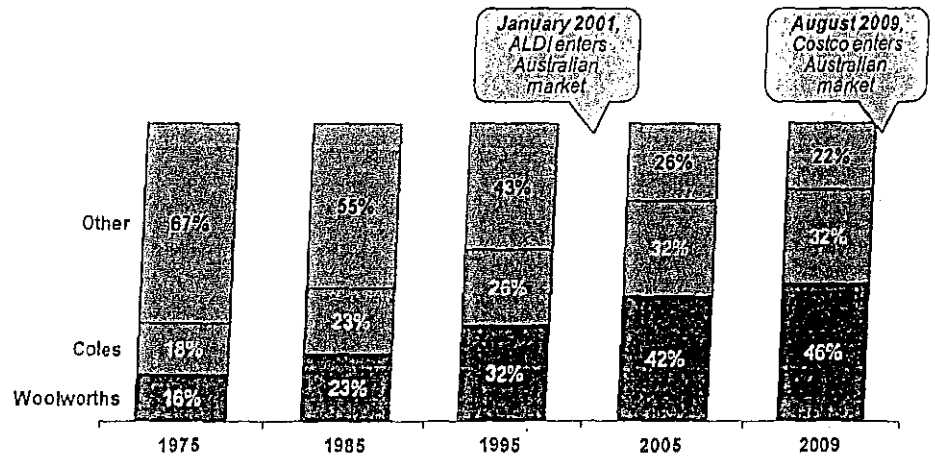
Figure 14: Market Share of Top Three Supermarket Retailers by Country



Source: Coriolis Research, USDA Foreign Agricultural Service, Retail Food Sector Annual Report France, UK, Finland, Sweden, BMO Capital, Canadian Grocers 2011, The Food and Beverage Industry in Germany, Germany Trade and Invest 2010-11, Planet Retail

Within the supermarket channel, Coles and Woolworths have ~78 per cent share of the market, up from about 47.5 per cent in 1995. IGA is the third largest player and currently has a 14.4 per cent share of the supermarket channel. Coles and Woolworths have continued to gain market share despite the entry of new players such as ALDI (launched in Australia in 2001) and Costco (launched in 2009).

Figure 15: Market Share of the Major Supermarket Channel[10]



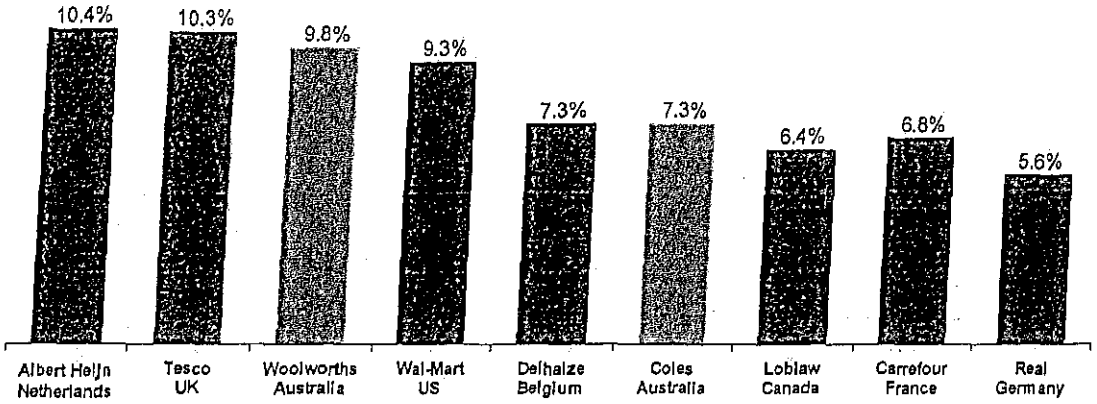
Source: Planet Retail

The high level of market concentration is partly reflected in Coles and Woolworths financial performance relative to comparable international retailers. Coles and Woolworths are within the top 30 food and grocery retailers in the world by revenue and are also amongst the most profitable (see Figure 16). In 2009, Woolworths Australia's Earnings before Interest, Taxes, Depreciation,

[9] Australian market share data relates to 2009
[10] Other includes IGA, ALDI, Foodworks, Franklins, SPAR

Amortization and Rent (EBITDAR) margin was higher than Wal-Mart's, and within the sample set only Albert Heijn in the Netherlands and Tesco in the UK generated higher levels of profitability.

Figure 16: Comparison of EBITDAR margins for Grocery Retailers[11]



Source: Citi Investment Research

Over the last five years, the market leaders in the retail sector have consolidated their supplier base to one to two preferred suppliers in many categories (in addition to their own private label or owned brands). This has enabled them to set commercial terms, more tightly integrate with suppliers and restructure their supply chain. The strength of Coles and Woolworth's market position gives them a superior negotiating position and anecdotally many food and grocery manufacturers (particularly in more commodity type categories) now see themselves largely as price 'takers'.

These suppliers in commodity type product categories, such as milk, and/or products without a strong brand are most exposed as their connection and perceived differentiation with the consumer is weaker. Across surveyed companies, manufacturers of commodity style products reported limited success in passing on increases in raw material input costs which have increased significantly over the last few years (see section 2.2.4 for more detail). In comparison, manufacturers of iconic branded products indicated that the major retailers were willing to adjust wholesale prices to reflect significant increases in raw material commodity inputs.

However, some multi-national companies who manufacture globally-branded products have commented in interviews that the major retailers have used the threat of 'parallel' imports to push back on wholesale prices. This is more evident and successful in categories where the consumer may have no perceived affinity (from a taste perspective) with the locally manufactured product.

[11] Coles and Woolworths reflects Food & Liquor segment only.

Barriers to Entry and Expansion in Grocery Retailing

The ACCC inquiry report into the competitiveness of the Australian Grocery Retailing environment considered a number of barriers to entry faced by new entrants to grocery retailing and by smaller players wanting to expand.

Access to Suitable Sites: Submissions to the inquiry raised concerns that the access to suitable sites was a significant barrier to establishment of independent supermarkets in the local area. These barriers prevent smaller players from competing more effectively with the major supermarket chains.

- Shopping centre landlords' prefer to lease sites to the major supermarket chains over independent supermarkets. Additionally, the number of supermarkets within centres is generally determined by the size of the centre and the mix of large anchor tenants and smaller specialty shops. ALDI is an exception and has been able to gain access to leases in a number of shopping centres as landlords consider ALDI to be a beneficial addition to their tenant mix. However ALDI's business model, which concentrates on limited lines in stores of around 1000m2 makes it less difficult for ALDI to obtain sites than larger full service supermarkets.

- The market dominance of the major supermarket chains affords them a stronger bargaining position in negotiating access to high quality retail sites which are sometimes charged to them at a lower comparative rent. Major supermarket chains sometimes restrict landlords from introducing a second, or third, supermarket over a certain size into a centre for a specific period of time.

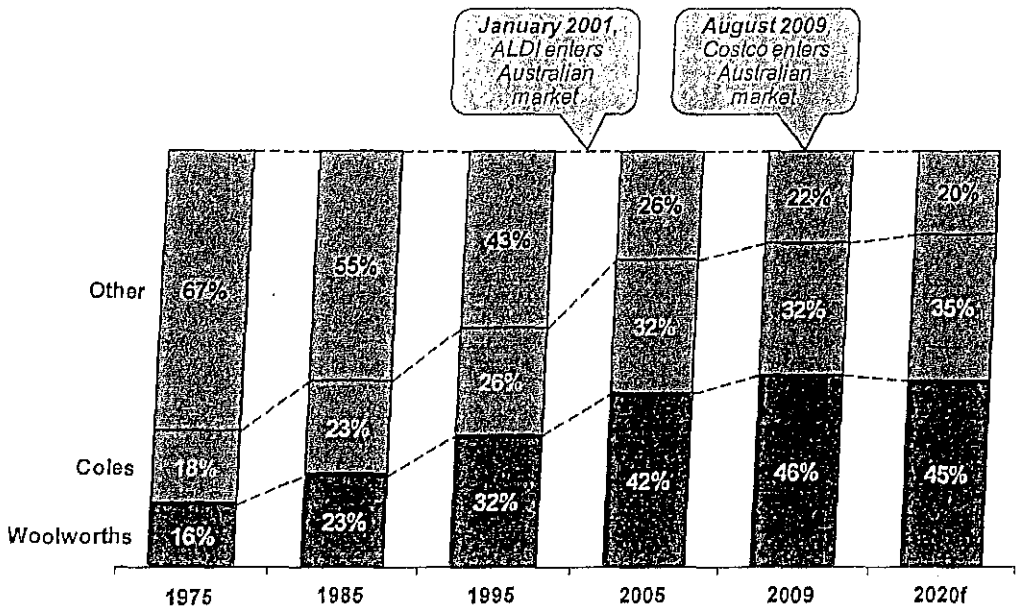
Planning and Zoning Issues: State planning regimes can act as a barrier to new supermarkets being established in local areas. The purpose of planning regulation in the retail market is to release land at a rate at which to achieve 'orderly' or 'desirable' development and maintain the existing character and structure of communities.

- Planning agencies do not currently take into account the impact on competition when considering new proposals for development.
- Planning laws also allow the incumbent operators to delay the operations of new developments by raising objections. This creates additional restrictions on competition in retail markets.
- The ACCC has recommended that consideration of planning decisions should have specific regard to competition issues, particularly where it would facilitate the entry of a supermarket not currently trading in the area.

Source: Report of the ACCC inquiry into the competitiveness of retail prices of standard groceries, Australian Productivity Commission, Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

Coles and Woolworths are expected to maintain or increase their market share position from 78 per cent of total supermarket sales today to 80 to 85 per cent of total sales in 2020 (see Figure 44). ALDI and Costco's planned store growth is not expected to materially dilute Woolworths and Coles market position.

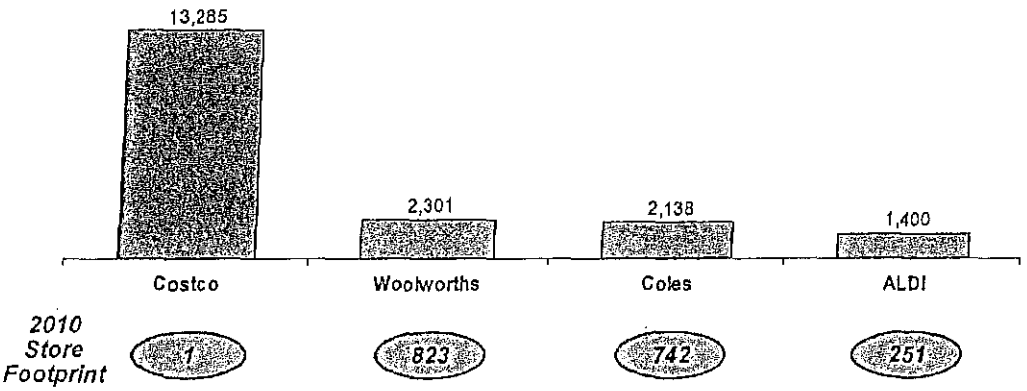
Figure 44: Forecast Grocery Retail Market Share



Source: Retail World, A.T. Kearney forecast

Even if ALDI achieves its planned store growth targets, it is only expected to absorb 0.7 per cent of the industry's growth each year. ALDI's historical pace of store growth in Australia has been about 25 to 35 stores per annum. Analyst forecasts predict that this number could ramp up to 40 to 50 stores each year to reach more than 650 stores by 2020. Given ALDI's average store size and implied revenue per store is smaller than the major retailers, an increase in store openings to 40 to 50 per year, only translates into a 0.7 per cent share of supermarket sales growth.

Figure 45: Average Store Size for Australian Supermarkets
2010



Source: Citi Investment Research

Analysts are predicting, based on management plans, that Costco will have a much slower expansion of about one store per annum due to the difficulty in obtaining suitable sites of the appropriate size for its mega store format. Given this, Costco is not expected to represent a significant threat to Coles and Woolworths.

Submission – Commercial Centres Review

Supabarn has prepared this submission in response to the Commercial Centres Review. Supabarn operate supermarkets in the ACT in the Canberra Centre and at the Kaleen and Wanniassa Group Centres and also currently operate a warehouse at the Canberra Airport, although this facility is being relocated elsewhere. Supabarn also operate three supermarkets in Sydney (Sutherland, Gymea and Five Dock) with plans for further expansion.

The Martin Report into supermarket competition in the ACT concluded that Supabarn was the only independent supermarket operator in the Territory providing larger format stores and competing against the major national chains.

Our submission directly addresses some of the questions raised in the discussion paper and also raises additional issues that we consider should be taken into account in reviewing the existing development codes for the commercial centres.

Centres Hierarchy

The discussion paper acknowledges the hierarchical approach to the development of commercial centres in Canberra and throughout Australia. It is worth noting that this approach to the development of centres has not only been promoted by planning policies but in practice is the 'organic' way in which commercial activity has developed over time, not only in Australia but across the world.

The centres hierarchy has been an important management tool for allocating commercial activity to achieve, among others, retail objectives, Its intention has been not to protect individual businesses from competition but to provide certainty to commercial investors about where to invest ..' (Retailing in Canberra p1). This is particularly important under a leasehold system where the government continues to have an interest in the land as in the ACT.

As an organizing principle, Supabarn consider that the centres hierarchy has served Canberra well while allowing for the development of centres that are responsive to the needs of the trade areas they serve. As a consequence within each level of the hierarchy there is a diversity of centres in terms of size, range of goods and services provided, character and built form.

Supabarn Supermarkets Pty Ltd
Trustee for Teamhold Trust

Head Office
Level 1, Cooyong Centre
3 Torrens Street
Braddon ACT 2612

All Correspondence to
PO Box 999
Civic Square ACT 2608

Telephone 02 6257 1777
Facsimile 02 6257 6446

ABN 29 912 093 478

Supabarn strongly support the retention of the commercial centres hierarchy. Apart from the benefits to Canberra that the hierarchy has delivered, we support its retention as a principle of the National Capital Plan.

The centres hierarchy is a principle on which the National Capital Plan is based. In relation to centres the NCP states:

- One of the key principles of Canberra's urban structure has been that a hierarchy of centres has been developed ... (p84)
- Centres at each level in the hierarchy form the focus of a range of retail, commercial and community facilities and services, in which specialisation increases at successively higher levels (p85)
- The integrity of the hierarchy of centres has broadly been maintained with the levels fulfilling distinct but complementary functions (p85)
- Each town will have a town centre. The Territory Plan will **provide for a range of lower order centres** to meet the varying needs of residents (p85).

The National Capital Plan includes three principles for urban areas. The second of these states that '**a hierarchy of centres will be maintained** ... (p86).

Further we consider that the hierarchy should be reinforced in the proposed revisions to the Territory Plan. The 2008 Territory Plan substantially reduced the significance of the centres hierarchy. We believe that this has not and will not serve Canberra well. In particular it has:

- reduced the level of certainty within the retail system, particularly for retail lessees an operators, and
- created a situation where the integrity of the hierarchy is being challenged through attempts to introduce major supermarkets into local centres.

If local centre supermarkets can increase to the size of group centre supermarkets the inevitable outcome will be that retailers in surrounding local and group centres will close. A group centre which expands substantially could also affect the operation of a town centre. None of these outcomes contribute to a key objective of the centres hierarchy which is to offer residents of each district convenient and equitable access to goods, services and facilities (ACTPLA Retailing in Canberra).

In summary, Supabarn believes that the intention to retain the centres hierarchy should be clearly stated in the proposed commercial zones policy and that its significance should be strengthened beyond that in the current Territory Plan.

In this context the intent and role of the centres hierarchy should be apparent in the zone objectives and the relevant codes, not only in the centres overview but also in the rules and criteria.

Objectives for the Commercial Zones

The discussion paper asks 'what should be the objectives of the Territory Plan's commercial zones' and notes that there are currently six commercial zones, of which three apply in various combinations to group and town centres. Local centres have a separate local centre zone. The Territory Plan objectives relate to each of these zones.

As a consequence the only statement of the role and function of group and town centres appears in the overview of the commercial zones in the development codes for each type of centre. This substantially undermines planning and development of the centres hierarchy. In contrast the local centre objectives are specifically stated.

Supabarn believes that the role of the centres hierarchy would be more clearly articulated if the zones for commercial centres referred to the type of centre rather than to the type of activity, that is, to City, town, group and local centres. Supabarn does not have a specific view on CZ5 and CZ6 zones, which are typically of a different character and form to the other zones.

The objectives for the four levels of the centres in the retail hieararchy should clearly distinguish the intended role and function of each level in the hierarchy, including the extent of trade area (immediate suburb, cluster of suburbs, district, and metropolis). The overview statements in the current codes would provide a basis for this.

Supabarn also supports the amalgamation of the current zones within the core of the town centre but considers that these areas should continue to be distinguished from the service trades (or fringe) areas.

Notwithstanding the above comments about objectives, Supabarn considers that the distinction between the core and the fringe areas of the town centres and group centres should generally be retained in those centres with more than one zone. We do not support the broad scale rezoning of CZ2 and CZ3 areas to CZ1 in order to permit supermarkets or other large format retail developments, for the following reasons:

- development of additional supermarkets and also DDS's in group centres should be undertaken on a case by case basis rather than by rezoning much of the fringe of group centres for this purpose

- it would be more difficult to maintain retail activities in group centres which typically occupy lower rental space and often contribute much to the character and identity of group centres, and

- the location of supermarkets in fringe retail areas will in some cases have an adverse impact on the operation of the retail core and especially the viability of small-scale owner operated shops, that depend heavily on pedestrian traffic. This is likely to occur where the second (and subsequent) supermarkets create a new anchor in the centre that attracts much of the pedestrian traffic away from the core.

Supabarn does however consider that the consolidation of the CZ2 and CZ3 zones in town and group centres may have a limited impact and should be assessed as this could simplify planning and development. These zones overlap and both effectively operate as 'fringe' areas compared to the CZ1 zone which is usually the core area.

In other words in relation to group centres we consider that there could be two zones in group centres, which would be the equivalent of a core and a fringe. These zones could be subsidiary to the overall group centre zone.

Retailing at the Airport

As noted in Table 1 below it has been announced that two major supermarkets (Woolworths and Cosco) will open at the Airport. These will add nearly 19,000m² of supermarket space to the retail network.

In addition it has also been announced that other Woolworths stores, including a Big W, Woolworths Hardware and Dick Smith are to be located at the Airport.

It is understood that in total about 44,000m² of retail space is to be located at the Airport. The amount of additional space is equivalent to a small town centre. Although it is recognised that some of this space replaces other retail uses formerly located in the Brand Depot, the proposed retailers will have a much greater pulling power and hence larger impact on planned commercial centres within the hierarchy than did the retailers formerly in Brand Depot.

None of this space is planned and we understand that it is outside the Territory's planning jurisdiction. Nevertheless it will have a major impact on the operation of the retail network.

The proposed supermarket space represents an increase of about 15% in the existing supply. It will have a major impact on supermarket operators elsewhere in the Territory, especially in central Canberra and Gungahlin. It will also reduce the demand for additional supermarket space in the short term. The proposed other retailing will have similar impacts.

Supabarn considers that the impact of this additional retailing needs to be taken into account in the review of the policy for commercial centres.

Number and Distribution of Supermarkets

The discussion paper raised the question of the size of supermarkets in local centres. The *ACT Supermarket Competition Policy Implementation Plan* states that one of the key elements of the new framework is "to address a shortage of larger full line supermarket capacity generally in central Canberra and Gungahlin. The Implementation Plan framework also proposes that **some** local supermarkets be allowed to expand to assist the viability of the local centre.

The Implementation Plan does not specify criteria for identifying which local centres are to expand, given that the policy is suggesting that not all would expand. In our opinion such criteria should be developed, in conjunction with the community and incorporated in the development approval process. The criteria should include the amount of space that the catchment of a local centre could support. That catchment would be broadly the suburb, with some exceptions considered below.

Supabarn considers that additional retailing, including supermarkets should be provided on the basis of the following principle:

> *The residents of an area should be provided with the broadest range of conveniently located retail facilities and services which the market can support, at the earliest possible time without jeopardising the sustainability of other group centres in the retail network which are adequately fulfilling consumer needs.*

Supabarn acknowledges that when the Martin Report was prepared there was a shortage of supermarket space, however since the report was completed nearly 60,000m² of supermarket space has been announced, including the development of a major supermarket retail hub at the airport (Table 1) and the Bonner supermarket has been approved (2000m²)). Only a small proportion of this space is located in areas the Martin Report and the Implementation Plan identified as having a shortage of space.

Table 1: Additional Supermarket Space

Location	GFA (m2)
Developer-led proposed supermarket space	
Cosco Airport	14000
Woolworths Airport	4800
Erindale (additional site)	4000
Coles GTC	3000
Weston Creek (additional site)	4000
Coles Kippax	4000
Total unplanned	**33800**
Government- led proposed supermarket space	
Casey group centre	5000
Crace local centre	1500
Amaroo group centre	3000
Chisholm group centre	1500
Kambah Woolworths	2000
Charnwood Woolworths	2000
Kingston group centre	3000
Dickson group centre	5500
Total planned space	**23500**
TOTAL ADDITIONAL SUPERMARKET SPACE	**57300**
Casey group centre - 3rd supermarket	4000

In our opinion the continued expansion of the supermarket sector cannot be sustained. This view is supported by a comparison of supermarket floorspace provision in Canberra with elsewhere.

Excluding the floorspace in Table 1 above, Urbis has estimated that there is 316m² per 1000 population of supermarket floorspace in Canberra which is lower than Brisbane and Perth (366m² and 345m² per 1000 pop respectively and higher than Sydney and Melbourne at 244m² and 298m² per 1000 pop respectively.

Assuming that the unplanned and planned supermarkets above are operating by 2016 and that no additional space is developed, it is estimated there would be over 450m² per 1000 population in Canberra. Thus by 2016 the level of provision of supermarket floorspace would be significantly higher than in Brisbane or Perth and potentially would be the highest in the country and almost double that in Sydney. There can be no economic argument that would support such a large departure from averages in other cities across the country.

It is acknowledged that per capita measures of provision are at best indicative and do not take other factors into account. Nevertheless at a city-wide level they strongly suggest that the supply of floorspace is likely to exceed the amount that can be supported by the trade area population. It is anticipated that a similar district-by-district analysis would conclude that there is a potential oversupply of floorspace in several areas.

Planning should be concerned with the location and spatial distribution of land uses. The discussion paper is however silent on how planning can or should address the distribution and amount of supermarket space. We strongly consider that decisions about additional supermarket floorsapce should be made within a policy framework that addresses these issues. Such an approach would maximise certainty and contribute to transparency in decision-making and the approvals process.

Supermarket retailing is a specific form of convenience retailing and especially given the perishable nature of fresh food, people will only travel relatively short distances to visit them. Experience from our own stores demonstrates that the majority of customers lives within the surrounding suburbs or if they live further away, pass the centre on the journey to and from work. For this reason the distribution of additional supermarkets needs to be considered at a district and sub-district level.

Supermarkets in Group Centres

The Martin Report and the Implementation Plan propose that new entrants should be allowed into group centres. In response the discussion paper raises the question of removing the distinctions between zones in local (and town) centres in order to remove the existing barriers preventing second and additional supermarkets in these centres.

Before determining whether such an approach is appropriate, Supabarn consider that it would be appropriate to determine which group centres should expand based on their catchment characteristics. Supabarn believes that one group centre should not be allowed to expand at the expense of nearby group centres since in the longer term this will reduce amenity and customer convenience.

The group centres are not homogeneous, although under the current development code they are treated as such. The group centres vary considerably in size and complexity.

For example Weston Creek and Dickson are the largest centres, offer a wide range of goods and services, serve relatively large catchments and function in different ways from many other centres. Both centres have in excess of 30,000m² of retail space. These centres can support the development of additional supermarket space and may also be appropriate locations for DDS's. In contrast smaller group centres such as Hawker and Wanniassa are much less complex centres, have smaller, stable populations and could not readily support a substantial increase in supermarket floorspace and especially additional full-line supermarkets, without adverse impacts elsewhere in the network.

At this stage in the City's development no group centre has two full-line supermarkets and only a small number have a full-line supermarket and an ALDI. No centres currently have three supermarkets, although we understand this is planned for Dickson, which is arguably the most complex of the group centres.

Supabarn considers that at this stage in the city's development only Dickson can sustain two full-line supermarkets. The history of Manuka provides a good case study of what can happen when two full-line supermarkets are located in a group centre. The outcome was that shortly after the opening of the Coles supermarket, the Woolworths supermarket closed because there was inadequate trade for both stores. In our experience, in order to justify two full-line supermarkets, the first supermarket requires a weekly turnover of at least $1.5m. At this time only the Dickson Woolworths achieves this.

It is inevitable that the viability of local centres in many locations will be adversely affected if supermarket space in all group centres is allowed to expand. This will in turn reduce customer amenity. Similarly expansion of group centre supermarkets could have an adverse impact on supermarket operation at a town centre level.

Supabarn does not support a blanket policy that would result in the development of more than one supermarket in each group centre or that would allow supermarket space in all group centres to expand 'as of right'. It considers that the larger group centres may be able support one full-line supermarket and a smaller supermarket but that the smaller groups centres cannot and may only support one full-line supermarket.

For this reason further expansion of supermarket space at group centres, whether through direct land sales or expansion of existing space should be accompanied by an impact assessment of the effect on surrounding local **and** group centres. Appropriate provisions should be incorporated into the draft commercial codes to ensure that these documents accompany both rezoning applications and development applications.

In addition, given the amount of supermarket floorspace currently in the pipeline, we consider that no further sites should be released for supermarkets until the proposed space is operational and its impact assessed.

In particular Supabarn does not support the development of three supermarkets at Casey (Supabarn, Aldi and another full-line supermarket). Two demand assessments undertaken for us by Urbis and dfp Planning Consultants found that there was insufficient demand to support the development of a third supermarket.

Supabarn considers that the progressive roll-out of additional supermarkets at groups centres needs to progress cautiously.

Urbis concluded that:

> *The analysis ... demonstrates that there will be insufficient capacity for a third supermarket at Casey at 2016 without significant impacts on the trading performance of other planned supermarkets. Indeed even allowing for additional population and expenditure growth between 2016-2021, there is unlikely to be sufficient growth to support an additional full-line supermarket at Casey.*

Similarly dfp Planning Consultants concluded that:

> *Based on the turnover estimates for supermarkets in group centres and local centres as noted in the Background Report into Supermarket Retailing in the ACT, it is unlikely that there will be sufficient expenditure available to support all existing and anticipated supermarket floorspace, even in the long term. We consider these turnovers to be somewhat artificially inflated as a result of the lack of competition.*
>
> *In any event and based on turnovers more reflective of industry norms, we do not envisage that there will be available support for (or indeed demand for) additional supermarket facilities within Casey (including the local centre) until such time as significant development has occurred in Kinlyside or Casey is fully developed.*
>
> *We do not anticipate that there will ever be demand for a third supermarket in the group centre.*

Supermarkets in Local Centres

The discussion paper suggests that the "consultation conducted during the supermarket competition inquiry, a 1500m² limit has been suggested. It is however worth noting that different supermarket operators suggested different maximum sizes for supermarkets in local centres. For example, Aldi suggested to the inquiry that 1500m² would be appropriate (p44), IGA suggested that 850m²-1250m² was adequate to provide drawing power (p42) and the report indicates that some submissions were also received that some local centre supermarkets could be more competitive if they increased floor space to the 800 to 1200m² range (p5).

The Martin inquiry recommended (no 2) that:

> *Given the trends identified, planners and decision makers in the ACT need to ensure there is an adequate response to market and competition signals demanding larger format supermarkets relative to the overall size of [local] centres. This includes reinforcing efforts to ensure local centre viability by enabling some local supermarkets to expand* (p15).

The Martin report also recommended (no 13):

> *Drawing on Recommendation 2, no artificial constraints should be placed on supermarkets in* ***appropriate local centres*** *to expand in a way that is consistent with public amenity and enables those stores to provide a more competitive offer against full line stores in larger centres* (p25).
>
> *For existing local centres facing sustainability pressures, solutions should be based on conversion to intense, multi - story residential usage combined with a* ***proportionately scaled commercial and convenience usage*** (p25).

In other words the Martin report concluded that appropriate local centres should be allowed to expand but did not set a limit on the maximum size, other than that it should be proportional to other uses in the local centre. It should also be noted that in his consultation with the major supermarket chains, John Martin reported that they indicated at the time they were not interested in local centres. The major supermarket chains confirmed to John Martin that they were only interested in 2,500m2 boxes as a minimum. Supabarn considers that, if John Martin was aware that the major supermarket chains were interested in local centre supermarkets, he would have put a limit on the size.

The Martin Report also envisaged that local centre supermarkets would be typically operated by independent operators. The report states:

> *Drawing on Recommendation 2, no artificial constraints should be placed on supermarkets in appropriate local centres to expand in a way that is consistent with public amenity and enables those stores to provide a more competitive offer against full line stores in larger centres. Local centre independent stores could be boosted if moves to increase independent wholesale competition are successful.*

The Martin report did not however recommend criteria to establish appropriate local centres or what would be 'proportionately scaled commercial and convenience usage'.

In principle Supabarn does not oppose the expansion of local centres. Further Supabarn supports the introduction of greater certainty regarding the role and size of local centres.

However we consider that it is not desirable to set a maximum floorspace (for example 1500m^2) for supermarkets that applies to all local centres in Canberra because:

- the population and number of blocks varies significantly between suburbs, partly reflecting different planning philosophies operating when they were developed[1]. For example in 2009 the estimated population of Belconnen suburbs ranged from 2200 in Florey, 2500 in Aranda and 2600 in Macquarie to 6850 in Dunlop (7450 in 2011) and 7800 in Kaleen. In contrast the population of Gungahlin suburbs is larger, for example Ngunnawal had an estimated population of 9900 in 2009. The amount of supermarket floorspace these centres could support varies considerably.
- factors other than a suburb's population affects what would be an appropriate level of local centre retailing, including:
    - not all suburbs were planned to have, or retain a local centre. In these areas it may be appropriate to allow a local centre to expand beyond what could be reasonably supported by the immediate suburb
    - while the catchment of a local centre is typically the suburb in Tuggeranong in particular planning was not based on the neighbourhood concept and some suburbs (Kambah) could support more than one local centre, even of 1500m^2
    - some suburbs are close to employment areas, for example Deakin
- the Martin inquiry did not support adoption of a maximum floorpsace for local supermarkets. Rather it supported a proportionate response, that is that the size of the supermarket should be responsive to local needs.

In summary, although the planning of different areas was based on similar planning philosophies, the suburbs have developed and evolved to be very different. Further many suburbs would not support a 1500m^2 supermarket. Setting a maximum limit of this size does not respond to those characteristics and could adversely affect nearby centres. Potentially it would also result in the loss of other commercial activities, which in turn is not consistent with the diverse character of local centres.

---

[1] *It is recognised that the number of blocks is a more stable measure of appropriate floorspace than population however population is used as a proxy because comparative data is more readily available.*

Supabarn considers that an upper limit of 1500m² is too large for the following reasons:

- many suburbs and not only smaller suburbs, could not support a local supermarket of 1500m² without an adverse impact on nearby centres, and
- in many suburbs a supermarket of 1500m² would compromise the retention and ongoing operation of associated retailing and commercial space, resulting in a mono-facility local centre.

In our opinion if a maximum floorspace is to be established for local centres, the maximum permissible area should meet the following criteria:

- be of a scale that can be supported by the majority of local centres, without adversely affecting nearby local centres
- take into account the objective of maintaining other uses/activities at local centres
- consider intended outcomes in the distribution of supermarket space between different levels of the commercial centres hierarchy

In our opinion the maximum size of local supermarkets should be around 800-1000m². This number is based on the fact that from a retail perspective, supermarkets of more than 1000m² to offer a range of goods that substantially overlaps with the range in a full-line supermarket and includes non-convenience goods. This would adversely affect the role of surrounding local and group centres.

However we consider that it is essential that ACTPLA undertake a more detailed assessment to determine what is an appropriate amount of local supermarket floorspace rather than just setting an arbitrary upper limit. This would provide some justification for the floorspace proposed and would also increase transparency.

It is also recongised that some suburbs could support more supermarket floorspace than the majority of suburbs. ACTPLA should establish a framework by which applications for larger supermarkets in local centres would be considered (e.g., extent of 'local' trade area, suburb size). Prospective supermarket operators in these centres should be required to demonstrate how the proposal meets the framework. They should also be required to submit an assessment of the impact on surrounding local and group centres if they are seeking to expand beyond the maximum permissible.

Scale of Development – Group and Local Centre Development Codes

The discussion paper refers to the controls in the development codes and in particular to those about built form and scale. If the built form and scale controls in the two codes are compared it is apparent that each code supports a similar level of development on a site and in some cases the local centre code supports more intense development.

For example and excluding area-specific controls, the maximum plot ratio in group centres is 1:1 in CZ1, CZ2 and CZ3 and the maximum height is two storeys (both non-mandatory rules) whereas in local centres the maximum plot ratio is not specified and heights are also a maximum of two storeys.

Given their different role, Supabarn considers that there should be a clear distinction in the scale and built form of the two types of centres, with development in local centres generally being less intense than that permitted in group centres. While the list is not exhaustive, to achieve this consideration should be given to:

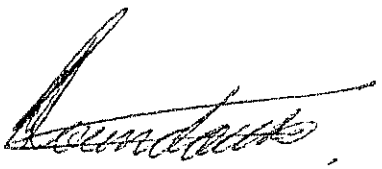
- prohibiting basements in local centres as a mandatory rule
- setting a lower plot ratio in local centres than in group centres, and
- limiting, as a mandatory rule, the maximum height to 3 storeys for centres adjacent to the RZ4 zone and to two storeys for centres in other locations. We consider that in general four storey development is not appropriate in what are essentially suburban locations, whether for residential or mixed-use development.

Conclusion

Thank you for the opportunity to comment on the commercial zones policy review. We would encourage ACTPLA to release some of the material supporting some of the policy directions in the discussion paper.

As the major independent supermarket operator in Canberra we would be pleased to respond to any additional questions, provide clarification or meet with representatives of ACTPLA to discuss any aspects of our submission or matters raised in the discussion paper.

Yours sincerely,



JAMES KOUNDOURIS AAPI
DIRECTOR

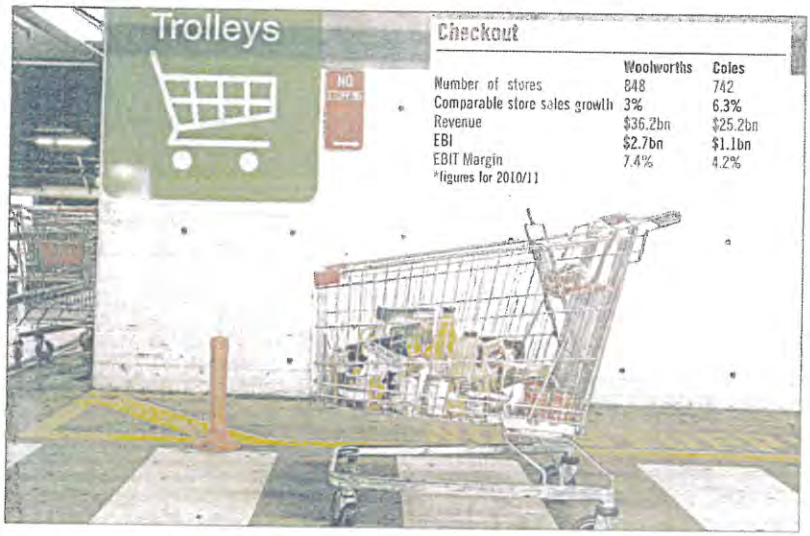
4 July 2011

Companies Fresh focus

Edited by: awhite@afr.com.au
Breaking news at www.afr.com

Woolworths calls for fresh ideas, people

Sue Mitchell



	Woolworths	Coles
Number of stores	848	742
Comparable store sales growth	3%	6.3%
Revenue	$36.2bn	$25.2bn
EBI	$2.7bn	$1.1bn
EBIT Margin	7.4%	4.2%

*figures for 2010/11

Woolworths is aiming to restore net profit growth to 10 per cent within five years by regaining supremacy in the $80 billion food and liquor market, as it considers an exit from the consumer electronics business.

Australia's biggest supermarket chain also plans to trump rivals in discount department stores while pursuing growth through new businesses locally and abroad.

New chief executive Grant O'Brien yesterday outlined an ambitious five-year plan aimed at overcoming perceptions that Woolworths was running out of growth after a decade of double-digit sales and profit growth came to an abrupt halt in 2011.

Speaking to investors at Woolworths' first strategy day for more than eight years, Mr O'Brien conceded that parts of Woolworths were not growing as fast as they could and needed new focus.

"Our long-term aspiration remains high single-digit sales growth and 10 per cent earnings per share growth assisted by bolt-ons [acquisitions] and capital management, which is consistent with our long-term senior management incentive hurdles," he said.

However, trading would remain subdued in the short term and probably through to the next financial year.

Mr O'Brien and his new team, which includes at least two former executives from UK retailer Tesco, plan to cut Woolworths' cost of goods sold and the cost of doing business through better deals with suppliers, increased global sourcing and supply chain improvements, and reinvest the savings into new stores, lower prices and new products and services to drive sales and earnings growth.

Mr O'Brien also foreshadowed the retailer's possible exit from consumer electronics retailing by announcing a strategic review of Dick Smith.

"The ultimate challenge is not about Woolies as it is today but Woolworths as it will be in the future, delivering the changes we need to accelerate this business," he said. "However, it ain't going to happen overnight and my focus is to make our strong business even stronger."

Under the plan, Woolworths will accelerate the opening of new supermarkets and liquor stores, BIG W outlets and Masters home improvement stores to drive top-line sales growth.

It plans to open 39 new supermarkets this year, almost double the number last year, and 120 by 2016, using its balance sheet strength to develop a pipeline of property development.

The new stores were estimated to generate more than 10,000 new jobs, twice the number created last year.

Woolworths is aiming to lift sales of fresh food by $2.5 billion a year by increasing its market share from 28 per cent to 36 per cent, in line with that in dry groceries, and reducing the time it takes to get fresh food from farm to kitchen from four days to three. It plans to double the sales penetration of private label groceries, increasing investment in its Select, Macro and Homebrand ranges and potentially introducing new private label brands.

Mr O'Brien and his new head of supermarkets and petrol, Tjeerd Jegen, agreed with the widely held view that Woolworths had dropped the ball in grocery marketing, allowing Coles to gain the upper hand and grow sales faster than Woolworths for nine consecutive quarters.

They confirmed that Woolworths had launched a wholesale review of its supermarkets marketing strategy.

"Communication is where we let our customers down," said Mr Jegen, who joined Woolworths a month ago from Tesco's Malaysian business.

"We have been reactive in the way we've communicated our supermarket strategies and we've taken action."

It also plans to introduce new store formats and tailor the product range in supermarkets to appeal to different demographics, using insights gleaned from its customer loyalty program.

Woolworths is also aiming to become Australia's leading multi-channel retailer and unveiled new smart phone apps which will allow customers to order their groceries through mobiles and compare prices at BIG W with its competitors.

Outside Australia and New Zealand, Woolworths would monitor opportunities to expand in international markets, but any new acquisition or market "must provide real value to shareholders", Mr O'Brien said.

Marketing mea culpa follows leader's failure

Comment
Neil Shoebridge

Margaret Fulton and Curtis Stone.

Photos: PAT SCALA, GARY MUNRO

Retailers and marketers have been talking about it for the past two years. Now Woolworths executives have publicly admitted it: Australia's largest food retailer is losing the marketing war with its smaller rival, Coles.

The new director of supermarkets and petrol at Woolworths, Tjeerd Jegen, used the company's investor day to confess that the retailer's recent marketing had been inconsistent, reactive and "lacking in clarity".

His boss, Woolworths chief executive Grant O'Brien, did not use such colourful language, but he said the company needed to "re-establish marketing supremacy around value and growth, and tackle the value perception" of its supermarket chain.

It was a startling confession and one of the most dramatic marketing mea culpas from a large Australian company in many years.

The message from the executives was clear: although Woolworths was the leader in the grocery retailing sector in terms of market share and sales and profit per square metre of retailing space, it was not acting like a leader.

Worse, it had allowed Ian McLeod, Stuart Machin, Simon McDowell, John Durkan and the other senior executives at Wesfarmers' Coles supermarket chain to behave like the market leader.

The Coles executives knew they had Woolworths on the marketing ropes when the latter introduced a television commercial featuring veteran chef Margaret Fulton last year.

After vowing never to follow Coles' lead of hiring celebrity chefs, Woolworths recruited Fulton and put her in an ad that was dotted with references to Coles' use of another celebrity chef, Curtis Stone.

One of the basic rules of marketing is that a market leader never directly acknowledges its rivals in advertising. Woolworths' willingness to break that rule was a sure sign that it had been badly rattled by the success of Coles' marketing activities.

Ever since Coles launched the "Down, down" ads featuring a big, red cutout hand and someone saying "Ta-dah" in June last year, Woolworths has been playing follow-the-not-the-market-leader.

The success of the marketing campaigns Coles built around its sponsorships of Ten Network's *MasterChef* and Seven Network's *My Kitchen Rules* (a sponsorship Coles snatched away from Woolworths) prompted Woolworths to sign Fulton, Tobie Puttock and Guy Grossi.

Earlier this year, Woolworths added a big green boxing glove and the line "Price knockdown" to its ads in the hope of countering the big red hand and "Down, down" at Coles.

Woolworths' "Honest to goodness family meals" campaign was a direct response to Coles' "Feed a family for under $10". The aggressive price cutting Coles started in January, when it slashed the price of its house brand milk by up to 33 per cent, was copied by Woolies.

The marketing campaigns Woolworths rolled out in the hope of blunting Coles' momentum were uneven and, as Jegen said, inconsistent. They muddied Woolworths' once-clear positioning as the home of "The fresh food people" and led it to introducing the nice but pointless "My Woolies" ads this year.

As revealed in *The Australian Financial Review* on Monday, Woolworths has hired a new supermarkets marketing boss, Elizabeth Ryley, and started reviewing its creative ad agency M&C Saatchi and research supplier The Leading Edge.

Mr Jegen and Mr O'Brien gave some clues about how Woolworths' marketing would change, including a stronger emphasis on "The fresh food people".

Mr O'Brien said Woolworths' brand strengths included the fact it was Australian, supported local farmers, offered "great fresh food" and "meets the needs of families".

He did not list its weaknesses, but his comment that "unbeatable value has three dimensions – competitive everyday prices, relevant promotions and great [house] brands" – clearly indicated where Woolworths needs to lift its game.

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Home brands at centre of Woolies' expansion plans

The supermarket giant is looking to a British example

BLAIR SPEEDY
RETAIL

WOOLWORTHS boss Grant O'Brien has thrown down the gauntlet to archrival Coles, setting out a plan to "extend and defend" the company's leadership in the food and liquor sector.

In a wide-ranging strategy briefing yesterday, Mr O'Brien said he wanted to "unlock sales growth for a tougher and competitive environment now upon us" by doubling sales of private-label groceries, tailoring product ranges to suit local demographics and using loyalty card data to more effectively target promotional offers.

And it is not just Coles that should be worried. Mr O'Brien estimated fresh food could add an extra $2.5 billion in annual sales revenue over the next five years — market share that would be captured from butchers and greengrocers.

"There's a high share in the fresh area of the market that is owned by independents and specialists . . . our ambition is to earn the right to that $2.5bn," he said.

Newly appointed supermarkets boss Tjeerd Jegen, recruited from British retail giant Tesco this year, said market penetration for private-label groceries in Australia was only one-third of that seen in Britain.

Woolies would double sales of its private-label lines, which include the health-focused Macro, budget Home Brand and high-quality Woolworths, within five years by expanding ranges and cutting prices, he said.

The company has also declared its aim of becoming Australia's biggest internet retailer, rolling out a new supermarket shopping website and a shop-by-phone app to capitalise on the 6.3 per cent online sales growth the company recorded over the past financial year.

Mr Jegen said Woolies needed to do more to emphasise its value proposition to customers, which required more than simply "leaning on price".

"We have an incredibly strong brand with a proud Australian heritage and we need to make sure it is achieving its full potential," he said.

Accordingly, Woolworths has begun a review of its entire marketing strategy, including whether to maintain advertising agency M&C Saatchi.

However, Mr O'Brien acknowledged that there was little the company could do about the downbeat consumer environment.

"The realities and challenges mean we believe trading will remain subdued, most probably through to the next financial year," he said.

CRAIG GREENHILL

Woolworths chief executive Grant O'Brien says he will 'extend and defend' market share against Coles

Counting costs

* Gross profit ^ Cost of doing business

Source: Woolworths

Kelly's bank going gangbusters as focus on productivity pays off

Continued from Page 2!

year without a whole lot of stress both because of its successful push to lift its deposit-taking performance and because of slowing credit demand and a bank that is delivering to shareholders with a dividend yield nearing 8 per cent and a payout ratio of 75 per cent.

Sure there are some small fractures in the otherwise solid edifice. Over 2011, for example, Westpac's jaws closed slightly as costs rose 2 per cent over the year while core earnings appreciated by a spare 1 per cent.

The retail bank's cash earnings may have risen 8 per cent to $1.9bn over FY11 but margins slipped 7bps as expenses rose gently.

And while the bank's overall deposit-to-loans ratio rose 380bps over the year to 62.5 per cent (it was nearer 50 per cent pre-GFC), the more traditional stable funding ratio actually slipped 300bps to 77 per cent.

As well, while Kelly quite properly indicated nothing but comfort with the bank's asset quality, the fact is that impairment charges rose 11 per cent half-on-half on the back, mostly, of higher individually assess provisions as some watchlist commercial credits headed south.

Then there is the issue of growth at no more than system. The idea there is to reduce the funding risk of that growth. And the result is that Westpac sits on a 23 per cent share of household deposits while boasting 21 per cent of lending market share.

But there is a lot more to the Kelly growth story.

It is about the cost efficiencies of the deepening relationships she keeps banging on about. The result is that nearly 30 per cent of Westpac customers boast four or more of the bank's products, up from 27.5 a year ago.

And it is about the cross-sell of wealth products through the retail bank, a strategy now embraced across the sector and one that seems to be working better at Westpac than anywhere else right now. The result is that nearly 20 per cent of customers are using a group wealth product.

The final chapter of the growth story is all about the "multi-branded platform" that Kelly reckons gives Westpac the ability to run its traditional national mainstreet bank at the same time as operating a trio of provincial niche players, namely St George, BankSA and the Victoria's banking Lazarus, Bank of Melbourne.

Finally much common ground with the Australian Competition & Consumer Commission. For 13 years, the ACCC has published an annual report on the oversight of the prices, costs and profits of the container ports.

And, until now at least, every year the stevedore companies have routinely bristled at the competition cop's failure to understand their industry.

In major part that is because the ACCC has insisted that Australian stevedores make higher than justifiable rates of return on assets. But it has based its numbers on only the tangible assets of the port operator.

To make matters worse, it has then tried to demonstrate this outperformance by comparing those rates of return to a host of government-owned port operators (not stevedores) in New Zealand.

But this year the ACCC has got something very right indeed.

Buried away in the final observations of the chapter on "quayside stevedoring productivity" is the observation that: "Enterprise wage agreements that seek to limit productivity improvements or reimpose less flexible arrange-

Drive t
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growth

RICHARD GLUYAS
COMMENT

THE growth squeeze is
the nation's major bank
chief executives pull hai
profit levers to offset we
growth and escalating
compliance and fundin
Westpac's 7 per cent i
in cash earnings to $6.3
spiced with a surprise 8 p
increase in the final divi
80c, was a sound result.
But the cost imperati
Gail Kelly was undersco
the bank's negative "jaw
second half, when expen
expanded by 3 per cent a
revenue growth of only 1
cent. To counter this, Ms
expanded on her promis
August's third-quarter tr
update for a step-change
group's productivity drive

Westpac could pound away at its costs and achieve the industry's lowest cost-to-income ratio but had to take revenue opportunities

Its program will include outsourcing (and no doubt offshoring) of some functio and bringing others in-hous
Although the detail is still sketchy, "sizeable benefits" a expected in 2013 after the ba incurs start-up costs next ye
The federal government, meanwhile, beat up on its favourite bank, National Australia Bank, after Camero Clyne kept five basis points of home-lending margin instead passing on Tuesday's full, 25-basis-point cut in official rates. The question is whethe this signals the start of a shift, merely finetuning, of NAB's price-led strategy to rebuild t personal bank, first outlined b Clyne in March 2009.
Westpac chief financial officer Phil Coffey summed u yesterday the challenge of the present environment.
Although lending growth is expected to improvenext year will tick up only from a lowly 3 per cent to about 5 per cent, with mortgages climbing from 5.5 per cent to 6 per cent, and business credit no longer flatlining.
Mr Coffey's point was that Westpac could pound away at i costs and achieve the industry's lowest cost-to-income ratio, bu even in this climate it had to tak its revenue opportunities and increase core earnings.
He said that having expense targets would constrain a bank's ability to grow.
That is why Westpac would continue to invest in projects such as the Bank of Melbourne relaunch, which absorbed $86 millionthis year.
It is a fair point, but the market is far more willing to price in the benefit of cost

The Australian Financial Review
Tuesday 8 November 2011 • www.afr.com

Woolworths does the white shoe

The retail giant is one of the nation's biggest developers as it works to increase its stores, writes **Nassim Khadem**.

Woolworths, the nation's largest retailer, is rapidly expanding its land bank and becoming one of Australia's biggest property developers.

The group is cementing its dominance of the Australian retail sector by acquiring prime land in urban and regional areas for stores and going into partnerships with residential developers to build housing.

Woolworths has also joined the development lobby, placing increasing pressure on state governments to reduce construction costs by calling for development contribution charges to be halved.

The strong move into development after the global financial crisis guarantees the pipeline of new supermarkets and Masters Home Improvement stores, when traditional developers are struggling with lack of finance.

Woolworths is developing 60 per cent of its pipeline compared with 40 per cent before the GFC.

The group plans to open 120 new supermarkets by 2016, and also roll out 150 new Masters stores by the end of 2014 in a joint venture with US retail giant Lowe's.

Through its development arm Fabcot, Woolworths owns major land parcels across Australia, with land banked in at least 55 areas in NSW and 21 areas in Victoria.

These include prime sites in some of the fastest growing areas of major capital cities that have been designated by state governments for "mixed-use" development (involving other retailing and housing).

Some are under construction and available to lease, while others are on undeveloped land in suburban and regional areas.

The retailer also owns significant land in Queensland, Western Australia and Tasmania.

Woolworths is not building or selling homes. But it is becoming a bigger player by acquiring the land, gaining planning approval for mixed-use developments, and then going into a joint partnership with a developer to build the residential component.

According to its 2011 annual report, the value, at cost, of the development properties jumped from $927.8 million in 2010 to $1.56 billion in 2011.

The annual report shows an additional $1.55 billion of freehold land, warehouse, retail and other properties, also at cost.

Woolworths owns major parcels across Australia, with land banked in at least 55 areas in NSW and 21 areas in Victoria.

Speaking to investors at a strategy day last week, Woolworths chief finance director, Tom Pockett, said the retailer could float its properties, but that there were no immediate plans to do so.

In the UK, supermarket giant Tesco has already moved into the property sector by selling flat-pack homes for $15,000.

But Paul Oates, Woolworths' head of property development, said Woolworths was more focused on acquiring sites for retail activities.

"We're very much reluctant developers," he said. "The reason that we needed to be involved was primarily the GFC. Developers can't get funding as readily as they once could. Larger listed developers have pressure on their balance sheets.

"If Woolworths is to maintain growth, and keep pace with our growing population, we need to do some of the development ourselves."

He said governments were encouraging developers to build mixed use centres. "To make these developments feasible, it needs to be a desirable location and there needs to be a reasonable quantity of apartments to justify the development," he said.

"We are looking for spaces for supermarkets and working with partners to facilitate the commercial outcome on a site and deliver what governments are after."

Woolworths management previously indicated it would open more supermarkets in the first quarter of the 2011-12 financial year than in the entire year last year due to quicker development application approvals and site availability. The retailer is on track to open another 38 supermarkets this year.

It also has significant holdings in general merchandise (Big W), electronics (Dick Smith and Tandy stores), poker venues (through its Australian Leisure & Hospitality Group pubs and clubs joint venture) and liquor (through Dan Murphys, BWS and Woolworths Liquor stores). In these divisions, excluding New Zealand, it opened 36 stores in the September quarter alone.

While regulators are keeping a close watch on the supermarkets — Coles and Woolworths control about 80 per cent of the total grocery market in Australia — the Australian Competition and Consumer Commission hasn't been able to reign in their power. Former ACCC chairman Graeme Samuel was criticised for failing to crack down on Woolworths' and Coles' acquisitions of land and other businesses.

Current chairman Rod Sims recently said he was concerned about the two major supermarkets' "significant market power, with many smaller suppliers feeling they lacked a real ability to negotiate supply arrangements".

But he's stopped short of indicating what sections of the Competition and Consumer Act the ACCC would use to go after the supermarkets. So far numerous attempts to tackle supermarket dominance have failed.

The recent Senate inquiry, sparked by Coles' decision to slash milk to $1 a litre, last week cleared the supermarkets of wrongdoing.

It found the milk price war had been a short-term win for consumers and rejected dairy farmers' claims that it would send them broke.

Competition expert Frank Zumbo said the regulator should be looking at the impact supermarket land banks had on competition. "They (supermarkets) have been acquiring prime sites and bidding up the price of land to lock out competitors," Professor Zumbo said.

"They buy land in advance of their need. They make a pre-emptive strike against competitors by securing land and development sites and paying whatever price it takes to secure that site. That's a significant barrier to entry (for competitors)."

South Australian senator Nick Xenophon, who initiated the Senate inquiry into milk pricing, said he had no issues with Woolworths moving into property development, but was concerned about its increasing retail dominance.

"I hope that we would carefully watch these developments in terms of their impact on smaller developers and on competition generally," he said.

Woolworths has contracted planning consultant Urbis to help get planning approvals for projects.

Trolley loads of land

Areas where Fabcot (Woolworths' development arm) owns land

NSW

- Balgowlah
- Barden Ridge
- Batemans Bay
- Baulkham Hills
- Bega
- Berala
- Bowral
- Brookvale
- Bulli
- Burwood
- Byron Bay
- Cameron Park
- Cardiff
- Carnes Hill
- Chatswood
- Chester Hill
- Coffs Harbour
- Culburra Beach
- Double Bay
- Fairfield Heights
- Gladesville
- Goonellabah
- Greystanes
- Griffith
- Hamlyn Terrace
- Inverell
- Jannali
- Katoomba
- Kellyville
- Lake Macquarie
- Leura
- Lismore
- Macksville
- Moama
- Morisset
- Mullumbimby
- Newport
- North Sydney
- Nowra
- Orange
- Port Macquarie
- Schofields
- Scone
- Swansea
- Tura Beach
- Turramurra
- Tweed Heads
- Ulladulla
- Wadalba
- West Dubbo
- West Ryde
- Willoughby
- Windsor
- Woolgoolga
- Woongarrah

▲ WOOLWORTHS' HIGHETT SITE IN VICTORIA

shuffle as it banks on building

Victoria

• Alpine	• Hume
• Banyule	• Kingston
• Bass Coast	• Melbourne
• Bayside	• Mildura
• Benalla	• Surf Coast
• Boroondara	• Warrnambool
• Cardinia	• Wellington
• Darebin	• Whittlesea
• Greater Bendigo	• Wodonga
• Greater Geelong	• Wyndham
	• Yarra Ranges

Leasing opportunities listed with Woolworths at its shopping centre sites

NSW	Victoria
• Goonellabah	• Wodonga
• West Dubbo	• Bright
• Cameron Park	• Epping North
• North Orange	• Thrift Park
• Morisset	• Highett
• Lake Munmorah	• Pakenham
• Leura	• Cowes
• Balgowlah	• Warrnambool
• Berala	
• Vincentia	
• Ulladulla	
• Culburra Beach	
• Sapphire	
• Bega	
• Tura Beach	

SOURCE: WOOLWORTHS, FINANCIAL REVIEW

"Woolworths is already a big player in the (development) game," said Urbis managing director John Wynne. "A lot of the planning work we do hinges around food retailing. It's a fundamental part of renewal in urban and greenfield areas."

Urbis is also helping the supermarket lobby state governments on planning issues.

It wants a 50 per cent reduction in developer contribution charges and councils to fast-track planning approvals.

In a submission to the Victorian government's ministerial advisory committee on planning, Woolworths stated that it took more than 18 months to get re-zoning for the recently-opened Thrift Park Shopping Centre in Melbourne's south-east.

It also raised complex permit conditions and the time it took to get approvals due to delays by authorities such as VicRoads.

They make a pre-emptive strike against competitors by securing land and development sites and paying whatever price it takes to secure that site.

Frank Zumbo, competition expert

Woolworths called for clearer direction on retail policy and "activity centre" planning reform.

In its submission it demands that the state government or an alternative regional authority oversee activity centres at the local level in order to "ensure a consistent and co-ordinated approach to establishing a strong retail hierarchy and planning for incoming population".

While it's been facing hurdles in getting planning approval to build, the retailer has the time and money to revise its plans continually in line with a council's demands.

After years of intense lobbying and various VCAT objections, Woolworths finally got approval this year to build a supermarket among residential flats, shops and cafes in Melbourne's suburb of Highett. The site, which it bought in 2009, is on the corner of Highett and Graham roads – a prime position, only 70 metres from the railway station.

Other mixed-use development sites that Woolworths owns include a $21 million site it purchased in North Melbourne.

If approved, the Canning Street development would have two residential towers as well as a retail precinct, including a Woolworths store and a liquor outlet.

But residents have already raised concerns based on the scale of the development and its impact on issues such as traffic.

Woolworths is also looking at a $100 million development in Queensland's Sippy Downs Town Centre, near the university.

It plans to build a Woolworths supermarket, Big W, restaurants, office space, a medical centre and over 200 units, but that has also come up against community opposition.

In Mernda in Melbourne's north-east, Woolworths put forward an amended development plan as part of a planned $100 million construction of the Mernda town centre, but council knocked it back last month. Woolworths had bought the site from Becton in 2007.

Whittlesea Council chief executive David Turnbull said the application to amend the development plan, approved by the council in 2009, would have drastically changed council's vision for the future of the town centre.

"We're the second-fastest growth area in the nation – we have 10,000 residents moving in a year and we took the approach to fully plan out our growth areas right down to the last street and parks," he said.

"We have no problems with supermarkets . . . but we didn't want to see internal malls developed. We wanted to see supermarkets provided but in interactive way."

Pressure for zoning relief

Woolworths has called on the Victorian government to broaden zoning laws, remove caps on the amount of space it can take up on commercial land, and fast-track planning approvals to ease the rollout of more supermarkets and its Masters home improvement stores.

Woolworths is counting on Victorian Planning Minister Matthew Guy to continue fast-tracking large-scale retail developments in the state's fastest growing areas, something for which his predecessor Justin Madden came under heavy criticism.

In a submission to the Victorian government's planning ministerial advisory committee, Woolworths says that gaining planning scheme amendments is "uncertain, cumbersome and extremely time consuming". Thrift Park Shopping Centre in Melbourne's south-east took over 18 months and the expanded Glenhuntly Safeway supermarket took over 2½ years, it said.

The retailer also wants the government to reduce the involvement of external referral authorities such as Vic Roads.

The submission suggests broader zoning controls to support new retail formats such as its hardware stores and the removal of floor area caps. Woolworths also wants a permanent "major cases" list. Under this list Mr Madden was able to fast-track major supermarket developments despite residents objecting.

Finally, to help support its mixed-use developments, Woolworths suggests the government set out clearer policies in relation to "activity centres", saying it's been "confusing and inconsistent".

It criticises the Growth Area Authority for "placing greater emphasis on achieving beautification of activity centres rather than understanding the key drivers for a viable shopping centre design".

Nassim Khadem

CURRICULUM VITAE

Rhonda Smith

B. Com (Hons), MA (Eco), D.Com, University of Melbourne

Rhonda Smith is a Senior Lecturer in the Economics Department at the University of Melbourne (fractional 0.5). She is currently teaching undergraduate and postgraduate courses including Economics of the Law, Public Sector Economics, and Market Power and Competition Law (the last is taught for the Law Faculty, Melbourne University). Since 1999 Dr Smith has taught the Masters subject in Competition Law at the Australian National University.

From November 1995 to November 1998 Dr Smith was a Commissioner with the Australian Competition and Consumer Commission. She was appointed an Associate Commissioner of the ACCC in June 1999 but resigned from the ACCC in December 1999 to return to academia.

During 2000 Dr Smith resumed consulting, mainly in relation to competition matters, both to regulatory bodies and to major businesses. She has appeared as an expert witness in a number of major trade practices cases. She also provides training sessions in economics relevant for competition analysis to the ACCC staff. In 2007-2008 Dr Smith undertook consulting on behalf of the Asian Development Bank in Papua New Guinea and in the Cook Islands. She was appointed as the International Telecommunications Arbitrator for PNG in October 2009.

She was a member of the Federal Government's Copyright Law Reform Committee from 1995 to 1998. In April 2001 she was appointed a member of the Copyright Tribunal and this appointment expired in June 2010. She is a member of the Advisory Board of the Intellectual Property Research Institute of Australia and a research fellow with IPRIA. She is a member of the Advisory Board of the Centre for Regulation and Market Analysis. Dr Smith is also a member of the editorial board of the Competition and Consumer Law Journal.

She is a lay member of the High court of New Zealand and was re-appointed to this position in March 2009.

Prior to November 1995 Dr Smith held a senior lectureship in the Economics Department at Melbourne University. Areas of research interest include industrial organisation, agricultural economics, demography, the economics of immigration and the interface of law and economics (especially in relation to trade practices and intellectual property).

Between 1988 and November 1995 Dr Smith also worked as a consultant economist, mainly in the trade practices and pricing areas. She has acted as an expert witness and adviser to many large Australian companies and to the former Trade Practices Commission and the Prices Surveillance Authority. In addition, she worked as an industry analyst with a major information company with responsibilities in relation to agricultural and food industries.

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The ACT Supermarket Inquiry

Dr Rhonda Smith

1. I am a Senior Lecturer in the Economics Department at the University of Melbourne. I was a Commissioner with the Australian Competition and Consumer Commission from 1995-1998 and an Associate Commissioner in 1999. I am a Lay Member of the High Court of New Zealand, and the International Arbitrator for Telecommunications for Papua New Guinea. Since 2000 I have been a member of the Copyright Tribunal of Australia.

2. I provide economic advice, particularly in relation to competition matters, to regulators such as the Australian Competition and Consumer Commission and the National Competition Council, and to businesses. I have provided expert economic testimony in a number of court cases, mainly in competition matters. My expertise is in the fields of applied microeconomics, industrial organisation and pricing. My CV is attached.

3. This report has been produced in response to a request from Supabarn Supermarkets to undertake an analysis of the competition implications of expansion by the major chains, Coles and Woolworths, through the acquisition of sites in the ACT. Thus, the report considers whether these acquisitions are or would be likely to have the effect of substantially lessening competition in a relevant market.

4. The analysis assumes that the ACT government will base its decision in relation to supermarket sites on the principles espoused in:

    i. The Review of ACT Competition Policy (the Martin Report), September 2009;
    ii. Department of Land and Property Services, ACT Government, ACT Supermarket Competition Policy Implementation Plan.

5. In line with the recommendations of the Martin Report, the ACT's Implementation Plan sets out the key elements of the Supermarket Competition Policy (pg 3-4). Relevantly for the present issue, these include:

   i. Encouraging larger, full line supermarkets in the ACT;[1]
   ii. Supporting an alternative source of wholesale grocery supply

   This report focuses on these two considerations.

6. The structure of the report is as follows:

   i. Specification of the principles that are used to 'test' whether particular conduct, in this case an acquisition of retail sites for supermarkets has an adverse impact on competition, that is, it substantially lessens competition;

   ii. Application of those principles to the facts in relation to the acquisition of supermarket sites by the vertically integrated chains, Coles and Woolworths, in the ACT.

Identification of the Relevant Market

7. It is necessary to define the relevant market or markets in relation to the particular issue or issues to be examined in order to provide the best possible representation of those competition issues. In this sense market definition is purposive. As a consequence, different market definitions could be used in relation to the same industry because the issue to be considered is different or because the competitive environment has changed.

[1] Assumed to correspond to a floor space of over 2.500 m^2 and carrying around 30,000 items.

8. The relevant market includes those buyers and/or sellers who actually or potentially constrain the pricing and production decisions of the firm (or supplier) whose conduct is alleged to raise competition concerns.[2] Thus, the market boundaries are ascertained by considering how buyers and sellers would react and the extent of their reaction to a price increase: Substitutability is the basis upon which markets are defined. This inquiry is given practical form by assuming a particular price increase (usually 5 per cent) and assessing the likely response to it.

9. Markets have four dimensions – product, geographic, functional and temporal. In matters relating to the grocery industry in Australia there is general consensus that the relevant product dimension is the supply and acquisition of the products sold in supermarkets or grocery stores together with associated services. The latter include display of products, provision of checkouts and car parking at the retail level; and at the wholesale level they include negotiation of promotional support, delivery and the like. In relation to the geographic dimension, again there is general agreement that for retailing the relevant geographic area is relatively local. However, given characteristics that are peculiar to the ACT, such as better road networks, detailed planning in relation to the location of stores, and the like, the geographic dimension of the grocery retail market may be as broad as the ACT and surrounding areas. For wholesaling, typically the relevant geographic area has been found to be state-wide.

10. The contentious issue in relation to market definition is the relationship between retail and wholesale activity. From a competition perspective, the relevant issue is whether the competition issues associated with the conduct of concern can be understood by looking at each of these on a stand-alone basis or whether decision-making is so integrated that they should be treated jointly.

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[2] For example, see E.S. Mason, *Economic Concentration and the Monopoly Problem*, Harvard University Press, 1959, p.65; Jeffrey Church and Roger Ware, *Industrial Organization: A strategic Approach*, Irwin McGraw Hill, 2000, p601ff.

11. In August 2010 in ACCC v Metcash, the Federal Court adopted a similar approach. Emmett J. found that independent wholesalers were constrained by the vertically integrated grocery chains. This decision is the subject of an appeal by the ACCC to the Full Court of the Federal Court.

12. For the present purpose, however, it seems appropriate to consider retail and the wholesale activities separately. In part this is because of the nature of the competition issue – the acquisition of supermarket sites. These acquisitions will not change the number of major players at the retail level. In addition, there are different competition issues at the wholesale and retail level that arise as a result of the proposed acquisition and which need to be considered.

13. This analysis proceeds on the assumption that there are two relevant markets:

i. A market in the ACT for the retail supply and acquisition of products sold through grocery stores/supermarkets together with associated services;

ii. A market in the ACT (or perhaps ACT/NSW) for the wholesale supply and acquisition of products sold through grocery stores/supermarkets together with associated services.

Sites are an input into each of these markets

Substantial Lessening of Competition

14. Business people when talking about competition are likely to focus on the activity of a particular rival as well as on the difference in supply conditions between firms and hence on the competitiveness of one firm compared with another. However, in a competition policy context, an economist is concerned with competition as a process, not as a situation. This focuses on the dynamic process of rivalry for sales between actual and potential market participants, who invest capital in the production and development of goods and services.

15. Rivalry between firms may be intense within a competitive market as firms attempt to out-compete their rivals, for example by offering cheaper and/or better products. This is competition at work and is not a concern from the perspective of competition policy, even though some firms will be damaged as a result and may exit the market. However, this is only likely to damage the competitive process if that firm supplies something to the competitive process that is not otherwise available and is valued by consumers, or in some way raises barriers to entry.

16. The traditional view has been that unless the alleged conduct impacts on the market structure, it is not anti competitive. This is because whether firms compete is often said to depend on the structure of the market. Although this is correct, it tends to oversimplify the process because conduct may alter market structure either directly, as when a merger reduces the number of market participants, or indirectly, such as by raising the height of entry barriers. As a consequence, the *incentive* to compete may be altered. Given this, the essence of competition is 'independent striving for patronage by the various sellers in the market'[3]

17. Nevertheless, the key structural features of any market for the purpose of competition analysis include:

    i. The degree of market concentration;
    ii. The height of barriers to entry;
    iii. The extent of product differentiation;
    iv. The extent of 'vertical relationships' with customers and of vertical integration;
    v. Other stable arrangements between firms which influence their independence.

Generally the most important of these is the height of barriers to entry/expansion.

18. The approach adopted for considering the competition effects of any actual or proposed conduct should take account of existing market structure, but it should be alive to the potential for that structure to be changed, directly or indirectly, including by entering into agreements or making acquisitions.

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[3] F.M. Scherer and David Ross (1990), *Industrial Market Structure and Economic Performance*, Houghton Mifflin Company, Boston, p.15.

19. Taking account of the factors set out above, competition effects are assessed by comparing the likely position in future with the conduct, and the likely position in future without the conduct, often referred to as the 'with and without' test [or the factual and the counterfactual]. Importantly, the future without the conduct may not be one dimensional – there may be various alternatives. The test is forward-looking, although it may be informed by past experience.

Site Acquisitions and Retail Competition

20. Proposed acquisition of sites by Coles in the ACT are close to key retail sites operated by Woolworths – three of these sites are also close to Supabarn stores. Given that Woolworth has more than twice the market share of Coles in the ACT, arguably these acquisition will be pro-competitive, making Coles a more effective constraint on Woolworths because of:

    i. The similarity of format of the two major chains;
    ii. The relevance of geographic proximity for retail competition;

21. However, as elsewhere, sites suitable for supermarkets are scarce and these acquisitions will remove four sites that may have otherwise been acquired by independent retailers. In this way the acquisition will raise barriers to entry into the retail market. The position is similar in relation to acquisitions by Woolworths.

22. Proposed acquisitions by the vertically integrated chains raise a number of competition concerns. These can be summarised as follows:

    i. Retail entry or expansion may be adversely affected by factors other than the availability of suitable sites;

    ii. Proposed acquisitions may adversely impact on wholesale supply to the independent sector.

Each of these is discussed below.

23. The number of firms that a given market can support viably depends on aggregate demand within the market (which will be affected by factors including typical income levels) and technology. The latter determines available economies of scale and hence the necessary size for a firm to be profitable. Markets vary between the extremes of natural monopoly (a single seller) and natural competition (many sellers).

24. In a practical sense in retailing rules of thumb are used to determine the number of firms of varying size that a market can sustain. In grocery retailing the working rule is that a minimum of $8000 in sales revenue is required per square metre of floor space – for independents this requirement must generally be met on a store-by-store, basis but for the chains it can be averaged over a number of stores/locations. As the Martin Report observed, the average income level in the ACT is significantly greater than in other Australian capital cities and so this rule of thumb may understate the capacity in the ACT.

25. In addition, others things being equal, a given aggregate demand may support a mix of stores of varying size when the product offered by the stores is differentiated – for example, some stores offer little service, while others offer much more service; or where some stores select products to attract particular types of consumers. However, there is a limited premium that can be obtained in this way to offset the higher costs in smaller outlets where economies of scale are less available.

26. There has been considerable expansion in the number of retail grocery/supermarket outlets in the ACT in the last few years. In particular:

    i. Aldi entered the ACT in 2000 and now has stores located at Tuggeranong Town Centre, Conder Group Centre, Chisholm Group Centre (opening soon), Canberra City, Jamison Group Centre, Kippax Group Centre, Gungahlin Town Centre, Belconnen Town Centre, Casey Group Centre (opening soon), Dickson Group Centre (opening soon), Weston Creek Group Centre and Woden Town Centre (opening soon).

ii. Costco will open a 14,000m² operation at the airport mid 2011.

The entry of each of these new businesses, by operating a very different business model to that of the major chains, has been pro-competitive.

27. In addition, the following indicates further planned supermarket space:

Casey Group Centre – Supabarn/Aldi 5,000 m²
Possible additional supermarket – Casey 4,000 m²
Crace Local Centre 1,500 m²
Amaroo Group Centre 3,500 m²
Chisholm Group Centre - Aldi 1,500 m²
Woolworths expansion – Kambah/Charnwood 4,000 m²
Kingston Group Centre 3,000 m²

The estimated proposed expansion in supermarket space in the ACT is 61,000 m², or approximately 50% of the present supply.

28. As the proposed growth in floor space is considerably in excess of forecast population growth, these new stores must gain sales from existing stores. While some sales may move between the vertically integrated supermarket chains, the impact is likely to fall disproportionately on the independent retailers because they face higher wholesale supply costs than the chains,[4] even if they are equally efficient retailers. This significantly increases the risks for independents establishing new large format supermarkets. Consequently, planned investment in new stores may not proceed (a crowding out effect). These are the supermarkets which, if supplied at wholesale prices similar to the chains, have similar unit retail costs and could compete directly on price with the chains. As site acquisitions by the chains are likely to raise barriers to expansion within the ACT.

[4] ACCC 2008, Grocery Report, cited in Martin Report, p.72. Also see below the discussion of the supply of wholesale services.

29. In addition, these acquisitions are likely to accelerate the decline in the market share of independent retailers more generally, further reducing their ability to compete. As unit costs in grocery retailing are strongly influenced by economies of scale, the effect will be to further widen the gap in the unit costs of the independents compared with the chains. As that gap widens it becomes increasingly difficult to compensate via non price competition based on service to compensate for higher costs and hence higher prices.

30. Given the relatively high level of fixed costs associated with retailing, it is often assumed that unit costs will continue to decline as sales increase – the bigger the store, the lower the unit costs. However, assuming that the size of the stores and its associated facilities is reflective of that level of demand being serviced, further increases in sales may not lower unit costs significantly or at all. This implies that, other things being equal, a smaller scale retail store may be as cost effective as a larger format store.

31. The problem, however, for the independent sector is that if their wholesale supply prices are higher than those for the chains then this, together with sometimes less attractive store formats, has meant that demand is insufficient to achieve comparable fixed unit costs.

32. Contraction of the independent retail grocery sector is likely to have a flow-on effect to local suppliers of fresh produce in the ACT causing further rationalisation in this sector as well.

Competition in Wholesale Supply

33. In its report on the grocery industry, the ACCC described Metcash as

    i. a very efficient retailer;

    ii. a monopolist supplier to independent retailers.

    The implication of the latter is that Metcash charges monopoly prices for its wholesaling services.

34. Even if this is not the case, there are three reasons why wholesale supply prices may be higher for independent retailers than for the vertically integrated chains. They are:

i. Lack of economies of scale;

ii. Price discrimination against the independent sector by manufacturers;

iii. The model for wholesaling to independents is less cost effective compared to that of the chains.

Each of these is discussed below.

Economies of Scale and Density

35. Unit wholesaling costs reflect:

i. Economies of scale - as the fixed costs associated with warehouse operation are spread over a greater volume of sales unit costs decline; and/or

ii. Economies of density - serving more stores in a given geographic area reduces transport costs as well as the requirement for working capital.

36. Nationally, independent retailers have an estimated market share of approximately 15%, while Woolworths and Coles have approximately 85%. Thus, the volume of business available to Metcash is significantly lower than that of the chains which suggests unexploited economies of scale and so higher unit wholesaling costs than for the chains. However, this assumes that wholesaling is not 'scale-able' – if the warehouse and associated facilities are appropriate to the level of demand being serviced then, other things being equal, there may not be much difference in unit wholesaling costs between a smaller wholesaler and a larger wholesaler.

37. Both Metcash and the chains service retail outlets from a central warehouse in each state. As a consequence, there is no reason to assume that their economies of density are likely to differ significantly.

38. The Martin Inquiry accepted that:

> *'Supabarn the only independent chain operating large format supermarkets (at three locations) in the ACT appears to be in the (retail price) range 5 to 10% above the major chains for the Grocery Choice summation of baskets and the basic staples basket. However, the ACT Treasury Survey demonstrates that in comparison to some individual Coles and Woolworths stores the difference for the basket is in the order of 3 to 5 %.*[5]

39. Supabarn has achieved this by sourcing direct whenever possible (mainly fresh produce). Assuming similar efficiency in wholesale and retail operations for Supabarn and the chains, this implies that economies of scale in wholesaling are much less than generally assumed and/or that Supabarn benefits from greater economies of density than those available to the chains.

Price Discrimination

40. In 1999, the ACCC undertook an inquiry into the relative prices at which manufacturers supplied the chains and the independents. It concluded that if there was price discrimination it was in favour of the independents, not against them.

41. Nevertheless, Spar raised concerns about the validity of this finding when it gave evidence to the ACCC Grocery Inquiry in 2008.

> *'Trading terms with suppliers are not transparent, and largely remain confidential between the parties. The small supplier is not able to determine the difference in buying terms and is therefore unable to quantify the variance in the terms. As example of the difference and disadvantage for the smaller wholesalers, one only has to refer to the published creditor days/KPI's for the MSC's. SPAR as a small supplier is at a disadvantage to MSC's based on the published payment days achieved by large suppliers. If the large suppliers are not paying their supply creditors on time, then they are getting away with it or else they are being provided greater terms'*

[5] Martin Report, p. 54.

42. Changes to procurement policies by the chains – requirement for national supply and rationalisation of the number of suppliers – have increased the bargaining power of the chains. Anecdotally, there are indications that the bargaining power of the chains may result in suppliers offering them supply at prices that do not fully cover supply costs (including a return on capital) but on average suppliers are able to achieve normal rates of return by charging higher relative prices to other customers, including independent supermarkets. This is known as the 'waterbed effect'.[6]

Business Models

43. The business models of the national supermarket chains and the independents retailers and wholesaler are different. On the one hand, the chains are vertically integrated into wholesaling and retailing (and in some cases into manufacturing/processing). On the other hand, generally the independents are not integrated. As a consequence the chains need not impose a separate margin on wholesaling.

44. It seems that this should make no difference to the supply costs at retail as a return must be earned on the assets used to provide both wholesaling and retailing services. However, if a specific charge is made for wholesaling this becomes a separate cost at the retail level and with a cost plus method of pricing, this inflates the price that independent retailers pay relative to the chains. To put it slightly differently, even if an independent wholesaler such as Metcash was in all respects as efficient in sourcing and supplying the independent retailers as the wholesale operations of the chains, and leaving aside any differences related to economies of scale, supply prices to independent retailers would be higher. In a sense, once the chains were established using a business model based on vertical integration, the independent sector with unrelated wholesaling and retailing operations, was going to be at a cost disadvantage.

[6] See for example Impact of Supermarket Expansion in the Convenience Retailing Sector, Europe Economics, 2005, p.25 ff. Available at: http://www.europe-economics.com/publications/05acs.pdf;. Also Roman Inderst, Buyer Power and the 'Waterbed Effect', 2008. Available at: http://www.uea.ac.uk/polopoly_fs/1.106620!ri2.pdf

45. The foregoing suggests that Metcash is likely to have higher wholesaling costs than the chains and as a consequence the price paid for wholesale supply by independent retailers is likely to be higher than the equivalent for the chains. Consequently, if the independent retailers are reliant on Metcash for wholesaling services the competitive constraint that they impose at the retail level on the chains will continue to decline.

Supabarn's Wholesale Operations

46. Both the Martin Report and the ACT Supermarket Competition Policy Implementation Plan highlight concerns in relation to wholesale services from a competition perspective.

47. Supabarn currently acquires fresh produce directly and has reduced its reliance on Metcash for other products. However, without a warehouse, it has had difficulty sourcing directly from manufacturers. Access to generic or homebrand products at competitive prices is also a problem.

48. In 2010 Supabarn established a warehouse in Majura in the ACT. It supplies approximately 400 lines of packaged groceries to Supabarn stores, as well as fresh produce and general merchandise. Nevertheless, this range is not sufficient to enable Supabarn to be independent of Metcash in terms of wholesale supply.

49. To reduce its wholesale costs, Supabarn is proposing to supply wholesaling services to other independent retailers on a cost of goods only basis – there are several models on which such an arrangement could be based. This avoids the double marginalisation issue described above.

The question is why would Supabarn adopt such a model? The explanation is that in this way it will build enough volume in terms of sourcing supplies to attract similar pricing to the major chains, assuming that prices reflect volume and not bargaining power. Supabarn expects that potential participants in this arrangement will include some of the IGA stores (including new planned stores). However, Metcash has contractual arrangements which (increasingly) lock-in larger independents to obtaining 90%of their supplies from Metcash if they wish to use Metcash as a wholesale supplier – although this provision has not been enforced fully in the past, this seems likely to change.

50. Assuming that Supabarn is able to provide wholesale service at prices below those of Metcash (which reflect its sole supplier status) this will have two consequences from a competition perspective:

    i. It will increase the competitive constraint at the retail level imposed by independent supermarkets, particularly the larger independents, on the chains;

    ii. It will likely result in competitive pressure on Metcash in the wholesale market.

    Supabarn has significantly reduced its own wholesale supply costs relative to those of Metcash for the products that it has been able to source direct from suppliers. Also it has begun to establish its own generic brand lines to replace the Black & Gold lines supplied by Metcash (it currently has around 40 lines). However, manufacturers of dry goods generally are unwilling to supply direct other than into a warehouse or they charge prices equivalent to those that Metcash charges to supply to its retail customers. When independent retailers acquire direct from suppliers, those suppliers then the promotional monies to Metcash rather than to the retailers and Metcash pass very little of the money onto the retailers.

51. Supabarn will have greater density economies than Metcash. The latter supplies state-wide where Supabarn will be wholesaling within the ACT and its immediate surrounds.

52. The feasibility of this new wholesaling proposal is put at risk if the major supermarket chains continue to acquire scarce retail sites and 'dump' retail capacity into the ACT. This will have (and is already having) an adverse impact on existing large independent supermarkets in the ACT and because it is likely to deter the establishment of new large format independent supermarkets in future by 'crowding out'. These are the parties with which Supabarn needs to ally itself in order to make feasible its entry into wholesaling.

Summary

53. In summary, the concerns raised by retail site acquisitions by the major supermarket chains in the ACT are as follows:

    i. Independent supermarket/grocery stores are currently limited in their ability to compete directly with the chains primarily due to the conditions under which they obtain wholesale supply;

    ii. Supabarn plans to address this by establishing a wholesale supply operation to supply itself and other independents but to achieve this it needs sufficient demand from other independent, primarily but not exclusively large format independents, to provide it with economies of scale;

    iii. Demand for supermarket services is reflective of population size and income. Recent increases and planned increases in supermarket floor space in the ACT are such that sales volume for the sites acquired in future by Coles and Woolworths will be largely from the independent sector and particularly from the large format stores, which are vulnerable because of their current wholesale supply arrangements, and which Supabarn would target for its wholesale operation.

54. The ACT Supermarket Policy identifies competition concerns both at wholesale and retail. Unless the uncompetitive wholesale supply conditions for independent supermarkets can be addressed, the market share of these retailers will continue to decline, as will the competitive constraint on the major chains.

Don Fox Planning
Incorporating Hirst Consulting Services

planning consultants

town planning
economic & retail assessment

Celebrating 30 years 1981–2011

15 September 2011
Our Ref: 8097A.1ER

Kambah Group Centre Master Plan
PO Box 1908
Canberra ACT 2601

Email: Kambah@act.gov.au

Dear Sir/Madam

Submission in relation to Kambah Group Centre draft Master Plan

1. Introduction

Don Fox Planning Pty Ltd (DFP) has been requested by the Koundouris Group to review the draft master plan for the Kambah group centre and prepare a submission in relation to this draft plan. Koundouris Group own and operate the Supabarn supermarket at Wanniassa and also own the property with the supermarket tenancy at Wanniassa.

In preparing this submission we have reviewed the draft master plan available from the ACTPLA website. We are also familiar with the Kambah group centre and surrounding development and the network of centres throughout the Tuggeranong district specifically and the ACT generally.

We applaud the strategies outlined in the draft master plan with respect to improvements to the centre including the provision of additional residential accommodation proximate to the centre, incentives to encourage the refurbishment of some existing buildings, improvements to pedestrian linkages and the provision of additional floorspace to encourage a mix of uses within the centre.

However we submit that the provision of additional supermarket floorspace within this centre is neither required nor warranted. The reasons for our position in relation to the option for the provision of additional supermarket floorspace are detailed below.

2. Hierarchy of Centres

Kambah is located within the Tuggeranong Valley district of ACT. The Tuggeranong Valley was developed following release of Tomorrow's Canberra by the National Capital Development Commission (NCDC) in 1970.

Like other districts within the ACT, the population of Tuggeranong is serviced by a network of Town, Group and Local Centres. Many of these centres are anchored by supermarkets and/or grocery stores.

The main retail centre within the Tuggeranong district is the Tuggeranong town centre. The main facility in this centre is the Hyperdome shopping centre. This centre comprises 68,406m^2 of retail floorspace (according to NSW/ACT Shopping Centre Directory 2007). Major retailers within the centre include:

- Myer 13,523m^2
- Kmart 8,427m^2

11 Dartford Road
Thornleigh NSW 2120
ABN 24 551 441 566

PO Box 230
Pennant Hills NSW 1715
DX 4721 Pennant Hills NSW

t : 02 9980 6933
f : 02 9980 6217
e : dfp@donfoxplanning.com.au

www.donfoxplanning.com.au

- Target 7,038m^2
- Woolworths 5,674m^2
- Coles 3,846m^2

Other supermarket and grocery store facilities within the Tuggeranong town centre include:

- ALDI 1,100m^2
- Hub 270m^2
- Specialist grocer (Asian) 180m^2

Kambah is serviced by a group centre and 6 local centres although not all local centres include retail services. For example the local centre off Jenke Circuit comprises a storage facility and the Livingstone Avenue local centre provides space for local serving offices and services. The local centre off Springett Street comprises a residential development with no retail or commercial facilities.

The Kambah group centre is located in the north western area of the Tuggeranong Valley district. There is a 1,611m^2 Woolworths supermarket in this centre. Expansion of this supermarket facility to double its size is planned.

Other supermarket facilities available within the Kambah area include a 594m^2 Friendly Grocer within the Castley local centre and a 330m^2 Sunshine supermarket in the Mannheim centre. In addition to these facilities there is a small convenience store within a small group of shops on Boddington Crescent.

In addition to these facilities within Kambah itself, there is a variety of supermarkets and grocery stores in centres in surrounding suburbs including:

- Supabarn in the Wanniassa group centre 3,000m^2
- IGA at Chapman 392m^2
- Woolworths in the Erindale group centre 2,972m^2

There is also a group centre at Chisholm and local centres at Gowrie and Monash which are all anchored by supermarkets. These centres are located within the Tuggeranong district.

In the Weston Creek area there are supermarket based local centres at Waramanga (255m^2 IGA) and Rivett (234m^2 Mini Market and 273m^2 IGA) and a large town centre at Weston Creek. The major shopping centre in the Weston Creek town centre is Cooleman Court which is anchored by a 3,100m^2 Woolworths supermarket and a 1,400m^2 ALDI store.

And in the Woden area there are supermarket based local centres at Farrer (264m^2 Cut Price store) and Pearce (413m^2 Foodworks) and a large group centre at Mawson in which there is a 4000m^2 Woolworths supermarket.

The centres identified above (and the stores within these centres) influence the way in which the population of these areas distribute their retail expenditure. Therefore any change to the retail offering within the Kambah group centre, and in particular any increase in supermarket facilities, could impact on a number of other centres in the area.

3. Trade Area

Kambah is identified in the Territory Plan as a group centre. The Territory Plan defines the role and function of a group centre as follows:

> *Group centres are larger shopping centres throughout Canberra that serve groups of nearby suburbs.*

We have estimated the trade area of the Kambah group centre with its current retail offering as being the suburb of Kambah. This centre also has the potential to draw some trade from the suburbs of Chapman and Fisher in the Weston Creek district although we would expect that the proportion of expenditure from households in these areas directed to Kambah would be minimal due to the availability of comparable facilities in more accessible locations.

The network of group centres throughout Tuggeranong is such that the trade areas are reasonably restricted and in a number of cases do not extend beyond the suburb boundary.

Any increase in retail floorspace, particularly any increase in supermarket floorspace, is likely to result in a change to the trade area of the Kambah group centre which will impact on the trading capacity of other centres (and their supermarket anchors).

We would not expect the trade area of the Kambah group centre to increase as a result of the proposed doubling in size of the Woolworths supermarket within this centre although this will impact on the proportion of expenditure from Kambah residents which is directed to other centres. However, if a second supermarket, or potentially two other supermarkets, were introduced as part of the retail offering within the Kambah town centre, in order for these stores to trade effectively, the trade area would need to expand.

This is because only limited population growth is expected in the (current) Kambah group centre trade area in the next 10 years. Estimates of population growth within the Kambah trade area are provided in Section 4 of this letter.

4. Population Projections

According to population projections undertaken by Chief Minister's Office, for the period 2011 – 2019 population projections as noted in **Table 1** are anticipated in Kambah and Wanniassa:

Table 1: Population Projections by Suburb 2011 -2019

	2011		2016		2019	
Area	Persons	H'holds	Persons	H'holds	Persons	H'holds
Kambah	15,700	5,600	15,500	5,615	15,450	5,635

Sources: Australian Bureau of Statistics, 1997. *Census of Population & Housing – Selected Social & Housing Characteristics For Statistical Local Areas ACT;* Australian Bureau of Statistics, 2002 & 2007. *Census of Population & Housing. Pre 1986 figures derived from: Australian Bureau of Statistics, 2005. 3105.0.65.001 Australian Historical Population Statistics. Population, capital city and balance of state, states and territories, 1901 onwards;* Post 2006 figures derived from: Chief Minister's Department, 2004. *Population Projections for Canberra Suburbs and Districts 2004 – 2014.*

DFP estimates for household numbers

As can be seen in **Table 1**, the population Kambah is likely to experience a decline in numbers although there may be a slight increase in the number of households due to reducing occupancy rates as demonstrated in **Table 2**.

Table 2: Historical and Projected Occupancy Rates

	Occupancy Rates (historical)				Projected occupancy rates		
Area	1991	1996	2001	2006	2011	2016	2019
Kambah	3.3	2.8	2.7	2.6	2.5	2.4	2.3

Source: Chief Minister's Department for 1991 - 2006. DFP estimates for 2011, 2016 and 2019

This is a trend which is evident in most established suburbs throughout the ACT.

5. Expenditure Potential

Table 3 is an estimate of expenditure likely to be available from Kambah households for the period 2011-2019, taking into account the decreasing population and limited capacity for new households to be developed. These estimates have been calculated using a technique which categorises a community in terms of household income and combines these characteristics

with the general expenditure on retail items as noted in the 2003/04 ABS Household Expenditure Survey, updated by applying the Consumer Price Index. For the years beyond 2011, an annual growth rate in spending of 1.5% has been factored in.

Table 3: Estimated Retail Expenditure per Kambah Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$10,286.8	$57.6	$59.0	$60.0	$10,246.8
Clothing	$2,898.1	$16.2	$16.6	$16.9	$2,885.3
Small Household Goods	$5,401.5	$30.2	$31.0	$31.5	$5,380.9
Large Household Goods	$8,372.5	$46.9	$48.0	$48.8	$8,335.0
Personal Services	$3,238.8	$18.1	$18.6	$18.9	$3,226.3
Food Restaurants	$2,431.8	$13.6	$13.9	$14.2	$2,421.4
Take Away Food	$1,946.0	$10.9	$11.2	$11.4	$1,935.2
TOTAL ($)	**$34,575.4**	**$193.6**	**$198.3**	**$201.7**	**$34,431.0**
Supermarket Expenditure	**$10,725.3**	**$60.1**	**$61.5**	**$62.6**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored in

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Based on the above estimates:

- In 2011 each Kambah household could expend of total of almost $34,500 on retail commodity items. This equates to total expenditure capacity of $193.6 million, $60.1 million of which could be directed to supermarkets.
- By 2016, available expenditure could have increased to $198.3 million. Supermarket expenditure could have increased to $61.5 million.
- And by 2019 there could be a total of $62.6 million of supermarket expenditure available from all Kambah households.

6. Expenditure Distribution

The Hyperdome is the focus for retail activity in the Tuggeranong town centre.

As previously stated, within the Tuggeranong town centre there are three major supermarket facilities – ALDI, Coles and Woolworths. Both Coles and Woolworths are located within the Hyperdome.

Notwithstanding its somewhat remote location on the western edge of the Tuggeranong Valley area, the Tuggeranong town centre still has the potential to attract a reasonable proportion of supermarket expenditure from Tuggeranong households.

For the purposes of this assessment, it is assumed that around 25% of supermarket expenditure from Kambah households is directed to supermarkets within the town centre.

There is the potential for some supermarket expenditure from Kambah households to be directed to other centres such as the Mawson group centre and the Cooleman Court shopping

centre in the Weston Creek town centre given that these centres are closer to some parts of Kambah than the Tuggeranong town centre. In addition, we would expect a proportion of expenditure from those Kambah households within the area bounded by Athllon Drive, Sulwood Drive Summerland Crescent and Drakeford Drive to be directed to the Wanniassa group centre (and the Supabarn in particular). For the purposes of this assessment, it is estimated that up to 15% of available supermarket expenditure from trade area residents is directed to these facilities.

Allowing for a smaller (say 10%) proportion of supermarket expenditure to be directed to facilities beyond the estimated catchment areas (eg – supermarkets at holiday destinations, top up groceries near work places), the remaining 50% of supermarket expenditure could be directed to facilities within the group and local centres in the area.

7. Impact Assessment

Table 4 is an estimate of the sales potential of supermarkets within the Kambah trade area and includes supermarkets to which residents of Kambah may direct some of their supermarket expenditure.

Table 4: Supermarket Turnover Estimates 2011 – 2019

Supermarket	Est. Floorspace (m^2)	2011 $/m^2	2011 total sales ($ mil)	2016 $/m²	2016 total sales ($ mil)	2019 $/m²	2019 total sales ($ mil)
Tuggeranong Town Centre							
ALDI	1,100	$11,000	$12.10	$11,550	$12.71	$11,897	$13.09
Coles	3,164	$11,000	$34.80	$11,550	$36.54	$11,897	$37.64
Woolworths	5,674	$11,000	$62.41	$11,550	$65.53	$11,897	$67.50
Weston Creek Town Centre							
ALDI	1,400	$11,000	$15.4	$11,550	$16.17	$11,897	$16.65
Woolworths	3,100	$11,000	$34.1	$11,550	$35.8	$11,897	$36.88
Group Centres							
Wanniassa Supabarn	3,000	$11,000	$33.00	$11,550	$34.65	$17,099	$35.69
Kambah Woolworths (existing (1,611m^2) + planned expansion (+1,500m^2))	3,000	$11,000	$17.72	$11,550	$34.65	$17,099	$35.69
Mawson Woolworths	4,000	$11,000	$44.0	$11,550	$46.2	$17,099	$68.4
Local Centres							
Kambah Castley Friendly Grocer	594	$8,000	$4.75	$8,400	$4.99	$8,652	$5.14
Mannheim Sunshine	330	$8,000	$2.64	$8,400	$2.77	$8,652	$2.86
Total Sales			**$260.93**		**$290.04**		**$319.54**

Source: Turnover estimates based DFP estimates with 1% per annum growth rate factored in

Notes:

Assumes planned expansion of Woolworths at Kambah will not commence trading until 2016

According to the estimates in **Table 4**, existing supermarkets within Kambah (including the two supermarkets within the local centres and the proposed expansion of the existing Woolworths supermarket in Kambah) need to attract $42.41 million in 2016 to be able to trade effectively.

If 50% of available supermarket expenditure is directed to these facilities, based on the expenditure estimates in **Table 3** there would only be $30.75 million of available support from residents.

We would not expect these facilities to attract a significant amount of expenditure from sources other than residents in which case there is the potential that these supermarkets will need to trade at reduced turnovers although this option may not be sustainable.

Based on our estimates of available expenditure, in order to maintain a reasonable trading level, almost 69% of available supermarket expenditure from Kambah households would need to be directed to existing facilities (including the planned expansion of the Woolworths supermarket).

The ability for a supermarket to attract up to 70% of available supermarket expenditure is unusual and would generally only occur in areas where there is a reduced provision of supermarket facilities. As can be seen from Table 4, the surrounding area is well provided in terms of supermarket floorspace which will generally result in a contraction of the trade area and a consequent reduction in the 'pool' of available expenditure.

The draft master plan envisages the introduction of 1 and possibly 2 additional supermarkets into the Kambah group centre.

If additional supermarket floorspace was introduced into the Kambah group centre the proportion of supermarket expenditure from residents required to be directed to the centre will also need to increase. This would also need to be coupled with an increase in the size of the trade area.

Assuming only one additional supermarket of 3,000m^2 was provided by 2016, the target turnover of that facility would be $34.65 million (assuming a turnover of $11,550/m^2).

If this scenario occurs, in order for all existing facilities (including the planned expansion of Woolworths) and the proposed additional supermarket to trade effectively, these facilities would need to attract $77 million which is $15.5 million more than the total estimated supermarket expenditure available from Kambah households in 2016.

Therefore not only would these supermarkets need to attract 100% of supermarket expenditure from Kambah residents, they would also need to attract expenditure (up to $15.5 million) from other areas. This expenditure is currently being used to support supermarket facilities within other centres. Its redirection to facilities in Kambah will impact on the level of expenditure directed to supermarkets in other centre by reducing the amount of expenditure available to support these facilities.

Some economic planning specialists place significant weight on the quantum of retail floorspace that is provided on a per capita basis (ie – the amount of retail floorspace provided based on xm^2/person).

In our opinion, the application of such a subjective methodology as a benchmark for the supply of floorspace (be it retail or supermarket floorspace) is somewhat risky unless it can be demonstrated what floorspace has been included and what parameters for determining the population base have been used. And even if these matters can be determined, the supply of supermarket floorspace can be influenced by many other outside factors.

However, if such a methodology was applied in relation to the supply of supermarket floorspace within the Kambah group centre, it could be assessed against the current supply benchmark provision within the ACT which is presented in **Table 5**. **Table 5** compares the supply of supermarket floorspace within Australian capital cities in 2009/10.

Table 5 Provision of supermarket floorspace		
Location	**Supermarket floorspace provision (m^2/person)**	**Supermarket floorspace provision (m^2/1,000 persons)**
Melbourne	0.298m^2/person	298m^2 per 1,000 persons
Brisbane	0.366m^2/person	366m^2 per 1,000 persons
Perth	0.345m^2/person	345m^2 per 1,000 persons
Sydney	0.244m^2/person	244m^2 per 1,000 persons
Canberra	**0.35m^2/person (2008/09)**	**350m^2 per 1,000 persons**
Australia	0.32m^2/person (2009)	320m^2 per 1,000 persons
Source: Urbis Retail Averages Report 2009/2010 for all cities except Canberra Canberra: Background Paper Supermarket Retailing in the ACT (ACTPLA September 2009)		

According to the data in **Table 5**, Brisbane has the highest supply of supermarket floorspace (in terms of m^2 per person) at 0.366m^2 per person whereas Sydney has the least amount.

Applying the supply benchmark of 0.35m^2/person to the Kambah scenario, if there was a total of 6,924m^2 of supermarket floorspace within the Kambah area in 2016 (comprising the expanded Woolworths facility of 3,000m^2, an additional supermarket of 3,000m^2 and the existing supermarkets in the local centres), the trade area population would need to be 19,782 persons.

As detailed in Table 1, the 2016 population of Kambah is only likely to be 15,500 persons. Therefore in order to meet the supply benchmark of 0.35m^2/person, the trade area of the Kambah group centre would need to expand to include more than 3,000 persons from the surrounding areas.

Alternatively, if the trade area did not expand (and we do not believe all existing and proposed supermarket floorspace in Kambah will be sustainable if this does not occur), the supply of supermarket floorspace based on a 2016 population of 15,500 persons would be 0.44m^2/person which is significantly more than the existing supply benchmark for the ACT and any other capital city in Australia.

8. Conclusion

The above assessments demonstrate that there is insufficient support available now and in the foreseeable future to sustain a second supermarket within the Kambah group centre without the introduction of such a facility having adverse impacts on the capacity of supermarkets in surrounding centres, including Kambah local centres, to continue to trade effectively.

Yours faithfully

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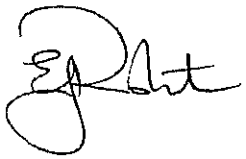

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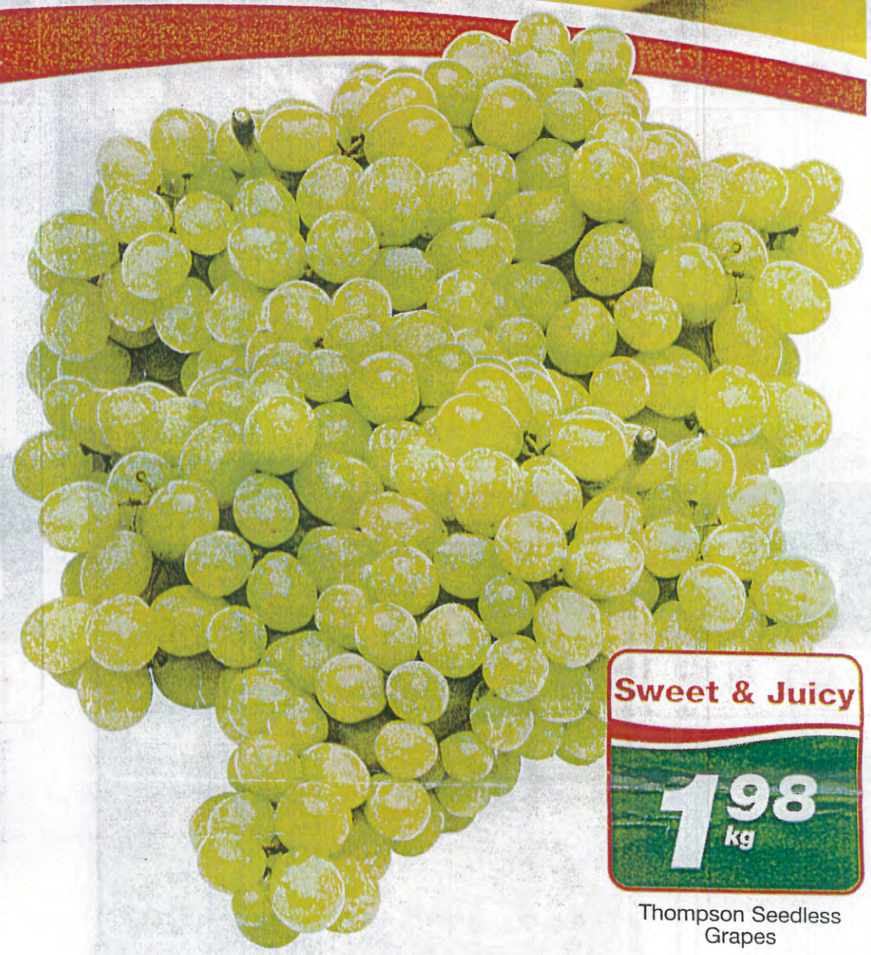

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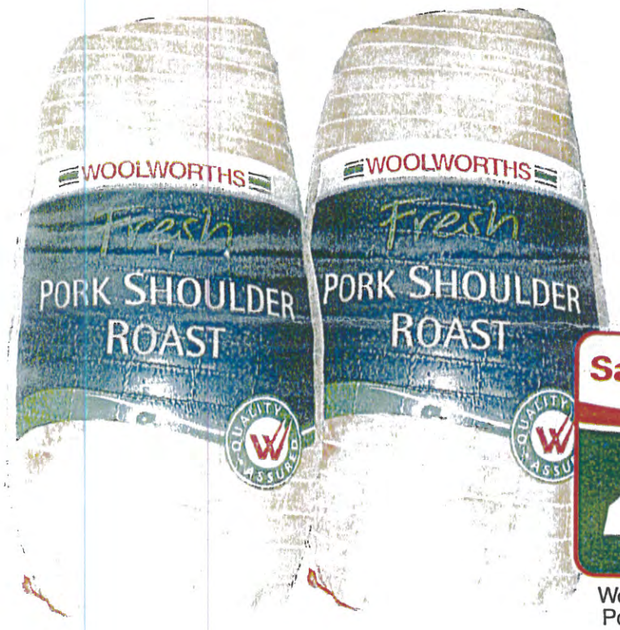

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Economic Impact Assessment

Additional Supermarket Floor Space within the Erindale Group Centre

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11 Dartford Road
Thornleigh NSW 2120
ABN 24 551 441 566

PO Box 230
Pennant Hills NSW 1715
DX 4721 Pennant Hills NSW

t : 02 9980 6933
f : 02 9980 6217
e : dfp@donfoxplanning.com.au

www.donfoxplanning.com.au

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1 Introduction

Don Fox Planning (incorporating Hirst Consulting Services) has been commissioned by Koundouris Group to provide advice in relation to another main line supermarket within the Erindale Group Centre, including an assessment as to the potential support for and impacts of an additional supermarket in this location.

ACTPLA recently exhibited the Tuggeranong and Erindale Centres Master Plans 2010 – 2012. Although the potential for additional supermarket floorspace to be developed in the Erindale Group Centre is not canvassed in the master plan documentation, we understand that Coles have expressed interest in establishing a facility within this centre. For the purposes of this assessment it will be assumed that 3,000m^2 of additional supermarket floorspace could be developed. In our experience, major supermarket traders are reluctant to develop a new facility with a floorspace of less than 3,000m^2.

Our investigations have been based on a desktop assessment of the information available.

The purpose of this report is to investigate whether the introduction of another full line supermarket into the Erindale Group Centre will impact on the trading patterns and trading capacity of supermarkets in other nearby centres. In order to do this the following matters will be considered:

- The existing retail network in the area
- Estimated catchment areas for the various centres in the area
- Population characteristics and projections for the catchments
- An estimate of household expenditure potential, including supermarket expenditure potential
- Consideration of the potential impacts additional supermarket floorspace in this area might have on existing operators.
- Consideration as to the most appropriate location for additional supermarket floorspace if such is justified.

2 Retail Network in Tuggeranong

2.1 Tuggeranong Town Centre

Erindale is located within the Tuggeranong Valley district of ACT. The Tuggeranong Valley was developed following release of Tomorrow's Canberra by the National Capital Development Commission (NCDC) in 1970. Like other districts within the ACT, the population of Tuggeranong is serviced by a network of Town, Group and Local Centres.

The Tuggeranong Town Centre is located on the western edge of the Tuggeranong urban area. Unlike the Belconnen Town Centre, it is not centrally located in relation to its district. Whilst the somewhat remote location of the Town Centre in the context of the resident population could have impacted on the influence the Town Centre has within its district, this is not reflected in the size and retail offering available.

The main retail centre within the Tuggeranong Town Centre is the Hyperdome shopping centre. This centre comprises 68,406m^2 of retail floorspace (according to NSW/ACT Shopping Centre Directory 2007). Major retailers within the centre include:

- Myer 13,523m^2
- Kmart 8,427m^2
- Target 7,038m^2

- Woolworths 5,674m^2
- Coles 3,846m^2

Other supermarket facilities within the Tuggeranong Town Centre include:

- ALDI 1,100m^2
- Hub 270m^2
- Specialist grocer (Asian) 180m^2

According to the Background Paper: Supermarket Retailing in the ACT, September 2009 at that time a Mother Nature outlet (with a floorspace of approximately 1,300m^2) operated from the Hyperdome centre. It appears that this facility has since ceased to trade.

Total supermarket and grocery store floorspace within the Tuggeranong Town Centre is 11,070m^2. This compares to 10,109m^2 in the Gungahlin Town Centre and approximately 10,400m^2 in Belconnen. Therefore, the Tuggeranong Town Centre appears well supplied in terms of supermarket floorspace.

By way of comparison, the 2007 population of Tuggeranong was 89,750 persons, whereas the 2007 populations of the Gungahlin and Belconnen areas were 34,950 and 88,400 respectively.

2.2 Group Centres

The Tuggeranong Town Centre is supported by 6 Group Centres:

- **Condor** in the southern half of the district. The main supermarket anchor tenants in this centre are ALDI (1720m^2) and Woolworths (3,597m^2).
- **Chisholm** in the eastern part of the Tuggeranong Valley. There is a Coles supermarket with a floorspace of 2,508m^2 in this centre. Approval for a 1,500m^2 ALDI store to be included as part of the retail offering at Chisholm in the future has been issued.
- **Wanniassa** in the northern half of the district. This centre is anchored by a 3,000m^2 Supabarn supermarket.[1]
- **Calwell** within central area of the district. There is a 1,722m^2 Woolworths supermarket in this centre.
- **Kambah** which is located in the north western area of the Tuggeranong Valley district . There is a 1,611m^2 Woolworths supermarket in this centre. We understand that there is the potential for this supermarket to expand. For the purposes of this assessment it has been assumed that the facility could double in size to 3,000m^2 however there is the potential that it could be even larger.
- **Erindale** is within the suburb of Wanniassa. There is a 2,972m^2 Woolworths supermarket in this centre. The Coles supermarket proposal is mooted to be located within this centre.

The catchment areas of most of these centres are reflective of their roles as Group Centres. The Territory Plan defines the role and function of a Group Centre as follows:

> *Group centres are larger shopping centres throughout Canberra that serve groups of nearby suburbs.*

[1] According to the Background Paper: Supermarket Retailing in the ACT, September 2009 the Supabarn has a floorspace of 1,546m^2 however we have been advised by the Koundouris Group that this is incorrect.

Given the distribution of Group Centres throughout the Tuggeranong district, there is a degree of overlap between the catchment areas of these centres. The size, location and composition of local centres throughout the district also influences the catchment areas.

For the purposes of assessing the influence of local centres on the trading patterns and capacity of the Group Centres, particularly the Group Centres at Wanniassa, Erindale and Kambah, only those centres north of Isabella Drive (which is the southern boundary of estimated catchment area of the Erindale Group Centre) will be considered.

2.3 Local Centres

There is a total of 11 Local Centres in which supermarket and grocery store facilities are located throughout the Tuggeranong district. Four of these are within the estimated trade area of the Wanniassa, Erindale and Kambah Group Centres.

Within the **Kambah Castley Local Centre** there is a 594m^2 Friendly Grocer. This centre is located within the western part of the suburb of Kambah at the intersection of Boddington Crescent and Castley Circuit.

The **Mannheim Local Centre** is also in the suburb of Kambah. This centre is located on Summerland Circuit and Mannheim Crescent and includes a 330m^2 Sunshine grocery store.

The **Monash Local Centre** is located in the suburb of Monash. There is a 450m^2 IGA supermarket in this centre.

Adjacent to the Gowrie Primary School is the **Gowrie Local Centre.** There is a 572m^2 Friendly Grocer outlet in this centre.

With the possible exception of Mannheim Local Centre, the supermarkets in the other three centres are sufficiently large enough to provide a stable anchor for these centres and contribute to serving the day to day needs of the local population which is the core function of a local centre.

Based on the above, there is an estimated 1,950m^2 of supermarket and grocery floorspace within Local Centres in that part of the Tuggeranong district north of Isabella Drive.

2.4 Tuggeranong Retail Network

In terms of retail hierarchy, a Local Centre should not compete with the Group Centre. And the role of a Group Centre is to provide convenience retailing facilities for the population and complement the functions provided within the Town Centre. Each 'layer' in the network has a vital role to perform in terms of servicing the retail needs of the population. It is therefore essential that this network be maintained to ensure all existing and proposed centres remain viable and fulfil their core functions.

Whilst there is a certain degree of overlap between centres, it is imperative that one centre does not expand to a point where its influence impacts adversely on the role and capacity of another centre to perform its core functions.

3 Population Characteristics

3.1 Estimated Catchment Areas

Catchment areas for the Erindale Group Centre (assuming additional supermarket floorspace has been provided) and the Wanniassa Group Centre have been estimated taking into account:

- The role and function of a Group Centre which is *to serve groups of nearby suburbs* (Section 4.4 of Territory Plan – Group Centres Development Code).

- The road network.
- The location, distribution and composition of other centres.

We do not anticipate that these centres will have access to sources of trade other than the local resident population and non resident workers within the centre (which are unlikely to account for a substantial proportion of expenditure).

We have estimated the catchment for the expanded Erindale Group Centre could comprise the suburbs of Wanniassa, Fadden, Gowrie, Monash and Oxley. We are mindful of the relative proximity of Oxley and the western part of Monash to the Tuggeranong Town Centre however the Erindale Group Centre presents as a more accessible option for these residents. This is not to say that these residents would not direct any of their supermarket expenditure to facilities within the Town Centre; merely we would expect that for the purposes of supermarket shopping, Erindale would likely be preferred from a convenience perspective.

The estimated catchment for the Wanniassa Group Centre could comprise the suburbs of Wanniassa and Oxley and that part of Kambah south of the northern part of Summerland Circuit and east of Drakeford Drive. This represents approximately 1/3 of the suburb of Kambah. We do not anticipate that the influence of the Wanniassa Group Centre extends to the suburbs of Farrar or Torrens, notwithstanding their position relative to the Wanniassa Group Centre. These suburbs are within the Woden district and are adjacent to the suburb of Mawson which has a Group Centre anchored by a 4,000m^2 Woolworths supermarket. Furthermore, there is a 264m^2 Cut Price store within the Farrer Local Centre and a 413m^2 Foodworks store within the Pearce Local Centre which is immediately north of Torrens. In addition, the Woden Town Centre in Phillip has a 3,400m^2 Coles supermarket and a 4,100m^2 Woolworths.

The plan at **Figure 1** (overleaf) indicates the location of the Group Centres at Kambah, Wanniassa and Erindale in relation to the Tuggeranong Town Centre.

As demonstrated in the plan at **Figure 1** there is a significant degree of overlap between the catchment areas of the Erindale and Wanniassa Group Centres, in particular the suburbs of Wanniassa and Oxley are 'shared' by the two centres. This affects the way in which household expenditure might be distributed between centres. The distribution of expenditure is discussed in greater detail in Section 4 of this report.

The addition of another supermarket into the retail mix of the Erindale Centre will be a significant attractor to those households to the east of Wanniassa notwithstanding the availability of a Coles supermarket within the Chisholm Group Centre. A dual supermarket centre will provide choice and competition both of which will be an attraction.

The estimated catchment of the Kambah Group Centre (assuming the expansion of the Woolworths supermarket mooted in the Kambah Group Centre draft master plan (prepared by ACTPLA) proceeds is also indicated on the plan at **Figure 1**. We anticipate that the primary trade area (PTA) of this centre will comprise the suburb of Kambah but that its influence could extend to include the suburbs of Fisher and Chapman which are within the Weston Creek district, notwithstanding the difficulty of access from these areas (via a narrow, single lane road). For the purposes of this assessment, the characteristics of the population of Fisher and Chapman have not been examined, nor has the expenditure capacity of these households been estimated.

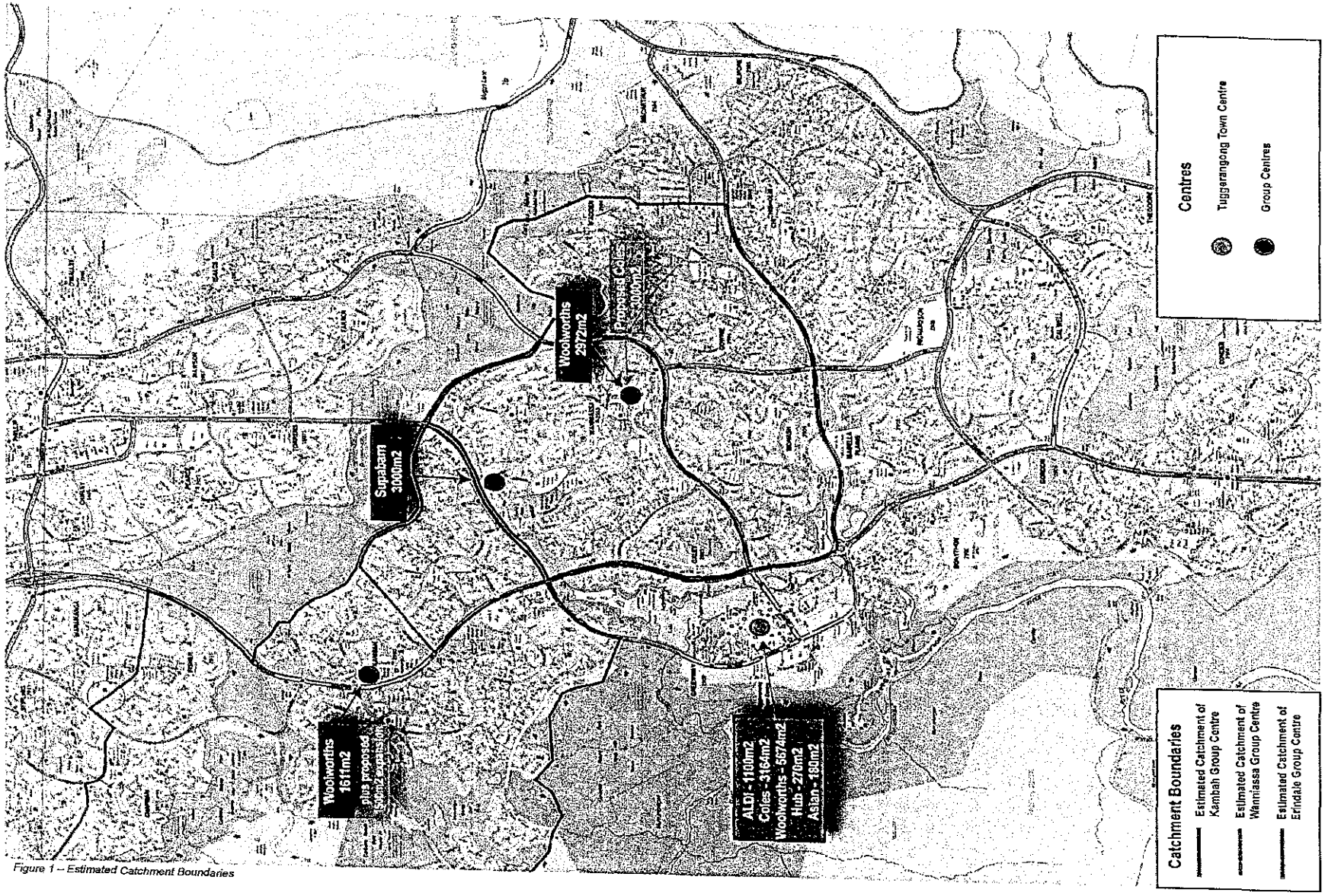

Figure 1 – Estimated Catchment Boundaries

Figure 1 also demonstrates that the estimated catchment areas of the Kambah and Erindale Group Centres (assuming the quantum of supermarket floorspace within these centres increases) are significantly larger in terms of area of influence than the estimated catchment of the Wanniassa Group Centre, assuming no variation to retail offering at that centre.

3.2 Population Characteristics

The characteristics of the 2006 population of each of the Tuggeranong suburbs which comprise the various catchments are detailed in the community profile in **Table 1.**

Key characteristics of population of these suburbs include:

- A fairly established population in terms of employment. In all cases over 70% of the population is within the labour force.
- A fairly stable population – in most cases, over 70% of the population aged over 5 years of age lived at the same address 5 years ago.
- Similarities in terms of age profile.
- A high proportion of single detached dwellings.
- A high proportion of households comprising a couple with children.
- Relatively low proportions of lone person households and other households such as group households.
- In most cases, a high proportion of home owners and mortgagees and a correspondingly low proportion of rented households. The exception being Oxley although the proportion of residents renting in Oxley is still lower than the ACT as a whole.
- Similar commitments in terms of rental payments and mortgage repayments (except for households in Fadden which has a significantly highly median monthly mortgage repayment).
- Median annual household incomes ranging from $76,540 (in Wanniassa) up to $115,130 (in Fadden).

These characteristics suggest that the population within the northern part of the Tuggeranong Valley is predominantly families, living in their own homes with both adults working and earning reasonable incomes. There is likely to be reasonable level of support for retail services within the area, including supermarkets.

Table 1: Extract from 2006 Basic Community Profile

	Wanniassa		Kambah		Oxley		Fadden		Gowrie		Monash		ACT	
	Persons	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**
Total Persons	***7,933***		***15,581***		***1,790***		***3,215***		***3,228***		***5,548***		***324,034***	
Australian born	5,975	75%	12,021	77%	1,366	76%	2,421	75%	2,527	78%	4,121	74%	236,458	73%
Overseas born: ESC	623	8%	1,152	7%	125	7%	293	9%	220	7%	371	7%	23,625	7%
Overseas born: NESC	926	12%	1,568	10%	227	13%	404	13%	348	11%	850	15%	46,735	14%
Total Overseas born	*1,549*	*20%*	*2,720*	*17%*	*352*	*20%*	*697*	*22%*	*568*	*18%*	*1,221*	*22%*	*70,360*	*22%*
Aged 15 or more	6,430	81%	12,535	80%	1,421	79%	2,605	81%	2,590	80%	4,490	81%	262,102	81%
Labourforce/Total Pers.	4,614	71.8%	8,912	71.1%	1,067	75.1%	1,961	75.2%	1,916	73.9%	3,316	73.8%	182489	69.6%
Different address 5 years ago (5+yo)	2,247	28.3%	4,446	28.5%	528	29.5%	991	30.8%	949	29.4%	1,741	31.4%	126,236	39.0%
Age Groups in the Population	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**
0-14	1,495	18.8%	3,043	19.5%	366	20.5%	609	18.9%	634	19.6%	1,059	19.1%	61,933	19.1%
15-24	1,268	16.0%	2,353	15.1%	329	18.4%	543	16.9%	608	18.8%	985	17.8%	51,168	15.8%
25-54	3,482	43.9%	6,838	43.9%	798	44.6%	1,382	43.0%	1,403	43.5%	2,504	45.1%	145,224	44.8%
55+	1,688	21.3%	3,347	21.5%	296	16.5%	682	21.2%	582	18.0%	1,000	18.0%	65,709	20.3%
Total	*7,933*	*100%*	*15,581*	*100%*	*1,789*	*100%*	*3,216*	*100%*	*3,227*	*100%*	*5,548*	*100%*	*324,034*	*100%*
Usual Place of Residence	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**	**Persons**	**%**
Counted at home	7,529	94.9%	14,941	95.89%	1,697	94.80%	3,066	95.37%	3,088	95.66%	5,321	95.91%	308,006	95.05%
Same statistical local area	9	0.11%	43	0.28%	4	0.22%	0	0.00%	0	0.00%	14	0.25%	819	0.25%
Different SLA	188	2.37%	418	2.68%	32	1.79%	56	1.74%	73	2.26%	114	2.05%	16,156	4.99%

Table 1: Extract from 2006 Basic Community Profile

	Wanniassa		Kambah		Oxley		Fadden		Gowrie		Monash		ACT	
Structure of (Occupied Private) Dwellings	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Separate House	2,501	89.5%	4,975	90.4%	536	90.1%	990	96.1%	1,029	97.4%	1,774	93.4%	89,219	76.3%
Semi/Row/ Town/etc	91	3.3%	486	8.8%	59	9.9%	40	3.9%	23	2.2%	126	6.6%	15,661	13.4%
Flat/Unit/ Apartment	198	7.1%	39	0.7%	0	0.0%	0	0.0%	4	0.4%	0	0.0%	11,789	10.1%
Other Dwellings	3	0.1%	5	0.1%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	210	0.2%
Not stated	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	39	0.0%
Total OPD	*2,793*	*100%*	*5,505*	*100%*	*595*	*100%*	*1,030*	*100%*	*1,056*	*100%*	*1,900*	*100%*	*116,918*	*100%*
Average Occupancy (Persons/dwelling)	***2.70***		***2.71***		***2.90***		***3.04***		***2.94***		***2.79***		***2.57***	
Nature of Occupancy	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**	**Number**	**%**
Owned	937	33.5%	1,802	32.7%	164	27.5%	427	41.4%	346	32.7%	602	31.7%	34,918	29.9%
Being Purchased	1,150	41.2%	2,365	42.9%	247	41.4%	505	49.0%	522	49.4%	832	43.8%	45,110	38.6%
Rented:														
Real Estate Agent	176	6.3%	358	6.5%	53	8.9%	51	4.9%	56	5.3%	204	10.7%	14,065	12.0%
State Housing Auth.	291	10.4%	521	9.5%	80	13.4%	0	0.0%	57	5.4%	50	2.6%	9,221	7.9%
Other rented	172	6.2%	352	6.4%	37	6.2%	32	3.1%	43	4.1%	137	7.2%	10,530	9.0%
Not stated	14	0.5%	13	0.2%	3	0.5%	5	0.5%	8	0.8%	0	0.0%	525	0.4%
Total Rented	*653*	*23.4%*	*1,244*	*22.6%*	*173*	*29.0%*	*88*	*8.5%*	*164*	*15.5%*	*391*	*20.6%*	*34,341*	*29.4%*
Other tenure	3	0.1%	12	0.2%	4	0.7%	4	0.4%	3	0.3%	46	2.4%	602	0.5%
Not Stated	50	1.8%	84	1.5%	8	1.3%	7	0.7%	22	2.1%	29	1.5%	1,947	1.7%
Total	*2,793*	*100%*	*5,507*	*100.0%*	*596*	*100.0%*	*1,031*	*100.0%*	*1,057*	*100.0%*	*1,900*	*100.0%*	*116,918*	*100.0%*
Household Composition														

Table 1: Extract from 2006 Basic Community Profile

	Wanniassa		Kambah		Oxley		Fadden		Gowrie		Monash		ACT	
Couple with Children	1,055	48%	2,101	49%	259	54%	538	57%	489	55%	791	52%	39,740	47%
Couple without Children	730	33%	1,402	32%	129	27%	301	32%	239	27%	460	30%	30,627	36%
Single Parent	393	18%	770	18%	93	19%	94	10%	159	18%	254	17%	12,796	15%
Other Families	30	1%	52	1%	3	1%	6	1%	8	1%	25	2%	1,346	2%
Total Families	*2,208*		*4,325*		*484*		*939*		*895*		*1,530*		*84,509*	
Lone Person Households	534	19%	1059	19%	96	16%	102	10%	141	13%	339	18%	27120	23%
Group Households	84	3%	186	3%	22	4%	5	0%	28	3%	59	3%	6292	5%
Medians	**Value**		**Value**		**Value**		**Value**		**Value**		**Value**		**Value**	
Weekly Rent	$236		$238		$241		$372		$271		$283		$258	
Monthly Mortgage	$1,372		$1,363		$1,312		$1,571		$1,420		$1,376		$1,491	
Annual Household Income	$76,540		$78,940		$88,970		$115,130		$88,240		$83,460		$78,470	
Weekly Income per Household	**No. of H'holds**	**%**	**No. of H'holds**	**%**	**No. of H'holds**	**%**	**No. of H'holds**	**%**	**No. of H'holds**	**%**	**No. of H'holds**	**%**	**No. of H'holds**	**%**
$0 - $649	498	17.8%	867	15.7%	87	14.6%	75	7.3%	130	12.3%	256	13.5%	19,413	16.6%
$650 - $1999	1,192	42.7%	2,416	43.9%	227	38.1%	329	31.9%	435	41.2%	827	43.5%	49,873	42.7%
$2000 +	817	29.3%	1,683	30.6%	208	34.9%	499	48.4%	373	35.3%	632	33.2%	36,082	30.9%
Other, including not stated		10.2%		9.8%		12.4%		12.4%		11.2%		9.9%		9.9%
Motor Vehicles		**% of H'holds**		**% of H'holds**		**% of H'holds**		**% of H'holds**		**% of H'holds**		**% of H'holds**		**% of H'holds**
Zero		6%		4%		3%		1%		4%		4%		7%
One		32%		35%		33%		22%		26%		33%		38%
Two		39%		39%		40%		48%		43%		39%		38%
Three or more		27%		26%		30%		34%		35%		28%		21%
No. of vehicles not stated		3%		2%		2%		2%		3%		2%		3%
Average	*1.8*		*1.8*		*1.9*		*2.1*		*2.0*		*1.9*		*1.7*	

Source: ABS 2006 Census

Note: "Households" may exceed "dwellings"in this table, but only because of Census definitions.

3.3 Population Projections

According to population projections undertaken by Chief Minister's Office, for the period 2011 – 2019 population projections as noted in **Table 2** are anticipated:

Table 2: Population Projections by Suburb 2011-2019

Area	2011		2016		2019	
	Persons	H'holds	Persons	H'holds	Persons	H'holds
Wanniassa	8,000	2,850	7,900	2,880	7,850	2,890
Kambah	15,700	5,600	15,500	5,615	15,450	5,635
Oxley	1,900	620	1,950	650	1,950	650
Fadden	3,150	1,100	3,000	1,110	2,950	1,110
Monash	5,500	1,980	5,200	1,980	5,150	1,980
Gowrie	3,200	1,110	3,100	1,125	3,100	1,125
Tuggeranong District Total	**89,050**		**88,100**		**88,250**	

Sources: Australian Bureau of Statistics, 1997. *Census of Population & Housing – Selected Social & Housing Characteristics For Statistical Local Areas ACT;* Australian Bureau of Statistics, 2002 & 2007. *Census of Population & Housing. Pre 1986 figures derived from: Australian Bureau of Statistics, 2005. 3105.0.65.001 Australian Historical Population Statistics. Population, capital city and balance of state, states and territories, 1901 onwards;* Post 2006 figures derived from: Chief Minister's Department, 2004. *Population Projections for Canberra Suburbs and Districts 2004 – 2014.*

DFP estimates for household numbers

The estimates in **Table 2** indicate that the population of each of the suburbs within the northern part of the Tuggeranong which comprise the various trade areas of the centres to be investigated is, in most cases, decreasing. This is mainly due to a change in household occupancy rates rather than any other significant change in the population characteristics.

Table 3 indicates the significant changes to the occupancy rates of households within the various suburbs which comprise the catchments areas. For example, for the period between 1991 and 2006, the average occupancy of Wanniassa dwellings fell from 3.3 persons per dwelling to 2.6 persons per dwelling.

These reducing occupancy rates are a factor of a decreasing fertility rate which is not unique to the ACT. The impact in terms of expenditure particularly with respect to supermarket expenditure is that smaller households tend to spend less on groceries and other consumable items. Therefore, although the capacity of households to expend on retail commodities may be increasing (as a result of increases in wages and earning capacity), these households are unlikely to expend as much as they may have in the past due to the size of the household being smaller.

Table 3: Historical and Projected Occupancy Rates

Area	Occupancy Rates (historical)				Projected occupancy rates		
	1991	1996	2001	2006	2011	2016	2019
Wanniassa	3.3	2.9	2.7	2.6	2.5	2.4	2.3
Kambah	3.3	2.8	2.7	2.6	2.5	2.4	2.3
Oxley	3.3	2.9	2.8	2.7	2.6	2.5	2.4
Fadden	3.6	3.2	3	2.8	2.6	2.5	2.4
Monash	3.4	2.9	2.8	2.7	2.6	2.5	2.4
Gowrie	3.5	3.1	3	2.8	2.7	2.6	2.5

Source: Chief Minister's Department for 1991 - 2006. DFP estimates for 2011, 2016 and 2019

4 Expenditure Estimates

4.1 Household Expenditure

Table 4 is an estimate of expenditure likely to be available from Wanniassa households for the period 2011-2019, taking into account the decreasing population and limited capacity for new households to be developed. These estimates have been calculated using a technique which categorises a community in terms of household income and combines these characteristics with the general expenditure on retail items as noted in the 2003/04 ABS Household Expenditure Survey, updated by applying the Consumer Price Index. For the years beyond 2011, an annual growth rate in spending of 1.5% has been factored in. This takes into account relevant characteristics such as labour force participation and home ownership.

Table 4: Estimated Retail Expenditure per Wanniassa Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$10,135.9	$28.9	$29.8	$30.3	$10,246.8
Clothing	$2,840.4	$8.1	$8.4	$8.5	$2,885.3
Small Household Goods	$5,319.7	$15.2	$15.6	$15.9	$5,380.9
Large Household Goods	$8,221.0	$23.4	$24.2	$24.6	$8,335.0
Personal Services	$3,179.7	$9.1	$9.4	$9.5	$3,226.3
Food Restaurants	$2,374.9	$6.8	$7.0	$7.1	$2,421.4
Take Away Food	$1,902.1	$5.4	$5.6	$5.7	$1,935.2
TOTAL ($)	**$33,973.8**	**$96.8**	**$99.9**	**$101.6**	**$34,431.0**
Supermarket Expenditure	**$10,571.6**	**$30.1**	**$31.1**	**$31.6**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored In

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Based on the above estimates:

- In 2011 each Wanniassa household could expend of total of almost $34,000 on retail commodity items. This equates to total expenditure capacity of $96.8 million, $30.1 million of which could be directed to supermarkets.
- By 2016, available expenditure could have increased to $99.9 million. Supermarket expenditure could have increased to $31.1 million.
- And by 2019 there could be a total of $31.6 million of supermarket expenditure available from all Wanniassa households.

Tables 5, 6, 7, 8 and 9 are the estimate of expenditure likely to be available from Kambah, Oxley, Fadden, Gowrie and Monash households. A similar technique to that utilised in estimating the expenditure potential of Wanniassa households has been adopted.

Table 5: Estimated Retail Expenditure per Kambah Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$10,286.8	$57.6	$59.0	$60.0	$10,246.8
Clothing	$2,898.1	$16.2	$16.6	$16.9	$2,885.3
Small Household Goods	$5,401.5	$30.2	$31.0	$31.5	$5,380.9
Large Household Goods	$8,372.5	$46.9	$48.0	$48.8	$8,335.0
Personal Services	$3,238.8	$18.1	$18.6	$18.9	$3,226.3
Food Restaurants	$2,431.8	$13.6	$13.9	$14.2	$2,421.4
Take Away Food	$1,946.0	$10.9	$11.2	$11.4	$1,935.2
TOTAL ($)	**$34,575.4**	**$193.6**	**$198.3**	**$201.7**	**$34,431.0**
Supermarket Expenditure	**$10,725.3**	**$60.1**	**$61.5**	**$62.6**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored In

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Table 6: Estimated Retail Expenditure per Oxley Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$10,494.3	$6.5	$7.0	$7.1	$10,246.8
Clothing	$3,013.3	$1.9	$2.0	$2.0	$2,885.3
Small Household Goods	$5,534.5	$3.4	$3.7	$3.7	$5,380.9
Large Household Goods	$8,614.0	$5.3	$5.7	$5.8	$8,335.0
Personal Services	$3,354.0	$2.1	$2.2	$2.3	$3,226.3
Food Restaurants	$2,552.8	$1.6	$1.7	$1.7	$2,421.4
Take Away Food	$2,016.2	$1.3	$1.3	$1.4	$1,935.2
TOTAL ($)	**$35,579.1**	**$22.1**	**$23.6**	**$23.9**	**$34,431.0**
Supermarket Expenditure	**$10,986.7**	**$6.8**	**$7.3**	**$7.4**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored In

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Table 7: Estimated Retail Expenditure per Fadden Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$11,441.1	$12.6	$13.0	$13.1	$10,246.8
Clothing	$3,448.9	$3.8	$3.9	$4.0	$2,885.3
Small Household Goods	$6,118.1	$6.7	$6.9	$7.0	$5,380.9
Large Household Goods	$9,629.1	$10.6	$10.9	$11.1	$8,335.0
Personal Services	$3,781.8	$4.2	$4.3	$4.3	$3,226.3
Food Restaurants	$2,952.9	$3.2	$3.3	$3.4	$2,421.4
Take Away Food	$2,301.4	$2.5	$2.6	$2.6	$1,935.2
TOTAL ($)	**$39,673.4**	**$43.6**	**$45.0**	**$45.6**	**$34,431.0**
Supermarket Expenditure	**$11,890.9**	**$13.1**	**$13.5**	**$13.7**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored in

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Table 8: Estimated Retail Expenditure per Gowrie Household and in Total, 2011 - 2019

Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household
Food for Home	$10,670.4	$11.8	$12.3	$12.4	$10,246.8
Clothing	$3,085.0	$3.4	$3.5	$3.6	$2,885.3
Small Household Goods	$5,646.7	$6.3	$6.5	$6.6	$5,380.9
Large Household Goods	$8,798.7	$9.8	$10.1	$10.2	$8,335.0
Personal Services	$3,420.1	$3.8	$3.9	$4.0	$3,226.3
Food Restaurants	$2,601.6	$2.9	$3.0	$3.0	$2,421.4
Take Away Food	$2,066.6	$2.3	$2.4	$2.4	$1,935.2
TOTAL ($)	**$36,289.1**	**$40.3**	**$41.7**	**$42.3**	**$34,431.0**
Supermarket Expenditure	**$11,112.9**	**$12.3**	**$12.8**	**$12.9**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index, ACT March 2011

Totals: Annual Growth Rate of 1.5% factored in

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

Table 9: Estimated Retail Expenditure per Monash Household and in Total, 2011 - 2019					
Retail Commodity Group	$per Household	Total all households 2011 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)	ACT Average $ per Household 2011
Food for Home	$10,514.3	$20.8	$21.3	$21.6	$10,246.8
Clothing	$3,003.3	$5.9	$6.1	$6.2	$2,885.3
Small Household Goods	$5,543.4	$11.0	$11.2	$11.4	$5,380.9
Large Household Goods	$8,616.2	$17.1	$17.4	$17.7	$8,335.0
Personal Services	$3,339.3	$6.6	$6.8	$6.8	$3,226.3
Food Restaurants	$2,522.6	$5.0	$5.1	$5.2	$2,421.4
Take Away Food	$2,014.6	$4.0	$4.1	$4.1	$1,935.2
TOTAL ($)	**$35,553.8**	**$70.4**	**$71.9**	**$72.9**	**$34,431.0**
Supermarket Expenditure	**$10,957.3**	**$21.7**	**$22.2**	**$22.5**	**$10,683.8**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001

Base Data: ABS Consumer Price Index March 2011

Totals: Annual Growth Rate of 1.5% factored in

Expenditure estimates for 2016 assume reduced expenditure potential of 95% of 2011 households to account for reducing household sizes and changes in household structure

Expenditure estimates for 2019 assume reduced expenditure potential of 97% of 2016 households to account for reducing household sizes and changes in household structure

For the purposes of this assessment, the proportion of expenditure directed to supermarkets is of most interest. **Table 10** below is a summary of the total estimated expenditure directed to supermarkets from each of the suburbs which comprise the various catchment areas.

Table 10: Summary of Estimated Supermarket Expenditure from North Tuggeranong Suburbs ($million)			
Suburb	**2011**	**2016**	**2019**
Wanniassa	$30.1	$31.1	$31.6
Kambah	$60.1	$61.5	$62.6
Oxley	$6.8	$7.3	$7.4
Fadden	$13.1	$13.5	$13.7
Gowrie	$12.3	$12.8	$12.9
Monash	$21.7	$22.2	$22.5
Total	**$144.1**	**$148.3**	**$150.6**

4.2 Expenditure Distribution

The Hyperdome is the major focus for retail activity in the Tuggeranong Town Centre.

As previously stated, within the Tuggeranong Town Centre there are three major supermarket facilities – ALDI, Coles and Woolworths. Both Coles and Woolworths are located within the Hyperdome.

Notwithstanding its somewhat remote location on the western edge of the Tuggeranong Valley area, the Tuggeranong Town Centre still has the potential to attract a reasonable proportion of supermarket expenditure from Tuggeranong households.

For the purposes of this assessment, it is assumed that around 30% of supermarket expenditure from households within the northern part of the Tuggeranong area is directed to supermarkets within the Town Centre.

Allowing for a smaller (say 10%) proportion of supermarket expenditure to be directed to facilities beyond the estimated catchment areas (eg – supermarkets at holiday destinations, top up groceries near work places), the remaining 60% of supermarket expenditure could be directed to facilities within the Group and Local Centres in the area.

5 Impact Assessment

5.1 Turnover and Sales Estimates

According to the Review of ACT Supermarket Competition Policy (Sept 2009), supermarkets within the Tuggeranong Town Centre achieved sales of around $11,300/m^2 but supermarkets in the Group Centres in Tuggeranong generated sales of around $15,500/m^2. And the supermarkets in the Local Centres reported turnovers of around $12,000/m^2.

Whilst we are reasonably comfortable with the reported turnovers of the larger, full line supermarkets in the Town Centre, we consider the reported turnovers of the supermarkets in the Group and Local Centres to be significantly higher than average. This could be due to a degree of overtrading perhaps perhaps due to a lack of competition but is more likely to be a misrepresentation of the actual trading capacity of these stores. Based on our experience and previous research, we would expect the smaller facilities in the Local Centres to achieve sales of around $8,000/m^2 in 2009.

By applying the turnover estimates above to the existing and proposed supermarket floorspace within the catchment and factoring in a growth rate of 1% per annum, turnovers could be as noted in **Table 11**. For the years beyond 2009, a growth factor of 1% per annum will be applied.

Table 11: Supermarket Turnover Estimates 2011 – 2019 based on Review of Supermarket Competition Policy (Sept 2009) turnovers

		2011		2016		2019	
Supermarket	Est. Floorspace (m^2)	$/m^2	total sales ($ mil)	$/m^2	total sales ($ mil)	$/m^2	total sales ($ mil)
Town Centre							
ALDI	1,100	$11,526	$12.68	$12,102	$13.31	$12,465	$13.71
Coles	3,164	$11,526	$36.47	1$2,102	$38.29	$12,465	$39.44
Woolworths	5,674	$11,526	$65.40	12$,102	$68.67	$12,465	$70.73
Town Centre Sub Total			**$114.55**		**$120.27**		**$123.88**
Group Centres							
Wanniassa Supabarn	3,000	$15,810	$47.43	$16,601	$49.80	$17,099	$51.30
Erindale Woolworths	2,972	$15,810	$46.99	$16,601	$49.34	$17,099	$50.82
Erindale Coles	*3,000*			$16,601	$49.80	$17,099	$51.30
Kambah Woolworths (existing (1,611m^2) + mooted expansion (+1,500m^2))	*3,000*	$15,810	$25.47	$16,601	$49.80	$17,099	$51.30

Table 11: Supermarket Turnover Estimates 2011 – 2019 based on Review of Supermarket Competition Policy (Sept 2009) turnovers

Supermarket	Est. Floorspace (m^2)	2011		2016		2019	
		$/m^2$	total sales ($ mil)	$/m^2$	total sales ($ mil)	$/m^2$	total sales ($ mil)
Group Centres Sub total			**$119.89**		**$198.74**		**$204.70**
Local Centres							
Kambah Castley Friendly Grocer	594	$12,240	$7.27	$12,852	$7.63	$13,238	$7.86
Mannheim Sunshine	330	$12,240	$4.04	$12,852	$4.24	$13,238	$4.37
Monash IGA	450	$12,240	$5.51	$12,852	$5.78	$13,238	$5.96
Gowrie Friendly Grocer	572	$12,240	$7.00	$12,852	$7.35	$13,238	$7.57
Local Centres Sub Total			**$23.82**		**$25.01**		**$25.76**
Total Sales			**$258.25**		**$344.02**		**$354.34**

Source: Turnover estimates based on those reported in Review of ACT Supermarket Competition Policy, Sept 2009 +1% per annum growth rate factored in

Notes:

Assumes planned expansion of Woolworths at Kambah will not commence trading until 2016

Assumes additional supermarket at Erindale will commence trading in 2016

Existing supermarkets in non italic font

Proposed supermarkets in italics

According to the estimates in **Table 11**, the existing supermarkets in the Group Centres within the northern part of the Tuggeranong Valley will experience sales of around $120 million in 2011.

When these sales are combined with those generated by the smaller supermarkets in the Local Centres, total supermarket sales within the area in 2011 could be $143.7 million.

In **Table 10** we estimated that the total available supermarket expenditure from all households within the northern part of the Tuggeranong Valley area could be $144.1 million in 2011 or only $0.4 million more than the estimated turnover of these facilities. This estimate also assumes that households within Gowrie and Monash comprise part of the catchment area of the current Erindale Group centre. Whilst some households within these suburbs may patronise facilities within this centre, the proportion of expenditure directed to the centre (particularly Erindale Woolworths) is likely to be less than it might be if there was a second supermarket in Erindale.

Furthermore, we previously estimated that around 30% of supermarket expenditure from these households could be directed to supermarkets within the Tuggeranong Town Centre. And a further 10% of supermarket expenditure might be directed to facilities outside the area.

This is clearly impossible based on the above estimates.

Notwithstanding the capacity of the Kambah Group Centre to attract a proportion of its sales from the Fisher and Chapman areas of Weston Creek (albeit limited), it appears that the supermarkets within the Tuggeranong area may not be trading as suggested in the 2009 Supermarket Competition Review.

Adopting more conservative, and in our opinion, more realistic turnovers in 2011 of $11,000/$m^2$ for the Town Centre and Group Centre supermarkets and $8,000/$m^2$ for the stores within the Local Centres, estimates sales as noted in **Table 12** might occur.

Table 12: Revised Supermarket Turnover Estimates 2011 - 2019

Supermarket	Est. Floorspace (m^2)	2011 $/m^2	2011 total sales ($ mil)	2016 $/m²	2016 total sales ($ mil)	2019 $/m²	2019 total sales ($ mil)
Town Centre							
ALDI	1,100	$11,000	$12.10	11,550	$12.71	11,897	$13.09
Coles	3,164	$11,000	$34.80	11,550	$36.54	11,897	$37.64
Woolworths	5,674	$11,000	$62.41	11,550	$65.53	11,897	$67.50
Town Centre Sub Total			**$109.32**		**$114.78**		**$118.23**
Group Centres							
Wanniassa Supabarn	3,000	$11,000	$33.00	$11,550	$34.65	$11,897	$35.69
Erindale Woolworths	2,972	$11,000	$32.69	$11,550	$34.33	$11,897	$35.36
Erindale Coles	*3,000*			$11,550	$34.65	$11,897	$35.69
Kambah Woolworths (existing (1,611m^2) + mooted expansion (+1,500m2))	*3,000*	$11,000	$17.72	$11,550	$34.65	$11,897	$35.69
Group Centres Sub total			**$83.41**		**$138.28**		**$142.42**
Local Centres							
Kambah Castley Friendly Grocer	594	$8,000	$4.75	$8,400	$4.99	$8,652	$5.14
Mannheim Sunshine	330	$8,000	$2.64	$8,400	$2.77	$8,652	$2.86
Monash IGA	450	$8,000	$3.60	$8,400	$3.78	$8,652	$3.89
Gowrie Friendly Grocer	572	$8,000	$4.58	$8,400	$4.80	$8,652	$4.95
Local Centres Sub Total			**$15.57**		**$16.35**		**$16.84**
Total Sales			**$208.30**		**$269.41**		**$277.49**

DFP estimates with 1% per annum growth rate factored in

Notes:

Assumes mooted expansion of Woolworths at Kambah will not commence trading until 2016

Assumes additional supermarket at Erindale will commence trading in 2016

Existing supermarkets in non italic font

Proposed supermarkets in Italics

In our opinion, the turnovers estimated in **Table 12** are more likely to be representative of the current situation in terms of turnovers experienced by the various supermarkets and grocery stores in the North Tuggeranong area.

Based on the estimates in **Table 12**, the total turnover of the Group Centre and Local Centre supermarkets in 2011 could be almost $99 million. This represents approximately 70% of available supermarket expenditure from the catchment area households (not including any expenditure from Fisher and Chapman households that may be directed to Kambah). This is still significantly more

than we estimated (60%) and suggests that the area is well serviced in terms of supermarket floorspace.

However, the proposed expansion of the Woolworths supermarket at the Kambah Group Centre to provide 3,000m^2 of supermarket floorspace in this centre and the mooted introduction of another full line supermarket of 3,000m^2 within the Erindale Group Centre, could have significant implications with respect to the capacity of all existing supermarkets being able to trade effectively.

The estimates in **Table 12** assume that the additional supermarket floorspace will be trading by 2016. This additional supermarket floorspace however is not being balanced with a corresponding increase in population (and demand).

As noted in **Table 2**, the populations of the various suburbs which comprise the catchment areas of these centres are likely to experience a decrease in population over the next 10 years. Whilst the number of households is likely to remain steady or increase modestly, the smaller household sizes will result in reduced expenditure capacity.

The increase in supermarket floorspace, coupled with an increase in sales due to real growth, could result in supermarkets within the Group and Local Centres experiencing total sales of $154.62 million in 2016 and $159.3 million in 2019.

However, available supermarket expenditure from households in these areas will only be $148.3 million in 2016 and $150.6 million in 2019.

In our opinion, there is unlikely to be the necessary support available from the local population to sustain both the Kambah expansion and Erindale addition. In particular, if the Erindale proposal proceeds, it could impact significantly on the capacity of supermarkets within other centres to trade effectively. These impacts are considered in Section 5.2 below.

5.2 Impact Assessment

Potentially the centre at most risk (in terms of maintaining its supermarket anchor) is the Wanniassa Group Centre which is anchored by a 3,000m^2 Supabarn supermarket.

Apart from the Supabarn supermarket, there is only limited retail offering within this centre. Other retail facilities in the Wanniassa Group Centre include:

- Bakery
- Butcher
- Café
- Chemist
- Hairdresser
- Newsagent
- Restaurant
- Take Away food outlet
- Video Rental
- Liquor outlet

These retail outlets are supported by limited number of non-retail facilities such as a bank, medical centre, dental clinic and real estate agency.

In terms of functioning as a comprehensive Group Centre, Wanniassa is lacking some core retail facilities, such as a dry cleaner, florist, shoe repairs, optometrist, book shop, liquor outlet, jeweller, seafood and beautician and non-retail services such as youth centres, child care centre, solicitor and other local serving offices. All these facilities are available within the Erindale Group Centre.

The range of facilities and services available within the Erindale Group centre is reflected in the size of the centre. Erindale comprises over 14,000m^2 of floorspace, whereas the Wanniassa Group Centre comprises just over 4,000m^2.

The range of facilities within the Erindale Group Centre also affects the area over which the centre has influence. As demonstrated in **Figure 1**, in our opinion the estimated catchment area of the Erindale Group Centre is significantly larger than that of the Wanniassa Group Centre notwithstanding that both centres have a similar classification.

We previously estimated the catchment area of the Wanniassa Group Centre as comprising the suburbs of Wanniassa and Oxley and that part of Kambah east of Drakeford Drive and south of the northern section of Summerland Circuit. This area represents approximately 1/3 of the suburb of Kambah in terms of the number of households.

Based on our estimates in **Tables 4, 5 and 6**, total available supermarket expenditure from these households would be:

- $54.9 million in 2011 (comprising $30.1 million from Wanniassa households, $6.8 million from Oxley households and 30% of $60.1 million from those Kambah households within the estimated catchment of the Wanniassa Group Centre);
- $56.85 million in 2016; and
- $57.78 million in 2019.

In order to experience turnovers such as those estimated in **Table 12**, the Supabarn supermarket within the Wanniassa Group Centre would need to attract 60% of available supermarket expenditure from its estimated catchment area.

However, the suburbs of Wanniassa and Oxley are within the catchments of both the Erindale and Wanniassa Group Centres. This means that supermarket expenditure from households in these suburbs is effectively divided between the two centres (and that division is not necessarily 50/50).

And that part of Kambah which forms part of the Wanniassa Group Centre Catchment is also within the catchment of the Kambah Group Centre, which again effectively dilutes the 'pool' from which the Wanniassa Group Centre attracts expenditure.

The total supermarket expenditure available from those suburbs estimated to comprise the catchment area of the expanded Erindale Group Centre could be:

- $84 million in 2011 (comprising $30.1 million from Wanniassa households, $6.8 million from Oxley households, $13.1 million from Fadden households, $12.3 million from Gowrie households and $21.7 from Monash households);
- $86.9 million in 2016; and
- $88.1 million in 2019.

If 60% of the supermarket expenditure from Fadden, Gowrie and Monash households is directed to the expanded Erindale supermarket offering in 2016, this would amount to $29.1 million.

The estimated turnover of the two supermarkets within the Erindale Group Centre in 2016 is $68.98 million (based on the estimates in **Table 12**). $29.1 million only accounts for 42% of the 2016 turnover of these stores. The balance, or $39.88 million, would need to be attracted from Wanniassa and Oxley households.

However, the total amount of supermarket expenditure available from Wanniassa and Oxley households in 2016 is estimated to be $38.4 million – less than the required balance, suggesting that the Erindale supermarkets would need to attract more than 60% of supermarket expenditure from households in Fadden, Gowrie and Monash.

Alternatively, or maybe in addition, the area over which the centre has influence might need to expand to include suburbs such as Isabella Plains, Richardson, Chisholm and Gilmore. However, this is considered unlikely based on the availability of other retail centres to these areas.

If the above scenario transpired:

- The support available to the Supabarn at Wanniassa could reduce to an unsustainable level;
- The level of support available the supermarkets within the Local Centres at Gowrie and Monash would be significantly reduced to the extent that the capacity of these facilities to trade effectively could be adversely affected;
- There would be no support for the supermarket facilities within the Tuggeranong Town Centre from households comprising the Erindale catchment area; and
- The opportunity to provide for the planned expansion of the Chisholm Group Centre to include an ALDI store could be put at risk.

The estimates of available expenditure vs floorspace suggest that the area is well served in terms of supermarket floorspace and unlikely to require any additional floorspace above that already planned for the Kambah Group Centre (being the doubling of the size of the Woolworths supermarket) and the ALDI planned for the Chisholm Group Centre.

In terms of expenditure available to support supermarket floorspace within the Kambah Group Centre, because the estimated catchment of this centre is more discrete (in that it does not overlap the trade areas of any other Group Centres to a large extent), the expenditure distribution of residents of that catchment is more targeted.

In **Table 5** we estimated that in 2011 there could be $60.1 million of supermarket expenditure available from Kambah residents. By 2016 (when the additional supermarket floorspace could be trading), there could be $61.5 million of expenditure available from Kambah residents to expend in supermarkets. This does not include any expenditure from residents of Fisher and Chapman who could also direct expenditure to a supermarket at Kambah.

Based on the turnover estimates in **Table 12**, the expanded supermarket at Kambah could experience sales of $34.65 million in 2016.

Assuming 20% of sales at the expanded Kambah Woolworths supermarket originate from households in Fisher and Chapman, the balance of sales (or $27.7 million) would need to be attracted from Kambah households. This means that 55% of supermarket expenditure from Kambah households would need to be directed to the expanded supermarket in the Group Centre, leaving $33.8 million available to support supermarkets in local centres at Kastley and Mannheim (which could attract up to $7.8 million of this expenditure), supermarkets in the Tuggeranong Town Centre and a proportion being directed to the Supabarn at Wanniassa.

In our opinion, the Group Centres at Kambah and Erindale appear to be functioning as they are intended in terms of providing a diverse range of facilities and services to a number of suburbs. The Wanniassa Group Centre however appears to 'suffering' from the dominance of these two centres.

We have demonstrated that the area appears well served in terms of supermarket floorspace, particularly considering the planned additions to the Kambah Woolworths and the introduction of an ALDI into the Chisholm Group Centre. Should any expansion in floorspace be considered necessary, it is considered that this should be provided as general retail floorspace and be provided within the Wanniassa Group Centre to allow for additional services to be provided within this centre. The option of providing a discount department store (DDS) within the Wanniassa Group Centre should be investigated as an option.

The provision of a DDS within the Wanniassa Group Centre will add another dimension to the retail offering of that centre. We would not anticipate that the provision of a DDS in the Wanniassa Group Centre will impact significantly on the function and role of the Tuggeranong Town Centre as higher order retail services will continue to be offered at that centre. The Tuggeranong Town Centre will also have a significant workforce which will further supplement expenditure from District households.

In our opinion, in order to ensure a Group Centre is able to function appropriately and provide the level of service expected of a Group Centre, the supermarket anchor must be maintained as a vital part of the Centre. There is the very real potential however, that if the Erindale Group Centre expands to include another supermarket facility, this could place significant pressure on the capacity of the Supabarn at Wanniassa to continue to trade effectively. And not only could additional supermarket floorspace within Erindale impact on the Wanniassa Group Centre, it could also have significant and adverse impacts on the supermarket anchors within the Local Centres at Monash and Gowrie.

In our experience, no Group Centre within the ACT 'boasts' two full line supermarkets. Whilst there is the potential for this situation to change [2] in the circumstances, we do not consider that the provision of additional supermarket floorspace within the Erindale Group Centre is warranted now or in the future.

STANDARD DISCLAIMER
Statements and information including figures contained in this document are based on sources which are believed to be reliable. Although we have no reason to doubt the accuracy and reliability of the statements and information, no responsibility is assumed by us or any of our staff or consultants for any mis-statement omission or error and interested persons should rely on their own enquiries.

[2] We understand that ACT Government is planning to lease land in the Dickson Group Centre to Coles. There is an existing Woolworths supermarket in the Dickson Group Centre

Don Fox Planning
Incorporating Hirst Consulting Services

planning consultants

town planning
economic & retail assessment
Celebrating 30 years 1981-2011

31 August 2011
Our Ref: 8054A.ER.doc

The Applications Secretariat
ACT Planning & Land Authority
16 Challis Street
DICKSON ACT 2602

Dear Sir

Development Application 2011/20272
Address: 125 Bunda Street, City
Block 17 Section 84

Introduction

Don Fox Planning Pty Ltd (DFP) has been asked by the Koundouris Group to review the development application for a mixed use development comprising commercial, retail and residential development at 125 Bunda Street, City. The proposed development comprises 300 residential apartments, 41,500m^2 of commercial office space, 12,600m^2 of retail floor space and associated car parking and landscaping. The proposal represents a significant expansion to the existing Canberra Centre Shopping Centre which currently comprises some 76,950m^2 of retail floor space and 11,420m^2 of commercial office space.[1]

We have reviewed the development application material, and in particular the Small Business Impact Statement (SBIS) dated November 2010.

The following is a submission in relation to this application, having particular regard to the SBIS accompanying the DA.

Section 84 City Master Plan (December 2004)

In our opinion, the proposal represents an overdevelopment of the site which is contrary to the master plan approved by the ACT Government in 2004.
Furthermore, according to the SBIS, the Section 84 master plan proposed that the site be developed mainly for residential use with ground floor retail and commercial offices. The proposal the subject of this application varies significantly from that envisaged in the master plan, in that it proposed considerably more retail and commercial floorspace than that approved as part of the master plan.

Inconsistencies between the Development Application and the SBIS

The SBIS is based on a development comprising 400 residential apartments and only 11,000m^2 of retail space. However, according to the report prepared by Purdon Associates submitted with the DA, the development will comprise only 300 residential apartments but some 12,600m^2 of retail space. These differences are critical with respect to the conclusions drawn in the SBIS in terms of support for the additional retail floor space in that there will be 100 fewer households to support the additional floorspace and 1,600m^2 more retail floor space than that assessed in the SBIS which requires support.

[1] Source: NSW/ACT Shopping Centre Directory 2007 – Property Council of Australia

11 Dartford Road
Thornleigh NSW 2120
ABN 24 551 441 566

PO Box 230
Pennant Hills NSW 1715
DX 4721 Pennant Hills NSW

t : 02 9980 6933
f : 02 9980 6217
e : dfp@donfoxplanning.com.au

www.donfoxplanning.com.au

These inconsistencies result in the conclusions of the SBIS in relation to the impacts on other businesses and centres being based on inconsistent base data in which case the impacts could be significantly greater than those anticipated.

Inconsistencies in the SBIS

Spending per capita: The $ per capita spending capacity figures quoted in Table 15 are very different to those presented in Table 2 in relation to retail sales per capita. Whilst the estimates in Table 2 represent retail sales per capita the significant variation between this and the estimated spending capacity is disproportionate.

Methodology and Assumptions

It is considered that the SBIS applies some unusual assumptions and unsound methodology.

Retail Sales vs Household Expenditure: The decision to use retail sales rather than household expenditure is somewhat curious. Generally, an impact assessment would consider both available expenditure and retail sales in order to gain an appreciation as to the potential impact a development may have. It is not a matter of exclusively considering one or the other.

Such selective use of data suggest that the household expenditure estimates may not have assisted the author of the SBIS reaching the conclusions made with respect to potential impacts.

In our opinion, it is not reasonable to undertaken an assessment of economic impact without considering both retail sales **and** household expenditure.

Retail Hierarchy: It does not appear that this assessment has taken into consideration the Costco development which has recently commenced trading at Canberra Airport. The development of this facility has significantly increased the quantum of retail floorspace generally, and grocery related floorspace specifically, by some 14,000m^2. We would anticipate that this development would have resulted in the diversion of a reasonable proportion of visitor and resident expenditure which may have previously been directed to the Canberra Centre.

We are also aware of a further 28,000m^2 of supermarket floorspace which is planned throughout the ACT. For example, an increase in supermarket floorspace within the Dickson Group Centre in North Canberra is planned. In additional to the 3,500m^2 Woolworths supermarket which is currently located in this centre, a 4,000m^2 Coles and 1,500m^2 ALDI store are proposed. Unlike the City, this centre is ideally located in relation to those parts of North Canberra likely to experience reasonable population growth.

We note that no additional supermarket floorspace is planned for the City Centre.

The SBIS does not appear to have taken this 'planned' floorspace into account when considering the supply of supermarket floorspace available within the ACT generally and the North Canberra area specifically.

Retail Growth: The SBIS adopts a growth rate of 2.5% per annum in retail sales to 2014 and 2% and 1.5% for each subsequent 5 year period. (We presume that these rates are 2% and 1.5% per annum growth rates rather than 2% and 1.5% over each 5 year period). Based on this, the SBIS estimates that annual retail sales in the ACT will be $700 million per annum higher in 2014 than they were in 2010.

In our experience, retail sales growth has been less than 2% per annum, and more likely to be in the order of 1% per annum (although in the current economic climate it could even be less than 1% per annum).

In our opinion, a 2.5% per annum growth rate in retail sales is somewhat inflated and unlikely to be achieved, in which case the expected increase in retail sales as suggested in the SBIS may not be achieved. If the increase in retail sales potential is not achieved, the quantum of retail floor space required will be less than the 140,000m^2 of additional retail floor space required between 2010 and 2014 suggested in the SBIS.

We assume that consideration of the estimated demand for additional retail floorspace within the ACT generally is relevant to the assessment because, according to the SBIS, Canberra Centre attracts patronage from all over the ACT. However, if such an extensive assessment is to be relevant (and we are not convinced as to its relevance) such an assessment needs to take into account all proposals for increases in retail floorspace in the ACT, rather than just a selective few.

Floorspace Distribution: We are somewhat confused as the potential role and function of the Kingston and Dickson group centres. In our opinion, these centres will function as more than "convenience goods centres" and will be the major retail focal point for their surrounding residents and workers, particularly when the supermarket floorspace provision within each of these centres increases as proposed. The presence of these anchors will inevitably lead to an increase in the range of retail activities available within these centres which could result in the diversion of some expenditure away from the Canberra Centre. This may impact on the amount of retail floorspace that can be supported.

Population Projections: According to the SBIS the population of the Greater City Centre Area will increase from 5,200 in 2008 to 10,400 by 2016.

According to the projections undertaken by Planning Services Branch of ACTPLA in October 2007, the population of City is expected to increase by approximately 800 persons in the same period (ie – 2008 to 2016). If the suburbs of Braddon and Turner are included in the Greater City Centre Area, the population of these suburbs are expected to increase by 1,130 and 500 persons respectively between 2008 and 2016. The only other suburb within the North Canberra district which is likely to experience a reasonable increase in population in this period is Watson, the population of which could increase by 970 persons between 2008 and 2016.

It is unclear how the author of the SBIS arrived at an increase in the population of the Greater City Centre Area in the order of 5,200 persons (between 2008 and 2016) based on the published information.

The implications of over estimating the population are significant with respect to assessing the demand for retail floorspace within an area. If, for example, the population is not increasing at the rate suggested in the SBIS, then the amount of additional retail floorspace that might be supportable will be less than that anticipated.

Survey Data: The SBIS appears to place significant importance on customer surveys undertaken by the Canberra Centre for the purposes of estimating the City's catchment area. It would be useful if this survey material was made available in order to establish how the material has been interpreted. For example, it is not clear in Table 9 whether there is any differentiation between the CBD workers and residents from other areas of the ACT (some of whom presumably work in the CBD).

In addition, the fact that (according to the survey) the Canberra Centre attracts shoppers from across Canberra, does not necessarily translate to these shoppers visiting other retail outlets in City (unless of course the survey results prove differently). Therefore, based on the weight that has been afforded the survey, we suggest that it be provided for review in order to verify the results and assess the interpretation of the information.

Retailing in City: The SBIS observes that City West serves a market different from other parts of the City. We would agree with this observation and, based on that, suggest that the retail offering in the Canberra Centre is not reflective of what happens in the balance of City and therefore any expansion of retailing within the Canberra Centre is unlikely to have a synergist effect and result in increased retail activity in the rest of the City retail areas.

The dearth and quality of retail facilities within City East (other than in the Canberra Centre) and City West is documented in the SBIS. The SBIS observes that *"retailing* (along Bunda Street and around Garema Place) *is not of a particularly high calibre."*

The addition of 12,600m^2 of retail floor space to the Canberra Centre will result in that centre having total retail floor space in the vicinity of 89,550m^2,in which case the Canberra Centre will comprise over 75% of all retail floorspace within the City Centre.

In the letter from the Department of Land & Property Services, concern regarding opportunities for independent retail operation to continue to exist in City is expressed. That concern resulted in the preparation of the SBIS which was submitted with the development application. However, in our opinion this development, when combined with the existing Canberra Centre development, will almost certainly have a detrimental impact on the other retail areas and outlets in Civic. The dominance of the Canberra Centre in the City is highlighted in the SBIS which notes that in 2009/10 the Canberra Centre generated 74% of retail sales in City and other parts of City generated 26%.

In our opinion, the increase in retail floorspace proposed under this application will exacerbate this situation. The remainder of City lacks the anchor majors and chain retail outlets which are available within the Canberra Centre. The addition of a full line chain supermarket into the retail mix of the Canberra Centre will certainly increase the attractiveness of that centre but that is unlikely to translate into increased patronage for retailers outside the centre.

Sales Growth Potential: Although the SBIS correctly observes that *'the extent of any possible impact of the Precinct D extension on other City retailers will depend on the capacity of the Canberra Centre to increase sales from normal growth rather than by diverting sales from other retailers",* in our opinion, this assessment does not provide any comfort that this scenario will result.

In our opinion, any expansion in the retail mix within the Canberra Centre will increase its actual attractiveness (we do not believe it will be 'relative' at all). However, in our opinion, the SBIS does not provide compelling information to suggest that this would not be at the expense of existing retail facilities within City or how it might impact on other centres expanding their retail offering.

The proposal will merely increase the dominance of the Canberra Centre to the extent that other independent retail operators within City may not be able to trade effectively. This could in turn lead to closures which will ultimately result in the City (beyond the Canberra Centre) becoming rundown. This is especially apparent for those retailers in the area around Garema Place and City Walk areas which have experienced a down turn in trade as a result of the current Canberra Centre operation. It is anticipated that this will only be exacerbated by an increase in retail activity in Canberra Centre.

The role of retailing within City needs to be balanced against its role as the major commercial office centre in Canberra and its role and function within the established retail hierarchy for the ACT. Any increase in retail floorspace within one centre (to the extent proposed as part of this application) needs to be assessed in terms of its potential impact on the capacity of other centres to continue to function and trade appropriately, having regard to their position within the adopted hierarchy.

Retail Composition: The SBIS suggests that *"it is expected that the precinct expansion will include a supermarket".*

Although ACTPLA's retail modelling suggests that there may be an undersupply of supermarket floor space in the North Canberra region we would question whether the City Centre represents an appropriate location for additional supermarket floorspace, particularly given that population expansion in Canberra North will be most marked in areas such as Braddon and Watson.

Although the population of City is expected to increase by 800 persons between 2011 and 2019 in our opinion an additional 800 persons is insufficient to warrant inclusion of a full line supermarket of 4,200m^2 within the City area. We note that Watson only has very small supermarket within its local centres as present and there is no centre per se within Braddon. These two suburbs are likely to experience the highest population growth of North Canberra suburbs up to 2019. The proposed expansion of supermarket floorspace within the Dickson Group Centre will be more than sufficient to services the needs of the population of North Canberra. In our opinion, Dickson represents a more appropriate location for such floorspace.

Therefore, as there is already in the order of 5,000m^2 of supermarket floor space already within the Canberra Centre, together with 1,237m^2 outside the centre, in our opinion the area is well serviced with supermarket floorspace and additional floor space, particularly in the order of 4,200m^2 of supermarket floor space is unnecessary and could have an adverse impact on the capacity of smaller centres that serve the retail convenience needs of their local community to develop and trade effectively.

Conclusion

In our opinion, some of the assumptions of the SBIS submitted with the development application are unsound and have been based on questionable methodology.

There are a number of inconsistencies between the DA and the SBIS and also within the SBIS itself to the extent that the estimates of impact may not be reliable. Furthermore, significant weight has been afforded to a survey conducted by Canberra Centre for the purposes of establishing a trade area for the Centre. It is recommended that this survey be reviewed to verify the interpretation of the survey results.

We would also recommend ACTPLA engaging an expert to undertake an independent review of the methodology, assumptions and conclusions of the SBIS to ensure the findings therein can be relied upon as an indication of the potential impact this proposal may have on the retail composition within City specifically and the ACT generally.

It would be appreciated if ACTPLA could inform us of their consideration of the application and submissions. Should you have any questions regarding this submission, please contact Ellen Robertshaw of DFP on (02) 9980 6933.

Yours faithfully
DON FOX PLANNING PTY LIMITED

ELLEN ROBERTSHAW
PARTNER
erobertshaw@donfoxplanning.com.au

urbis

25 February 2011

Mr David Dawes
Chief Executive
Land and Property Services
ACT Planning and Land Authority
GPO Box 1908
CANBERRA ACT 2601

Dear David,

Proposed Retail Expansion at Casey Group Centre

Urbis has been appointed by Supabarn Supermarkets Pty Ltd (Supabarn) to review the potential for supermarket floorspace at the Casey Group Centre. Specifically, our review examines the potential capacity to accommodate three supermarkets at the Casey Group Centre, in response to a recent ACT government announcement that it is examining the potential for future development at Casey to accommodate a possible third supermarket.

The current Casey Concept Plan (prepared by the ACT Planning and Land Authority) makes provision for a new Group Centre accommodating 10,000 sq.m retail floorspace, as well as a minor commercial centre (with retail floorspace limited to 500 sq.m) located in the northern part of the suburb. The Concept Plan envisages that Casey Group centre would include a full line supermarket of up to 4,000 sq.m.

Based on our discussions with Supabarn and other supermarket operators we understand that there is currently strong interest in providing the following as part of the development of the Casey Group Centre:

- A full line Supabarn supermarket of between 3,500-3,800 sq.m; and
- A discount supermarket (potentially ALDI) of around 1,500 sq.m.

In addition we also acknowledge the planned development of new supermarket facilities at Bonner and Amaroo, as well as the proposed expansion of the Coles supermarket at Gungahlin, all of which are within the vicinity of the subject site.

Following discussions with Supabarn, our assessment therefore considers a scenario where the proposed Supabarn and ALDI supermarkets commence trading at Casey Group Centre by 2014. We also factor in the following proposed supermarket developments:

- A new 2,000 sq.m supermarket at Bonner trading in 2013 (on the basis of the development application lodged with ACTPLA); and
- A new 3,000 sq.m supermarket at Amaroo trading in 2014 (based on the ACT Dept. Land & property Services Indicative Commercial Lane release Program).

We then consider the market potential for an additional full line major supermarket (the 'third supermarket') to be operational at Casey Group Centre in 2016.

Urbis has considered the potential capacity for a third supermarket at the Casey Group Centre by undertaking the following tasks:

SYDNEY
GPO Box 5278 Sydney 2001
Level 21, 321 Kent Street
Sydney NSW 2000 Australia
t 02 8233 9900 f 02 8233 9966 e info@urbis.com.au w urbis.com.au Urbis Pty Ltd ABN 50 105 256 228

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- Definition of an appropriate trade area for the proposed Casey Group Centre;
- Preparation of a forecast trade area population, taking into consideration publicly available Government forecasts;
- A review of the current and forecast retail spending market, particularly focusing on food and grocery expenditure;
- Consideration of the competitive retail environment having regard to existing supermarkets and proposed developments within the trade area;
- Preparation of forecast supermarket trading levels for the proposed Casey Group Centre; and
- An assessment of the capacity for, and trading impacts resulting from, the potential introduction of a third supermarket at the Casey Group Centre.

Each of these matters is discussed below.

TRADE AREA

The trade area refers to the area in which an existing or proposed centre or retailer is most likely to draw custom. The size and scale of trade areas vary due to the geographical context of the retail development in question. Other factors which may define a trade area include:

- The strength, range and appeal of the subject centre;
- The proximity, composition and quality of competing retail facilities. The presence of similar retail centres as well as the general provision of retail space within the area;
- The accessibility of the centre including the road and transport network, as well as access to ample parking; and
- Physical barriers such as freeways, rivers/lakes, bushland and drive times.

With regard to the above factors, the adopted trade area for supermarket development at Casey Group Centre has been based on collection districts surrounding the subject site. These collection districts have been combined to form the following areas:

- A **Primary Trade Area** incorporating the existing suburb of Nichol to the south and Hall to the north, as well as the suburb of Casey which when completed will accommodate around 2,000 dwellings.
- A **Secondary North Trade Area** which is largely undeveloped at present but which contains the future residential suburbs of Taylor, Moncrieff, Jacka and Bonner. Residential development has commenced at Bonner at the southern edge of the trade area.
- A **Secondary South Trade Area** including the existing suburb of Ngunnawal, bounded by Gundaroo Road and Gungahlin Drive.

The trade area has been defined with regard to the proximity and layout of existing retail centres and supermarkets in the area. A Trade Area Map is provided in **Attachment A**.

Gungahlin Town Centre is located 3.8km to the south of the location of the proposed Casey Group Centre and 1.5km from the edge of the Secondary South Trade Area.

TRADE AREA POPULATION

Using the trade area defined above we can determine the current population and forecast expected growth within the region. Urbis has prepared population forecasts for the proposed trade area taking into account the following sources:

- Information from the 1991, 1996, 2001 and 2006 Census of Population and Housing;
- New Dwelling Approvals (NDAs) in the region over the ten years to September 2010;
- 2009 Estimated Resident Population (ERP) released by the ABS in March 2010
- ACT population projections for individual suburbs released by the ACT Chief Minister's Office in May 2009; and
- New dwelling estimates contained in the Concept Plans for Casey, Bonner, Ngunnawal 2C, Jacka, Moncrieff and Taylor prepared by ACTPLA.

From the data in Table 1 we can surmise the following:

- At 2011 the Main Trade Area's population is estimated at 27,220, of which the Primary Trade Area accounts for almost 57%, with some 15,500 residents. By 2016 the Main Trade Area is forecast to comprise of 32,850 residents, reflecting estimated new dwelling completions within Casey and within the release areas in the Secondary North Trade Area. We have assumed no net growth within the Secondary South Trade Area, which is now fully established.
- Overall, the growth in the Main Trade Area is forecast to be strong through to 2021 (at 3.8% per annum between 2011-2016 and 4.1% between 2016-2021), reflecting the fact that significant new dwelling construction is planned within Casey and the suburbs of Taylor, Moncrieff, Jacka and Bonner.

It is important to note that from a retail perspective this level of population growth offers the greatest opportunity to accommodate additional supermarket floorspace within the Man Trade Area. In the event that residential take-up is less than the forecast, then the demand for additional floorspace will be similarly reduced.

TABLE 1 – TRADE AREA POPULATION, 1991 - 2021

Casey Group Centre Trade Area Population, 1991-2021

Trade Area Sector	Actual Residential Population[1] 1991	1996	2001	2006	Forecast Population 2011	2016	2021
Primary Trade Area	370	6,330	12,750	14,090	15,500	18,000	20,500
Secondary Trade Area							
• Secondary North	0	50	0	20	720	3,850	8,670
• Secondary South	0	990	5,730	8,410	11,000	11,000	11,000
Total Secondary	0	1,040	5,730	8,430	11,720	14,850	19,670
Main Trade Area	**370**	**7,370**	**18,480**	**22,520**	**27,220**	**32,850**	**40,170**

	Average Annual Change (No.) 1991-96	1996-01	2001-06	2006-11	2011-16	2016-21
Primary Trade Area	1,192	1,284	268	282	500	500
Secondary Trade Area						
• Secondary North	10	-10	4	140	626	964
• Secondary South	198	948	536	518	0	0
Total Secondary	208	938	540	658	626	964
Main Trade Area	**1,400**	**2,222**	**808**	**940**	**1,126**	**1,464**

	Average Annual Change (%) 1991-96	1996-01	2001-06	2006-11	2011-16	2016-21
Primary Trade Area	76.5%	15.0%	2.0%	1.9%	3.0%	2.6%
Secondary Trade Area						
• Secondary North		-100.0%		104.8%	39.8%	17.6%
• Secondary South		42.1%	8.0%	5.5%	0.0%	0.0%
Total Secondary		40.7%	8.0%	6.8%	4.8%	5.8%
Main Trade Area	**81.9%**	**20.2%**	**4.0%**	**3.9%**	**3.8%**	**4.1%**

1. as at June

Source : ABS Cdata 1991, 1996, 2001 and 2006; ABS, Regional Population Growth, Australia, Electronic Delivery (3218.0.55.001); PROJECTED RESIDENT POPULATION FOR STATISTICAL LOCAL AREAS, AS AT 30 JUNE, ABS 2008; Urbis

DEMOGRAPHIC CHARACTERISTICS

The demographic characteristics of the trade area population are shown in Table 2. The information reflected in Table 2 is based on 2006 Census data and is benchmarked against the ACT average. Key points to note regarding the demographics are as follows:

- Average household income in the Primary Trade Area ($98,920) is 8.1% above the ACT average of $98,813. Overall, average household income in the Main Trade Area is 7.9% above the ACT average;

- Average household size in the Primary Trade Area (2.8 persons) is slightly above the ACT average of 2.6. Overall average household size in the Main Trade Area is 2.9;
- The average age within the Primary and Main Trade Area is 31 which is younger the average ACT age of 36;
- Some 80% of households in the Primary Trade Area, and 81% in the Main Trade Area are 'family households, compared to the ACT average of 71%;
- Car ownership rates are higher in the Primary Trade Area (97%) and Main Trade Area (98%) than the ACT overall, which also has high levels of car ownership (93%).

Overall the demographics in the trade area point to a proportion of young, mobile and affluent family households. We anticipate that these characteristics will be maintained as people move into the new dwellings in the area. Whilst most people value convenience when shopping, the demographic characteristics of the Main Trade Area suggest that a proportion of the population may have a higher willingness to travel further to purchase high quality retail produce and items.

TABLE 2 – KEY SOCIO ECONOMIC CHARACTERISTICS, 2006

Casey Group Centre Key Socio-Economic Characteristics of the Trade Area Population, 2006

Characteristics	Primary TA	Secondary Trade Area North	Secondary Trade Area South	Secondary Trade Area Total	Main TA	ACT Average	Australia Average
Household Income							
$Nil	1%	0%	0%	0%	1%	1%	1%
$1-$26,000	7%	36%	5%	5%	6%	11%	21%
$26,000-$52,000	17%	27%	14%	14%	16%	18%	26%
$52,000-$88,400	28%	36%	29%	29%	28%	26%	27%
$88,400 plus	47%	0%	52%	52%	49%	44%	25%
Average Household Income	$98,920	$50,538	$98,873	$98,628	$98,813	$91,541	$67,525
Var'n from ACT Avg.	*8.1%*	*-44.8%*	*8.0%*	*7.7%*	*7.9%*	*n.a.*	*-26.2%*
Var'n from Australian Avg.	*46.5%*	*-25.2%*	*46.4%*	*46.1%*	*46.3%*	*35.6%*	*n.a.*
Average Household Size	2.8	1.4	2.9	2.9	2.9	2.6	2.6
UR Personal Income							
$Nil	6%	0%	6%	6%	6%	6%	8%
$1 - $20,800	22%	25%	20%	20%	21%	26%	37%
$20,800 - $41,600	21%	25%	21%	21%	21%	22%	27%
$41,600 - $83,200	37%	50%	41%	41%	38%	34%	22%
$83,200 +	14%	0%	12%	12%	13%	12%	7%
UR Avg. Per Capita Income	$34,952	$36,500	$33,629	$33,633	$34,457	$35,396	$26,191
UR Per Capita Income Var'n	*-1.3%*	*+3.1%*	*-5.0%*	*-5.0%*	*-2.7%*	*+0.0%*	
Age Distribution							
Aged 0-13	24%	27%	27%	27%	25%	18%	18%
Aged 14-24	14%	0%	12%	12%	13%	17%	15%
Aged 25-39	27%	27%	32%	32%	29%	23%	21%
Aged 40-59	27%	27%	22%	22%	25%	28%	28%
Aged 60+	8%	20%	7%	7%	8%	14%	18%
Average Age	31	36	29	29	31	36	37
Dependency Ratio[1]	31%	47%	33%	33%	31%	29%	33%
Household Structure (%)							
Family Households	80%	33%	82%	82%	81%	71%	72%
Non-Family Households	20%	67%	18%	18%	19%	29%	28%
Group	3%	0%	3%	3%	3%	5%	4%
Lone Person	17%	67%	15%	15%	16%	23%	24%
Housing Status							
Owner[2]	21%	40%	17%	17%	20%	30%	35%
Purchaser[2]	54%	0%	58%	57%	55%	39%	35%
Renter[2]	24%	60%	25%	26%	25%	30%	29%
Housing Costs (% Income)							
Mortgage Repayments[3]	20%	0%	21%	21%	21%	21%	27%
Rent Payments[3]	14%	3%	14%	14%	14%	14%	16%
Car Ownership							
% 0 Cars	3%	33%	2%	2%	2%	7%	10%
% 1 Car	38%	0%	35%	34%	36%	39%	38%
% 2 Cars +	60%	67%	63%	64%	61%	54%	52%
Labour Force							
Labour Force Participation	80%	100%	81%	81%	80%	73%	65%
% Unemployed	3%	0%	2%	2%	2%	3%	5%
Birthplace							
Australian Born	77%	100%	78%	78%	77%	77%	76%
Overseas Born	23%	0%	22%	22%	23%	23%	24%
• Asia	7%	0%	7%	7%	7%	6%	6%
• Europe	8%	0%	7%	7%	8%	9%	10%
• Other	8%	0%	8%	8%	8%	8%	8%

1. Dependency ratio refers to the proportion of the population between 0-14 and over 65 years.
2. 'Other' Tenure Types have not been included.
3. As a percentage of household income.
Source : ABS Census of Population and Housing 2006, Cdata 2006; Urbis

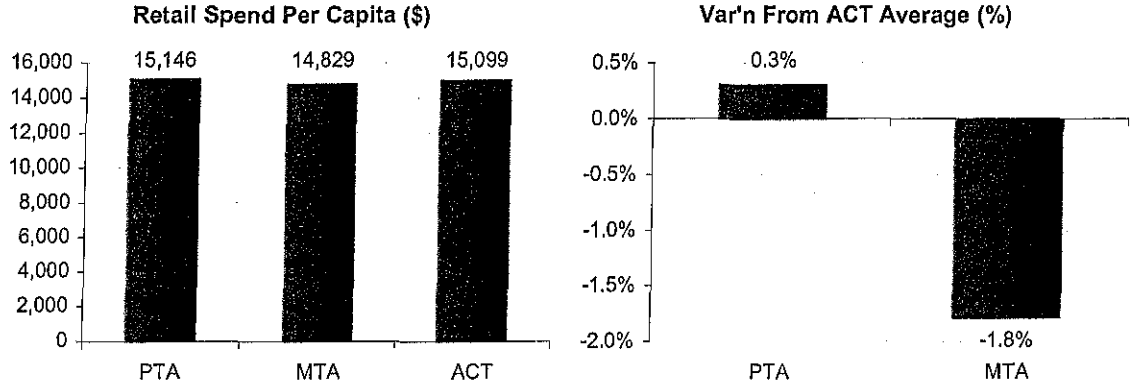
TRADE AREA SPENDING

Retail spending estimates are derived using *MarketInfo,* a micro-simulation model developed by Market Data Systems Limited (MDS). This model, which is based on information from the national ABS Household Expenditure Survey (HES) and the Census of Population and Housing, uses micro-simulation techniques to combine a household's propensity to spend on particular commodities with the socio-economic characteristics of individuals to derive spending per capita estimates on a small area basis.

Based on 2006 Census data and the population forecasts provided in Table 1 we have determined the proportion of expenditure that is directed to retail on a per capita basis. This is provided in the graphs below.

FIGURE 1 – TRADE AREA SPENDING PER CAPITA

Casey Group Centre Total TA Retail Spending Per Capita Variation From ACT Average $2010, (Ex GST)



Source: MDS, MarketInfo 2009; ABS, Australian National Accounts: National Income, Expenditure and Product Accounts (5206.0); Urbis

From the graphs in Figure 1 we can see that the Primary Trade Area (PTA) spend is in line with the ACT average (just 0.3% higher). Across the Main Trade Area as a whole (the Primary and Secondary Trade Areas combined) spend slightly less per capita in the retail sector than the ACT average, at $14,829 respectively, compared to the ACT average of $15,099 representing a -1.8% difference.

As this assessment is concerned with potential supermarket development, the market of most importance to this assessment is the Food, Liquor and Groceries (FLG) market. FLG expenditure and specifically the Food and Grocery (F&G) component is directed to supermarkets, specialty food retailers and some non food retailers such as department stores and discount department stores. Department Store Type Merchandise (DSTM) expenditure is directed to department stores, discount department store and other non-food based retailers.

Applying the population forecasts outlined previously and estimates of retail spending per capita, the current and future F&G spending market in the trade area is detailed in Table 3. Current total F&G spending by the trade area is estimated at $141.8m, which is forecast to increase to $171.4m in 2016 and $209.5m in 2021. The average annual growth in F&G spending for the trade area between 2011 and 2016 is estimated at 3.9% and 4.1% between 2016 and 2021. By 2014, when the proposed Supabarn and ALDI are anticipated to be open for trade, the trade area is expected to generate some $159m in F&G expenditure. By 2016, when the proposed third supermarket is proposed to be open for trade, the trade area is expected to generate some $171.4m in F&G expenditure.

TABLE 3 – MAIN TRADE AREA (MTA) RETAIL FOOD AND NON FOOD SPENDING 2011-21

Casey Group Centre MTA Retail Food and Non-Food Spending, 2011-2021 ($2010, Ex GST)

Year	F&G $M	Total Food $M	DSTM $M	Total Non-Food $M	Total Retail $M
2011	141.8	208.4	182.7	196.3	404.7
2012	147.7	217.3	194.6	208.6	425.9
2013	153.5	225.2	203.7	218.1	443.4
2014	159.0	232.8	211.7	226.5	459.4
2015	165.1	241.3	221.0	236.2	477.4
2016	171.4	249.8	230.5	246.2	496.0
2017	178.3	259.1	240.7	256.8	515.9
2018	185.9	269.3	251.5	268.0	537.2
2019	193.7	279.5	262.6	279.6	559.1
2020	201.5	289.9	274.2	291.6	581.6
2021	209.5	300.5	286.2	304.1	604.6
Average Annual Growth[1]					
2011-16	3.9%	3.7%	4.8%	4.6%	4.2%
2016-21	4.1%	3.8%	4.4%	4.3%	4.0%
2011-21	4.0%	3.7%	4.6%	4.5%	4.1%

1. Assumes average annual per capita growth of 1.1% in 2010-2013 and 0% thereafter, with different growth rates for each product group.

2. Current year is financial year ; Forecast years are financial years

Source: MDS, MarketInfo 2009; ABS, Australian National Accounts: National Income, Expenditure and Product Accounts (5206.0); Urbis

If we include liquor (Table 4), the total FLG spend in 2011 is $166.2 which is expected to grow to $199.2 by 2016.

TABLE 4 – TRADE AREA FOOD LIQUOR AND GROCERY SPENDING 2011-21

Casey Group Centre Trade Area FLG Spending, 2011-2021 ($2010 million, Ex GST)

Year	Primary TA	Secondary Trade Area North	Secondary Trade Area South	Secondary Trade Area Total	Main TA
2011	97.2	2.3	66.7	69.0	166.2
2012	100.5	3.7	68.8	72.5	173.0
2013	104.3	5.9	69.2	75.1	179.3
2014	107.9	8.1	69.5	77.6	185.5
2015	111.9	10.4	70.0	80.4	192.3
2016	116.0	12.8	70.5	83.2	199.2
2017	120.1	15.7	71.0	86.7	206.8
2018	124.3	19.4	71.5	90.9	215.2
2019	128.6	23.1	72.0	95.1	223.7
2020	132.9	26.8	72.5	99.4	232.2
2021	137.2	30.6	73.1	103.7	240.9
Average Annual Growth[1]					
2011-16	3.6%	41.0%	1.1%	3.8%	3.7%
2016-21	3.4%	19.2%	0.7%	4.5%	3.9%
2011-21	3.5%	29.6%	0.9%	4.2%	3.8%
Share of Main Trade Area					
2011	58.5%	1.4%	40.1%	41.5%	100%
2016	58.2%	6.4%	35.4%	41.8%	100%
2021	57.0%	12.7%	30.3%	43.0%	100%

Source: MDS, MarketInfo 2009; ABS, Australian National Accounts: National Income, Expenditure and Product Accounts (5206.0); Urbis

RETAIL HIERACHY

At present there is no major supermarket provision within the Main Trade Area, with convenience retail being limited to three small independent supermarkets at Ngunnawal, Nichols and Gungahlin. We estimate that each provides around 250 sq.m floorspace.

The proposed new 2,000 sq.m supermarket at Bonner is located in the Secondary North Trade Area, and the proposed 3,000 sq.m supermarket at Amaroo is located within the Secondary South Trade Area.

The development of these supermarkets in addition the proposed Supabarn and ALDI at Casey Group Centre would result in a total of **10,850 sq.m** supermarket floorspace in the Main Trade Area by **2014.**

Gungahlin Town Centre is located 3.8km to the south of the location of the proposed Casey Group Centre and 1.5km from the edge of the Secondary South Trade Area. It is the major retail destination within Gungahlin and contains Coles (3,695 sq.m), Woolworths (4,583 sq.m) and ALDI (1,300 sq.m) supermarkets as well as a Big W Discount Department Store (8,044 sq.m) and a range of specialty retailers.

The excellent road network within Canberra means that it is relatively easy for residents in any part of the City to travel by car to the CBD (Civic) or to one of the other Town Centres at Belconnen, Tuggeranong or Woden and to shop around to find best priced items. For food shopping however,

given the perishable nature of fresh food, there will generally be a tendency to shop a close to home as possible, unless there is a significant cost saving or enhanced range of goods in a competing location.

In this instance, we therefore assume that Gungahlin town centre will remain the biggest competitor to the Casey Group Centre, and we note that there is a current proposal for a 2,000 sq.m expansion of Coles at Gungahlin.

NEED SUPPLY AND DEMAND

Urbis has analysed the level of demand for additional supermarket floorspace as generated by the trade area. Analysing demand helps to give an indication of the likely turnover for a new retail development and helps to determine whether a proposed development can be supported. To analyse demand, factors such as population growth, income growth, amount of available supply and the proportion of expenditure attributed to food and grocery (F&G) and department store type merchandise (DSTM) are considered.

As part of the assessment criteria it is necessary to establish the need and demand for supermarket provision at Casey. For the purposes of this assessment we have assumed the following supermarket developments will occur within the Main Trade Area:

- A new 2,000 sq.m supermarket at Bonner trading in 2013;
- A new Supabarn supermarket of between 3,500-3,800 sq.m and a discount supermarket (potentially ALDI) of around 1,500 sq.m both trading at Casey Group Centre in 2014; and.
- A new 3,000 sq.m supermarket at Amaroo trading in 2014.

We then consider the potential for development of a third supermarket (3,750 sq.m) at Casey Group Centre which would commence trading in 2016. Staggering the opening of the third supermarket would provide an opportunity capture a proportion of the expenditure growth within the trade area accruing from population growth between 2014 and 2016.

In our view, an appropriate principle to be applied when assessing the market potential for any retail development can be described as follows:

> *"The residents of an area should be provided with the broadest range of conveniently located retail facilities and services which the market can support, at the earliest possible time without jeopardising the sustainability of other centres in the network which are adequately fulfilling consumer needs."*

Of course, other planning considerations relating to the proposal will also be important in determining whether to give planning consent, including traffic, parking provision, amenity and various community benefit considerations. However, as far as the economic aspects are concerned, the above statement represents a practical principle to apply in a market economy which encourages competition and focuses on consumer needs.

Clearly, the level of housing and population growth forecast at Casey requires the development of a new group centre to provide accessible and convenient shopping for local residents. The purpose of this assessment is to consider whether three supermarkets at Casey is a sustainable proposition.

Supermarket floorspace provision in Canberra at 316 sq.m per 1,000 persons is lower than Brisbane and Perth 366 and 345 sq.m per 1,000 persons respectively and slightly higher than Sydney and Melbourne at 244 and 298 sq.m per 1,000 pop respectively[1].

[1] *Urbis Retail Averages*

Adopting the current Canberra supermarket floorpsace per capita average suggests that the Primary Trade Area would support around **5,600 sq.m** supermarket floorspace at 2016, rising to **6,500 sq.m** by 2021. Nevertheless, a simple floorspace per capita assessment fails to take account of the different trade areas of competing retail developments. In this particular instance a proportion of food and grocery expenditure from the Primary Trade Area (and the Main Trade Area as a whole) will continue to be directed to Gungahlin and other higher order centres within the ACT (such as Belconnen and Civic) as a proportion of shoppers will choose to undertake supermarket shopping as part of a 'destinational' shopping trip to one of the ACT Town Centres. It also does not consider the likely trading potential of supermarket floorspace.

As such it is necessary to consider the potential market share of supermarkets at Casey Group Centre.

In order to more accurately assess the demand for supermarket floorspace at Casey we have considered the forecast growth in the Main Trade Area population and the amount of retail floorspace that is capable of being supported at average $/sq.m turnover levels based on the Urbis Retail Averages. The analysis has been undertaken for the Main Trade Area as it represents the area where the proposed development would draw the majority of its demand and compete most strongly with other centres serving the area.

Table 5, below, demonstrates that there will be **$95m** total available expenditure directed to supermarkets within the Main Trade Area at 2014, increasing to **$102.4m** at 2016. This is on the basis of the following expenditure retention rates within the Main Trade Area at 2014:

- Primary Trade Area: 60% retention
- Secondary North: 60% retention
- Secondary South: 60% retention
- Plus additional trade from beyond the Main Trade Area estimated at 10%

These retention rates reflect the range of retail provision likely to be on offer within each trade area at 2014 and the ease of access and destinational 'pull' to competing centres notably Gungahlin, Belconnen and Civic.

Currently, there is no major supermarket floorspace within the MTA, and approximately 750 sq.m of small independent supermarket floorspace at Ngunnawal, Nichols and Gungahlin in the Primary and Secondary South Trade Areas.

The development of Supabarn and ALDI at Casey in 2014, combined with the proposed supermarket developments at Bonner and Amaroo would provide approximately **10,100 sq.m** additional supermarket floorspace, resulting in **5,600 sq.m** in the Primary Trade Area and **10,850 sq.m** in the Main Trade Area overall.

Table 5 demonstrates that with the addition of the Bonner supermarket development at 2013 and the Supabarn and ALDI at Casey 2014, as well as the proposed Amaroo supermarket in 2014 and assuming average supermarket $turnover per sq.m rates, then by 2016 there may be capacity for a total of **8,832 sq.m** supermarket floorspace within the Main Trade Area, compared to the total **10,850 sq.m** that would be provided without the proposed third major supermarket at Casey. This demonstrates that in 2016:

- Planned supermarkets would trade at below national average turnover levels; and
- There would be no capacity for an additional third major supermarket at Casey Group Centre.

The introduction of a new 3,750 sq.m supermarket at Casey in 2016 would result in a significant oversupply of supermarket floorspace at 2016 into a market where all major supermarket operators are likely to be present. The addition of a third supermarket at Casey Group Centre in 2016 would

negatively impact on existing supermarkets by driving turnover rates to levels that may not be sustainable across the board.

Whilst additional population and expenditure growth in the Main Trade Area is forecast between 2016 and 2021, not all of the growth would be directed to the proposed third supermarket, rather it would service existing supermarkets as well as the proposed new local centres outlined in the Concept Plans for the Main Trade Area (notably small independent supermarkets at Forde, Jacka, and at Northern Casey). Increased competition from other centres, including the proposed Coles expansion at Gungahlin would also absorb a portion of the expenditure growth between 2016-21.

Table 5 suggests that without the development of a third supermarket at Casey Group Centre supply and demand of supermarket floorspace would be broadly in balance by 2021. In practice a significant proportion of the expenditure growth generated between 2016-21 would be directed to these emerging and competing centres. It is clear therefore that even by 2021 there would be no capacity for an additional full line supermarket at Casey Group Centre.

Addition of new Bonner supermarket

Addition of Supabarn, ALDI (Casey) + Amaroo

TABLE 5 – MAIN TRADE AREA SUPERMARKET POTENTIAL

Casey Group Centre - Main Trade Area Supermarket Potential Assessment, 2011 - 2021

	Unit	Amount (Constant $2011 and Ex GST)						
Factor		2011	2012	2013	2014	2015	2016	2021
Total Available Spending to TA Smkts	$M.	5.1	5.2	21.0	95.0	98.7	102.4	125.2
Existing & Proposed Supermarket Space[1]	Sq.m	750	750	2,750	10,850	10,850	10,850	10,850
Resulting Average Trading Levels[2]	$/Sq.m	6,752	6,975	7,643	8,758	9,097	9,440	11,538
Average Supermarket Turnover	$/sq.m	10,600	10,653	10,706	10,760	10,814	10,868	11,142
Supportable Supermarket Floorspace	Sq.m	478	491	1,963	8,832	9,127	9,424	11,236
Resulting Average Trading Levels	Sq.m	6,752	6,975	7,643	8,758	9,097	9,440	11,538
Surplus/Deficiency (+/-)	Sq.m	272	259	787	2,018	1,723	1,426	-386

In our view and based on the information above there is insufficient capacity for a third supermarket at Casey without significant impacts on the trading performance of other planned supermarkets. There is unlikely to be sufficient capacity for a third supermarket even at 2021 allowing for expenditure growth within the Main Trade Area and competition from emerging and expanding centres in and beyond the Main Trade Area.

CONCLUSION

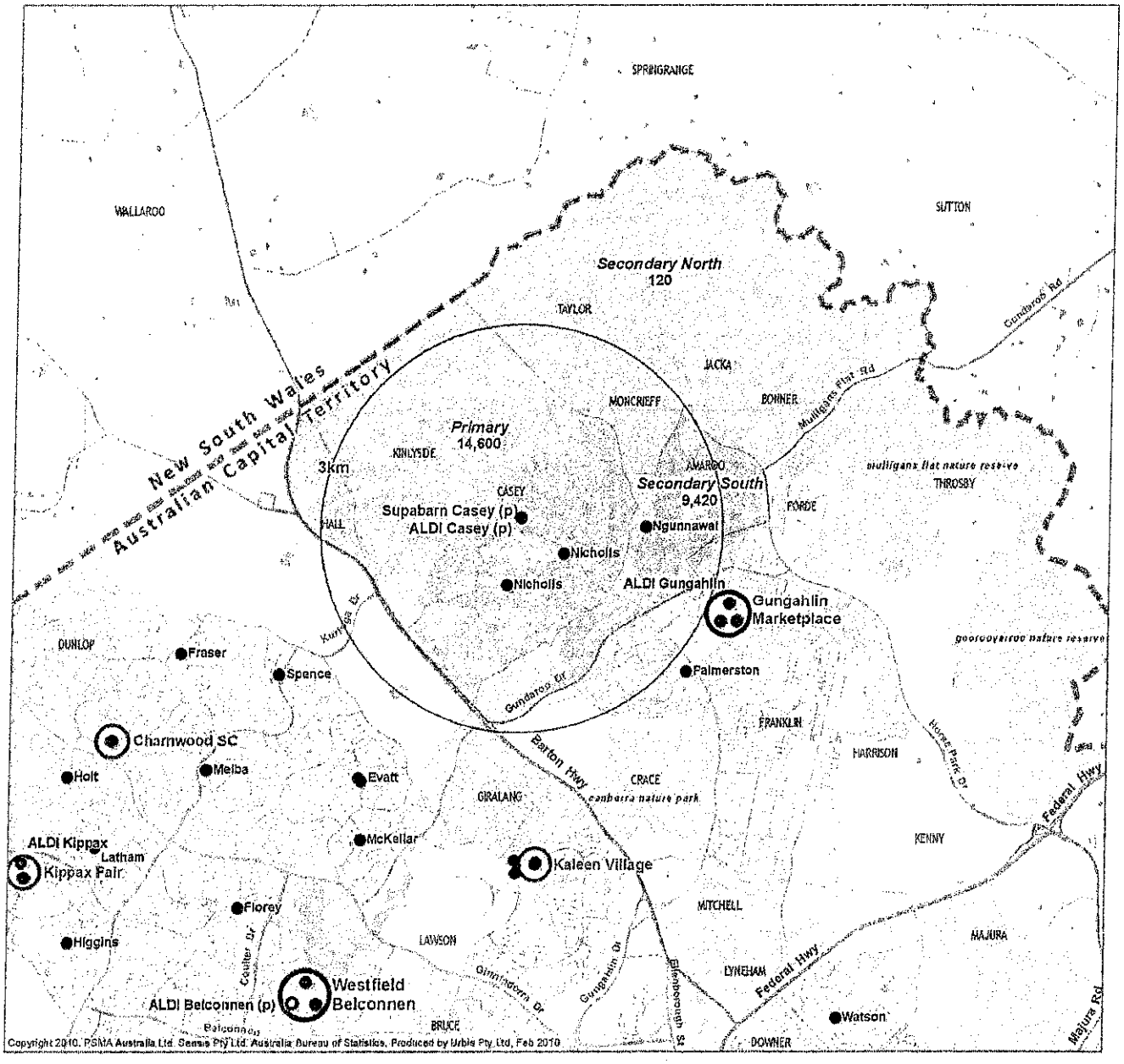
The analysis presented above confirms that demonstrates that **there will be insufficient capacity for a third supermarket at Casey at 2016** without significant impacts on the trading performance of other planned supermarkets. Indeed, even allowing for additional population and expenditure growth between 2016-2021, there is unlikely to be sufficient growth to support an additional full-line supermarket at Casey.

It should also be noted that our population forecast, which is based on the ACTPLA concept plans for the northern suburbs around Gungahlin assumes consistent take-up of new residential development in the trade area between 2011-2021. In the event that take up is slower than forecast, this would have the effect of further reducing the demand and capacity for a third supermarket at Casey.

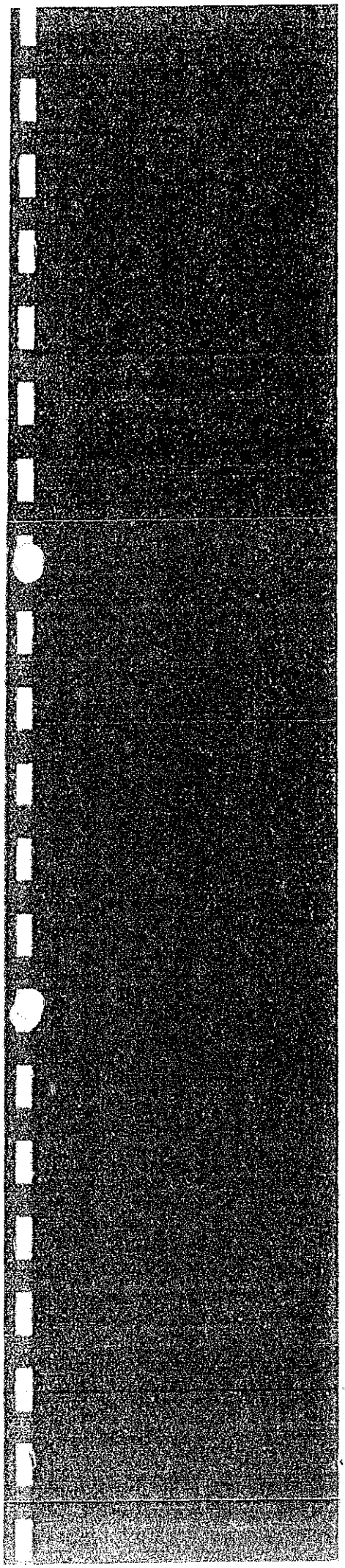
Yours sincerely,

David Wilcox
Senior Consultant

Attachment A: Trade Area Map



ATTACHMENT A - TRADE AREA AND COMPETITION MAP



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Hirst Consulting Services

Preliminary Economic Feasibility Assessment

Supermarket provision within the proposed Casey Group Centre

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11 Dartford Road
Thornleigh NSW 2120
ABN 24 551 441 566

PO Box 230
Pennant Hills NSW 1715
DX 4721 Pennant Hills NSW

t : 02 9980 6933
f : 02 9980 6217
e : dfp@donfoxplanning.com.au

www.donfoxplanning.com.au

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1 Introduction

Don Fox Planning (incorporating Hirst Consulting Services) has been commissioned by Koundouris Group to provide preliminary advice in relation to the potential support for supermarkets within the proposed Casey Group Centre, corner Clarrie Hermes Drive and Horse Park Drive, Casey.

The ACT Government has sanctioned the development of two supermarkets within the Casey Group Centre (in the initial stage) with the potential for a third 'player' to be introduced into the market in the future (tentatively within 3 years).

According to a report in the Canberra Times on 7 May 2010:

'At Casey in Canberra's north, two site have been made available for ALDI and Supabarn, with a possible third site to be developed in three years.'

For the purposes of this assessment, the following floorspaces for these supermarkets will be assumed:

- ALDI: maximum of 1,500m^2 of floorspace
- Supabarn and potential second full line supermarket: up to 4,000m^2 each.

Our investigations have been based on a desktop assessment of the information available including:

- Gungahlin Town Centre Planning Study Issues Paper, May 2008 by ACTPLA.
- Review of ACT Supermarket Policy by John Martin of Martin Stone P/L for Chief Minister's Office, September 2009.
- Territory Plan, May 2010, including Casey Concept Plan, Section 15-2
- ACT Population Projections 2007 – 2019 by ACT Chief Minister's Dept
- ACT Land Development Agency – Residential Land Release Program 2009-2010 to 2013- 2014 and Indicative Land Release Programs 2010-11 to 2013-14.

2 Retail Network in Gungahlin

According to the Gungahlin Town Centre Planning Study currently there are no group centres within the Gungahlin District, but *eventually it is anticipated to have four, at Amaroo, Casey, Moncrieff and Kenny.*

The recent announcement regarding the Casey Group Centre also provided for the establishment of supermarkets within the proposed Amaroo Group Centre.

Given that both Casey and Amaroo are located in the northern part of the Gungahlin District, the establishing of two Group Centres simultaneously will impact on the size of the catchment for each centre.

Notwithstanding the introduction of Group Centres into the Gungahlin retail network, the Gungahlin Town Centre will continue to dominate retailing and commercial activity in the District. The Planning Study states that *town centres are the locations of retailing, services and facilities requiring a large catchment. They traditionally have a department store (e.g. Myer or David Jones), discount department stores (e.g. Big W or Kmart), major supermarkets and bulky goods retailing such as hardware and electrical appliance stores.*

We note that the Gungahlin Town Centre does not currently have a department store although there is a Big W DDS within the Town Centre. Given the ease of access from Gungahlin to established centres at Belconnen and Civic, there is the potential that such a facility may never be developed in Gungahlin. That is not to say that the Gungahlin Town Centre will never reach its potential as a functional Town Centre; merely that Gungahlin will offer different services and facilities to the district population. There is no regulation requiring a Town Centre to develop in a particular fashion and Gungahlin can continue to function as a multi faceted centre serving the population of the district.

Therefore, although the proposed Group Centre at Casey will perform a vital function in terms of convenience retailing, the significance of the role of the Town Centre must be recognised and maintained.

The Casey Concept Plan as detailed in Section 15.2 of the Territory Plan notes the position of Casey as being *in north west Gungahlin adjacent to the existing suburbs of Nicholls and Ngunnawal, and the future suburbs of Kinlyside, Taylor and Moncrieff.*

This location and its relationship to the other proposed group centres in northern Gungahlin at Amaroo and Moncrieff, effectively establishes a catchment for the Casey Group Centre.

As previously noted, there is the potential for 2 (and maybe 3) supermarkets to be established in the Casey Group Centre. In addition to the Group Centre, the Casey concept plan also provides for the development of a Local Centre in the northern part of the suburb. The concept plan envisages that there will be a small supermarket within this centre.

Generally, we would expect a small supermarket to have a floor area of around 500m^2. However some pressure has been applied by some major chain operators to allow supermarkets in local centres to have floor spaces up to 1,500m^2. The impacts of much larger supermarkets locating in Local Centres could impact on supermarket provision in Group Centres, the traditional location for larger supermarkets, in terms of the number of supermarkets to be provided and their potential to trade effectively.

In order for a supermarket of 1,500m^2 in a Local Centre to be viable it is likely that it will need to attract expenditure from beyond its suburb. The objective of a Local Centre is provide *for convenience retailing and other accessible, convenient shopping and community and business services to meet the daily needs of the local population* (Territory

Plan 4.5 Local Centres Development Code). In our opinion, a local community in the context of Canberra comprises the suburb.

Therefore, there is the potential that if a 1,500m^2 supermarket was developed as part of the Casey Local Centre, it could draw trade away from the Group Centre. The Concept Plan for Casey indicates that a small supermarket could be developed as part of the Casey Local Centre. We have assumed, for the purposes of this assessment, that a small supermarket is one with a floorspace of approximately 500m^2, however the potential for a larger facility to be developed must also be contemplated.

A Local Centre should not compete with the Group Centre. Each 'layer' in the network has a vital role to perform in terms of servicing the retail needs of the population. It is therefore essential that this network be maintained to ensure all existing and proposed centres remain viable and fulfil their core functions.

3 Existing and Proposed Competitive Framework

According to the Background Paper, Supermarket Retailing in the ACT, September 2009, supermarket retailing in the northern parts of Gungahlin was as noted in **Table 1**.

Table 1: Existing Supermarket Provision in the vicinity of Casey

Location	Supermarket	Estimated Floorspace (m^2)
Gungahlin Town Centre	ALDI	1,326
	Coles	3,706
	Woolworths	4,583
Ngunnawal Local Centre	Quik	180
Ngunnawal Platypus Centre	IGA	388
Nicholls Local Centre	IGA	630

Source: Background Paper: Supermarket Retailing in the ACT, September 2009

Given that the population projections do not envisage development within Moncrieff occurring until after 2019, for the purposes of this assessment any supermarket provision in the proposed Moncrieff Group Centre has not been taken into account.

Furthermore, although there is the potential for Hall residents to patronise the Casey Group Centre, given that there is an existing facility (albeit only 170m^2) within the Hall Local Centre, for the purposes of this assessment, retail facilities at Hall will not be included. Furthermore, as no increase in population in Hall is envisaged, the expenditure potential of the 350 residents of Hall has not been included.

For the purposes of this assessment it will be assumed that the catchments of Amaroo and Casey will be discrete.

4 Casey Group Centre Catchment Area

Given that the objective of a Group Centre is *to serve groups of nearby suburbs* (Section 4.4 of Territory Plan – Group Centres Development Code), and having regard to the existing and proposed retail and road network, we have estimated the catchment for the Casey Group Centre could comprise the suburbs of Casey and those parts of the suburbs of Nicholls and Ngunnawal to the north of Ginninderra Creek. These areas are indicated on the plan at **Figure 1.** For the reasons described below, Casey is identified as the Primary Trade Area (PTA) and Nicholls and Ngunnawal comprise the Secondary Trade Area (STA) for the Casey Group Centre.

In addition to these areas, the Casey Group Centre could serve the future population of the suburb of Kinlyside which is to the west of Casey. No detail regarding a timeframe for the development of Kinlyside is available. Furthermore, the population projections up to 2019 do not indicate any development occurring in Kinlyside before 2019. We understand that Kinlyside is highly constrained and may never realise it full development potential. Although future residents of Kinlyside could patronise the centre, given the unknowns in terms of timeframes for development and potential yield, these future households have not been included.

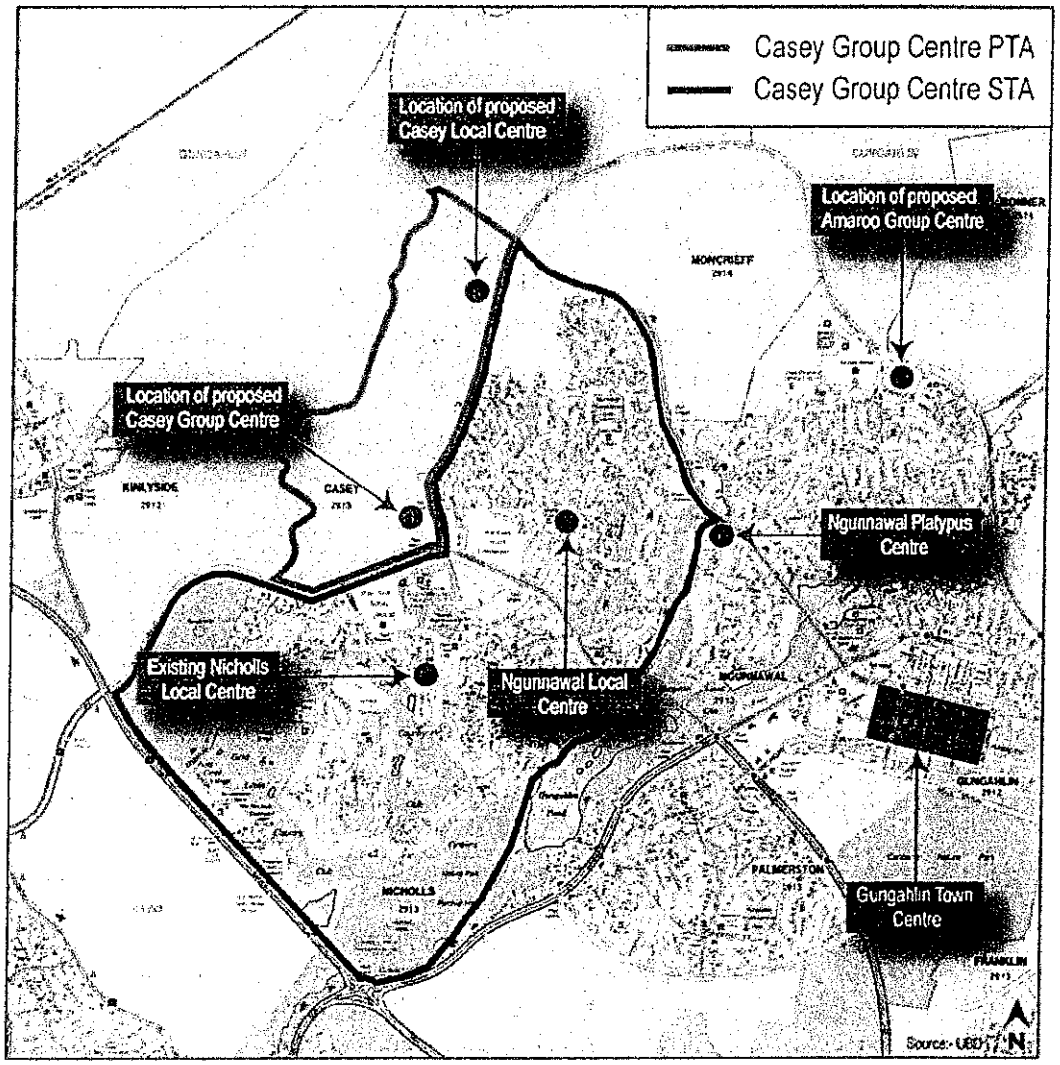


Figure 1 – Estimated Catchment Areas for Casey Group Centre

Given the availability of alternative retail facilities, including the Gungahlin Town Centre, the Casey Group Centre will not attract the same proportion of expenditure from households in the different suburbs which comprise its catchment area.

For example, whilst we would expect that the greater proportion of supermarket expenditure from Casey households would be directed to supermarket retail facilities within that suburb, the Casey Group Centre would be unlikely to attract the same proportion of supermarket expenditure from those Nicholls households within the Casey catchment as these households have a variety of retail centres from which to choose – including the Nicholls Local Centre (which includes a small IGA) and the Gungahlin Town Centre. Therefore in terms of expenditure distribution, Nicholls households have a number of options readily accessible and therefore the proportion of their expenditure likely to be directed to Casey could be influenced by the availability of these optional centres.

Similarly, we would also expect that the proportion of supermarket expenditure from those Ngunnawal households estimated to be within the catchment for the Casey Group Centre likely to be directed to supermarkets within that Centre will be less than that from Casey households (although potentially greater than the proportion of expenditure from Nicholls households due to reduced access to alternative retail facilities in Ngunnawal).

Given the location of the proposed Casey Group Centre, we would not expect a significant proportion of sales at the supermarket facilities within that centre would originate form sources other than resident expenditure. Therefore for the purposes of this assessment only resident expenditure will be considered.

5 Population Estimates

Based on the projections undertaken by Chief Minister's Office for this area for the period 2007 – 2019, population projections as noted in **Table 2** are anticipated:

Table 2: Catchment Area Population Projections 2010 -2022

Area	2010		2013		2016		2019		2022	
	Persons	H'holds	Persons	H'holds	Persons	H'holds	Persons	H'holds	Persons	H'holds
Part Nicholls	6,480	2,086	6,390	2,095	6,345	2,115	6,300	2,136	6,300	2,136
Casey	250	88	1,100	386	2,050	720	3,150	1,106	4,250	1,492
Part Ngunnawal	7,095	2,739	7,245	2,797	7,445	2,875	8,095	3,125	8,326	3,214
Total	13,825	4,913	14,735	5,279	15,840	5,709	17,545	6,367	18,876	6,842

Source: ACT Population Projections 2007 - 2019 by Chief Ministers Office adjusted to reflect those parts of Nicholls and Ngunnawal estimated to be within the Casey Catchment Area.
DFP estimates for 2022
Households numbers are DFP estimates

Although this is not demonstrated in the projections above, the Casey Concept Plan (Section 2.6) notes that ultimately there could be some 1,940 dwellings developed within Casey. A timeframe for achieving ultimate development has not been specified however, assuming development continues at the same rate as anticipated in the 2007 – 2019 population projections, total development of the area is likely to be achieved by 2026.

These projections do not appear to be reflecting what is occurring in reality. For example the Land Development Agency's indicative 2010/11 to 2013/14 residential land release program indicates that 500 lots will be released in Casey in 2010/11. This release does not appear to be reflected in the population projections for the area. However on the basis that 2007 – 2019 Chief Minister's projections are the published and adopted projections they have been applied for the purposes of this assessment.

In any event, as will be demonstrated later in this assessment, the speed at which development occurs is unlikely to impact on the level of support which will ultimately be available to retail facilities within Casey.

6 Expenditure Estimates

Table 3 is an estimate of expenditure likely to be available from proposed Casey households for the period 2013-2019. These estimates have been calculated using a technique which categorises a community in terms of household income and combines these characteristics with the general expenditure on retail items as noted in the 2003/04 ABS Household Expenditure Survey, updated by applying the Consumer Price Index. For the years 2013-2019, an annual growth rate in spending of 1% has been factored in.

For the purposes of this assessment, we have assumed that Casey households will display similar characteristics to Nicholls households in terms of household composition, labour force participation, dwelling ownership and income.

Table 3: Estimated Retail Expenditure per Casey Household and in Total, 2010 to 2019

Retail Commodity Group	$per Household	Total all households 2010 ($mil)	Total all households 2013 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)
Food for Home	$11,067.2	$1.0	$4.4	$8.5	$13.4
Clothing	$3,328.1	$0.3	$1.3	$2.5	$4.0
Small Household Goods	$5,917.7	$0.5	$2.4	$4.5	$7.2
Large Household Goods	$9,302.7	$0.8	$3.7	$7.1	$11.2
Personal Services	$3,648.1	$0.3	$1.5	$2.8	$4.4
Food Restaurants	$2,838.4	$0.2	$1.1	$2.2	$3.4
Take Away Food	$2,220.7	$0.2	$0.9	$1.7	$2.7
TOTAL ($)	$38,322.9	$3.4	$15.2	$29.3	$46.3
Supermarket Expenditure	$11,483.5	$1.0	$4.6	$8.8	$13.9

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001
Base Data: ABS Consumer Price Index, March 2010 (Canberra)
Totals: Annual Growth Rate of 1.0% factored in

Table 4 is an estimate of expenditure likely to be available from those Nicholls households within the Casey catchment.

Table: Estimated Retail Expenditure per Nicholls Household and in Total, 2010 to 2019

Retail Commodity Group	$per Household	Total all households 2010 ($mil)	Total all households 2013 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)
Food for Home	$11,067.2	$23.1	$23.9	$24.8	$25.8
Clothing	$3,328.1	$6.9	$7.2	$7.5	$7.8
Small Household Goods	$5,917.7	$12.3	$12.8	$13.3	$13.8
Large Household Goods	$9,302.7	$19.4	$20.1	$20.9	$21.7
Personal Services	$3,648.1	$7.6	$7.9	$8.2	$8.5
Food Restaurants	$2,838.4	$5.9	$6.1	$6.4	$6.6
Take Away Food	$2,220.7	$4.6	$4.8	$5.0	$5.2
TOTAL ($)	$38,322.9	$79.9	$82.7	$86.0	$89.4
Supermarket Expenditure	$11,483.5	$24.0	$24.8	$25.8	$26.8

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001
Base Data: ABS Consumer Price Index, March 2010 (Canberra)
Totals: Annual Growth Rate of 1.0% factored in

Table 5 is an estimate of available expenditure from those Ngunnawal households within the estimated catchment of the Casey Group Centre.

Table 5: Estimated Retail Expenditure per Ngunnawal Household and in Total, 2010 - 2019

Retail Commodity Group	$per Household	Total all households 2010 ($mil)	Total all households 2013 ($mil)	Total all households 2016 ($mil)	Total all households 2019 ($mil)
Food for Home	$9,805.1	$26.9	$28.3	$29.9	$33.5
Clothing	$2,714.3	$7.4	$7.8	$8.3	$9.3
Small Household Goods	$5,126.9	$14.0	$14.8	$15.6	$17.5
Large Household Goods	$7,926.5	$21.7	$22.8	$24.2	$27.1
Personal Services	$3,042.4	$8.3	$8.8	$9.3	$10.4
Food Restaurants	$2,253.4	$6.2	$6.5	$6.9	$7.7
Take Away Food	$1,833.0	$5.0	$5.3	$5.6	$6.3
TOTAL ($)	$32,703.7	$89.6	$94.2	$99.7	$111.7
Supermarket Expenditure	**$10,212.8**	**$28.0**	**$29.4**	**$31.1**	**$34.9**

Source: ABS: Basic Community Profile, Household Income Data.
ABS: Household Expenditure Survey, 2003/04
Detailed Expenditure Items, Cat. No. 6535.0.55.001
Base Data: ABS Consumer Price Index, March 2010 (Canberra)
Totals: Annual Growth Rate of 1.0% factored in

Based on the above estimates:

- In 2010 there is the potential for there to be a total of $53 million of supermarket expenditure available from all households within the Casey catchment.
- By 2013, this available expenditure could have increased to $58.8 million.
- And by 2019 as a result of an increase in population and expenditure potential generally, there could be a total of $71.8 million of supermarket expenditure available from all households within the estimated catchment.

As previous noted there is a variety of retail centres available within Gungahlin and each of these centres includes a supermarket ranging in size from the small, convenience outlet within the Ngunnawal local centre, up to the main line facilities available within the Town Centre. Given the availability of supermarkets within the district and throughout the Canberra area generally, it is unreasonable to assume that any one outlet will attract 100% of available expenditure from its catchment.

As previously noted there is an existing retail network comprising the town centre and local centres within Gungahlin. The level of hierarchy currently absent is that of the Group Centre. That anomaly will be corrected by the introduction of four new Group Centres into the Gungahlin District. In the first instance these will be established at Casey and Amaroo. Notwithstanding the introduction of these new centres, it is essential that the network of local centres continue to thrive as these centres provide a vital function to their local catchment population.

In addition, a proportion of supermarket expenditure from Casey catchment households will continue to be directed to facilities within the Gungahlin Town Centre.

The location of the Casey Group Centre, at the intersection of the main access route into Casey, will result in residents having to pass the centre when leaving and entering the suburb. Therefore it is logical to assume that a reasonable proportion of expenditure from these households will be directed to these accessible and convenient retail facilities.

For the purposes of this assessment we estimate that between 65% - 70% of supermarket expenditure from the PTA and between 45% - 60% of supermarket expenditure from STA households will be directed to the new supermarket facilities in Casey. And in this instance and having regard to the proximity of the Gungahlin Town Centre particularly to Nicholls, we would expect that only 45% of supermarket expenditure from Nicholls households and 60% of supermarket expenditure from Ngunnawal households might be directed to the Casey Group Centre.

Therefore:

- If 70% of supermarket expenditure from Casey households is directed to supermarkets in Casey; and
- 45% of supermarket expenditure from Nicholls households is directed to supermarkets in Casey; and
- 60% of supermarket expenditure from Ngunnawal households is directed to supermarkets in Casey;

there could be total available supermarket expenditure as noted in **Table 6:**

Table 6: Estimated expenditure from Catchment households likely to be directed to supermarkets in Casey ($mil)

Area	2010	2013	2016	2019
Casey	$0.7	$3.2	$6.1	$9.7
Nicholls	$10.8	$11.2	$11.6	$12.1
Ngunnawal	$16.8	$17.7	$18.7	$20.9
Total	**$28.3**	**$32.0**	**$36.4**	**$42.7**

7 Turnover and Sales Estimates

According to the Review of ACT Supermarket Competition Policy (Sept 2009), supermarkets within the Gungahlin Town Centre achieved sales of around $10,500/m^2 but supermarkets in the local centres in Gungahlin generated sales of over $16,000/m^2.

Whilst we are comfortable with the reported turnovers of the larger, full line supermarkets in the town centre, we consider the turnovers of the supermarkets in the local centres to be significantly higher than average suggesting a degree of overtrading due to a lack of competition. Based on our experience and previous research, we would expect the smaller facilities in the local centres to achieve sales of between $7,000/m^2 to $8,000/m^2.

However, for the purposes of this assessment the turnover estimates as noted in the Review Policy have been applied. According to the Review Policy, the ACT average sales for supermarkets in Group Centres were approximately $15,000/m^2.

By applying the turnover estimates above to the existing and proposed supermarket floorspace within the catchment and factoring in a growth rate of 1% per annum, turnovers could be as noted in **Table 7.**

Table 7: Supermarket Turnover Estimates 2010 - 2019

		2010		2013		2016		2019	
Supermarket	Est. Floorspace (m^2)	$/$m^2$	total sales ($ mil)	$/$m^2$	total sales ($ mil)	$/$m^2$	total sales ($ mil)	$/$m^2$	total sales ($ mil)
Ngunnawal Local Centre - Quik Ngunnawal	180	$16,000	$2.88	$16,480	$2.97	$16,974	$3.06	$17,484	$3.15
Platypus Centre IGA	388	$16,000	$6.21	$16,480	$6.39	$16,974	$6.59	$17,484	$6.78
Nicholls Local Centre IGA	630	$16,000	$10.08	$16,480	$10.38	$16,974	$10.69	$17,484	$11.01
Casey Group Centre - Larger supermarket	*4,000*			$15,450	$61.80	$15,914	$63.65	$16,391	$65.56
Casey Group Centre - Small supermarket	*1,500*			$15,450	$23.18	$15,914	$23.87	$16,391	$24.59
Sub total			**$19.17**		**$104.72**		**$107.86**		**$111.10**
Casey Local Centre - Small supermarket	*500*					$16,960	$8.48	$17,469	$8.73
Casey Group Centre - 2nd larger supermarket	*4,000*					$15,914	$63.65	$16,391	$65.56
Total Sales			**$19.17**		**$104.72**		**$179.99**		**$185.39**

Source: 2010 turnover estimates - Review of ACT Supermarket Competition Policy, Sept 2009.
2013+ turnovers - DFP Estimates (assumes an annual average growth rate of 1%)

Notes:

Existing supermarkets in non italic font

Proposed supermarkets in italics

Assumes Group Centre supermarkets could be provided by 2013

Assumes Local Centre could be established by 2016

Assumes 3rd supermarket within the Group Centre could be established by 2016

According to the estimates in **Table 7**, the existing supermarkets in the local centres within Nicholls and Ngunnawal are trading well and potentially attracting approximately 36% of the available supermarket expenditure from households in the estimated Casey catchment (ie – 36% of total 2010 supermarket expenditure of $53 million = $19.17million).

However, once additional competition is introduced into the retail landscape, the (in our opinion inflated) turnovers currently being experienced by these local facilities are unlikely to be achieved.

Based on the estimates in **Table 7**, by 2013, the existing (including nearby existing) and proposed supermarkets within the catchment could generate sales of $104.72 million.

However, based on the estimates of likely expenditure in **Tables 3, 4 and 5** above, total available supermarket expenditure from all households in the catchment could be $58.8 million in 2013 or some $45.92 million less than the estimated sales potential.

Therefore, in order for the existing supermarket facilities within the local centres to continue to operate viably, and the proposed supermarket facilities within the Group Centre to be feasible, a reduced turnover may need to be contemplated.

As previously indicated we consider the turnovers as noted in the Review Policy to be ambitious and inflated due to a lack of competition.

If it is assumed that the retail performance of the proposed supermarkets in Casey was similar to industry norms, sales as noted in **Table 8** could be generated.

Table 8: Revised Supermarket Turnover Estimates 2010 - 2019

		2010		2013		2016		2019	
Supermarket	Est. Floorspace (m^2)	$/m^2$	total sales ($ mil)	$/m^2$	total sales ($ mil)	$/m^2$	total sales ($ mil)	$/m^2$	total sales ($ mil)
Ngunnawal Local Centre - Quik	180	$16,000	$2.88	$7,500	$1.35	$7,725	$1.39	$7,957	$1.43
Ngunnawal Platypus Centre IGA	388	$16,000	$6.21	$7,750	$3.01	$7,983	$3.10	$8,222	$3.19
Nicholls Local Centre IGA	630	$16,000	$10.08	$8,200	$5.17	$8,446	$5.32	$8,699	$5.48
Casey Group Centre - Larger supermarket	*4,000*			$10,200	$40.80	$10,506	$42.02	$10,821	$43.28
Casey Group Centre - Small supermarket	*1,500*			$9,000	$13.50	$9,270	$13.91	$9,548	$14.32
Sub total					**$63.82**		**$65.74**		**$67.71**
Casey Local Centre - Small supermarket	*500*					$8,446	$4.22	$8,699	$4.35
Casey Group Centre - 2nd larger supermarket	*4,000*					$10,506	$42.02	$10,821	$43.28
Total Sales			**$19.17**		**$63.82**		**$111.9**		**$115.3**

Source: 2010 turnover estimates - Review of ACT Supermarket Competition Policy, Sept 2009.
2013+ turnovers - DFP Estimates (assumes an annual average growth rate of 1%)

Notes:

Existing supermarkets in non italic font

Proposed supermarkets in italics

Assumes Group Centre supermarkets could be provided by 2013

Assumes Local Centre could be established by 2016

Assumes 3rd supermarket within the Group Centre could be established by 2016

Using the estimates as noted in **Table 6**, in 2019 there could be $42.7 million of supermarket expenditure available from catchment area households to support supermarkets in Casey. The estimated turnover of the large supermarket in the Group Centre might be $43.28 million in 2019 (based on industry standards of sales estimates) or roughly equivalent to estimated amount of available expenditure.

In our opinion, in order to ensure the Group Centre is able to function appropriately and provide the level of service expected of a Group Centre, the large supermarket must be

developed as part of the initial stages of the Centre. Such a facility (unlike a small supermarket) could act as a catalyst for other retail services to locate in the Centre.

It is likely that the facility will experience sales below industry 'norms' for a period until such time as the area develops significantly. For example, assuming the supermarket was trading by 2013 (and based on the estimated levels of available expenditure as noted in **Table 6**) the turnover of the supermarket might be $8,000/m^2$ whereas a turnover of $10,200/m^2$ might generally be expected.

The level of expenditure that might be attracted to the Casey Group Centre could increase if another attractor such as a discount department store (DDS) provided (potentially at the expense of the possible third supermarket).

The provision of a DDS within the Casey Group Centre will add another dimension to the retail offering of that centre and could result in additional expenditure being directed to the Casey Group Centre, particularly from Nicholls and Ngunnawal households.

We would not anticipate that the provision of a DDS in the Casey Group Centre will impact significantly on the function and role of the Gungahlin Town Centre as higher order retail services will continue to be offered at that centre. The Gungahlin Town Centre will also have a significant workforce which will further supplement expenditure from District households.

The above estimates suggest that there would be insufficient expenditure to support the establishment of a second, small supermarket within the Group Centre or even a small supermarket in the proposed Local Centre until after 2019 or (more accurately) until there is significant development within Kinlyside and/or Casey is fully developed.

According to the population projections in **Section 5**, post 2019 a further 800 households could be developed in Casey. If these households are developed by 2026, they could contribute an additional $7.45 million towards Casey supermarkets (based on 70% of supermarket expenditure being retained).

Assuming Casey is fully developed by 2026, it is likely that there would be sufficient expenditure available to support a large supermarket in the Group Centre and a small supermarket of approximately $600m^2 - 700m^2$ in the Local Centre.

The amount of additional expenditure available from these extra Casey households (post 2019) would not be sufficient to sustain a $1,500m^2$ supermarket in either the Local Centre or the Group Centre.

If a supermarket was developed in the Casey Local Centre before full development of Casey was realised, there is the potential that this facility could result in the redirection of expenditure away from the Group Centre. This could impact so significantly on the supermarket anchor of the Group Centre that it may no longer be a viable operation.

Furthermore, if a supermarket was developed in the Local Centre before there was sufficient support available from its local area, it could draw trade away from other local centres (as well the Casey Group Centre) to the extent that it would be functioning as a de facto Group Centre and serving *groups of nearby suburbs*.

Therefore, it is unlikely that there will be the demand for, and support for, a small supermarket to be established in the Local Centre until Casey has achieved full development.

There is the potential for the Kinlyside area to be developed however this is not programmed to occur until some time after 2019. Although there is likely to be a local centre within Kinlyside, we would expect Kinlyside residents to patronise the Casey Group Centre as the closest Group Centre to that area. The development of this area will provide contribute towards the support of retail facilities within Casey and the supermarkets in particular.

However, until such time as Casey is fully developed and there is significant development with Kinlyside, support for a supermarket based Group Centre within Casey will be very limited (assuming the facilities within the local centres at Nicholls and Ngunnawal continue to operate) and there will no support for (or demand for) any other supermarket facilities in Casey.

We note that the Gungahlin Town Centre Planning Study suggests that Group Centres such as Erindale, Kippax and Jamison are based around major food supermarkets and serve a population catchment of around 20,000 people.

The population of the Casey Group Centre catchment is unlikely to exceed 20,000 until after 2022.

Furthermore, we note that Erindale and Kippax have only 1 large, main line supermarket each. Jamieson has one main line supermarket and a second smaller facility.

The potential for the population of the Casey catchment to support two supermarkets within the Casey Group Centre is unlikely to be realised until Casey is fully developed **and** development in Kinlyside has progressed significantly and we would question whether there is ever likely to be sufficient expenditure to support a second main line supermarket particularly given the development constraints in Kinlyside.

8 Summary

- A new Group Centre is proposed to be developed at Casey.
- Supermarket facilities are proposed to be provided in this centre. In the short term two supermarkets are anticipated – one larger facility (of say 4,000m^2) and a small supermarket (of not more than 1,500m^2). A third, large (<4,000m^2) facility is contemplated in the medium term.
- The catchment of the Casey Group Centre is estimated to comprise the suburbs of Casey and those parts of the suburbs of Nicholls and Ngunnawal north and north west of Ginninderra Creek. The 2022 population of this catchment is estimated to be 18,900 persons.
- Existing supermarket provision within the catchment is limited to 2 small supermarkets with a third small supermarket on the catchment fringe. Therefore there is only limited competition. We estimate that a significant proportion of supermarket expenditure from catchment households is currently being directed to the Gungahlin Town Centre.
- The provision of supermarket facilities within the Casey Group Centre will result in a greater proportion of supermarket expenditure being retained within the catchment however it is likely that some expenditure from catchment households will continue to be directed to supermarket facilities in the Town Centre.
- We do not anticipate that there will be any significant expenditure at supermarkets in the catchment, including proposed facilities within the Group Centre, from sources other than resident expenditure. It is unlikely that the level of 'non resident worker' expenditure will be significant and the location of the facility is unlikely to attract a significant proportion of passing trade.
- For the purposes of this assessment we have assumed that 70% of supermarket expenditure from Casey households, 45% of supermarket expenditure from Nicholls households and 60% of supermarket expenditure from Ngunnawal households will be directed to supermarkets in Casey.
- Based on these estimates and assuming the population of Casey shares similar characteristics to the Nicholls population, we estimate that catchment households could contribute $32 million towards supermarkets in the catchment in 2013.
- By 2019, we estimate that households within the Casey catchment could contribute $42.7 million towards supermarkets in Casey. Based on a turnover which is reflective of industry norms, we estimate that there could be sufficient expenditure available from catchment households to support a full line supermarket of 4,000m^2 in the Group Centre by 2019.
- If the supermarket was provided as part of the initial development of the Group Centre (and assuming it commenced trading by 2013), it is likely a reduced turnover would be experienced until such time as the area developed sufficiently and the level of support of the facility increased.
- Based on the turnover estimates for supermarkets in group centres and local centres as noted in the Background Report into Supermarket Retailing in the ACT, it is unlikely that there will be sufficient expenditure available to support all existing and anticipated supermarket floorspace, even in the long term. We consider these turnovers to be somewhat artificially inflated as a result of a lack of competition.
- In any event, and based on turnovers more reflective of industry norms, we do not envisage that there will be available support for (or indeed the demand for)

additional supermarket facilities within Casey (including the local centre) until such time as significant development has occurred in Kinlyside or Casey is fully developed.

- We do not anticipate that there will ever be demand for a third supermarket in the Group Centre.
- Upon full development of Casey (assumed to be by 2026 based on the current population projections) we estimate there could be an additional $7.45 million of supermarket expenditure available to support supermarkets in the catchment. This additional expenditure could support a small supermarket within the Local Centre.
- Based on these estimates full development of Casey would not provide sufficient expenditure to support a 1,500m^2 supermarket (such as the small supermarket mooted for the Group Centre).
- The inclusion of another attractor such as a DDS into the retail mix in the Casey Group Centre could result in additional expenditure being attracted to that centre. The synergistic effect of such an attractor could result in an increase in supermarket sales and the supermarket experiencing turnovers more in keeping with those of other supermarket facilities in the ACT as noted in the Review Policy however it is not anticipated that the inclusion of a DDS into the retail mix in the Group Centre would attract enough additional expenditure to support a second supermarket in the short or medium term.
- We would not advocate the provision of a small supermarket into the Group Centre as part of the initial development as this would reduce the functions of the centre to that of a local centre in which case its ability to attract expenditure from beyond the PTA is unlikely.
- Most other Group Centres in the ACT are supported by a population of at least 20,000 persons. And at least 2 of these centres are anchored by only 1 large, main line supermarket. The population of the catchment of the Casey Group Centre will not reach 20,000 persons until some time after 2022.

STANDARD DISCLAIMER
Statements and information including figures contained in this document are based on sources which are believed to be reliable. Although we have no reason to doubt the accuracy and reliability of the statements and information, no responsibility is assumed by us or any of our staff or consultants for any mis-statement omission or error and interested persons should rely on their own enquiries.

Requirements of the
Community and Recreational Facility Location Guidelines General Code

Those uses to be collocated with the Centres Hierarchy are highlighted, and are therefore indicative of those uses that may be affected by the loss of co-location efficiencies if the hierarchy is undermined.

Use	Relationship to shops
Visual arts/crafts –professional arts space	Near group or town centres
Visual arts crafts community arts space	Not specified
Community arts centre	Near town retail centre
Community theatre	Near town retail centre
Theatre studio	Near retail centre
Major theatre, concert hall, recital hall	Not specified
Clubs licensed	Within group centre or town centre
Drink establishment	Within group centre or town centre
Brother	Not specified
Community centre	400m of town centre
Neighbourhood centre	400m of group or local centre
Community house	400m of local centre
Senior Citizens Centre	Near town or group retail centre
Scout/guide hall community hall	Not specified
Sea scout hall	Not specified
District youth centre	In town centre
Youth resources centre	Near town or group retail centre
Child care centre	Near retail centre
Multi agency accommodation for non government organisations	Town centre
Meals on Wheels	Not specified
Custodial complex	Not specified
Remand centre	Not specified
Transitional release hostel	Near town or group centre
Periodic detention centre	Near town or group centre
Community service order depot	Near town centre
Remand shelter	Near town or group retail centre
Juvenile justice centre	Not specified
Youth attendance centre	Not specified
Youth attendance centre	Not specified
Transitional release facility, periodic detention centre, bail probation hostel	Near town centre
Courts	On major transport routes
Public art gallery	Not specified
Cinema	Near town retail centre
Library	Near town or group retail centre
Museum, culture and heritage	Close to town retail centre
Preschool	400m from retail centre where possible
Primary school	400m from retail centre where possible
High school	400m from retail centre where possible
Secondary college	Located on boundary of town or group centre where possible
Ambulance station	Not specified
Fire Station	Not specified

Police station	Not specified
Police shopfront	In town centre
District health centre	Near or within town centre of group centre (sic)
Outreach health centre	At group centre or local centre
Baby health clinic, family care centre	Near local or group retail centre
Hospital	Not specified
Hospice	Not specified
Convalescent Facility	200metres
Day care for elderly people	Near retail centre
Day care centre - mental health	Near retail centre
Medical centre/surgery/dental surgery	In or within 200metres of retail centre
Secure mental health/corrections facility	Not specified
Halfway house, hostel, nursing home	Not specified
Sports hall, indoor basketball, netball centre, cricket centre	No specified
Fitness gymnasium, squash centre	Not specified
Indoor recreation centre, swimming complex, tennis centre	At town or group retail centre
Roller skating or ice skating rink	Not specified
Amusement	Near retail centre
Bowling alley	Near town or group retail centre
Local neighbourhood park	Not specified
District park	Not specified
Town park	Near town retail centre
District Playing Fields	Not specified
Golf driving range	Not specified
Equestrian facility	Not specified
Equestrian trail	Not specified
Gun rifle range	Not specified
Archery courses	Not specified
Croquet green, lawn bowling club	Not specified
Velodrome	Not specified
Place of worship	Proximity desirable
Public telephone	At shops
Retail post shop	At shops
Post box	At shops
Public toilets	Proximity desirable
Public transport	Near town based retail and employment centres
Special dwelling	400m (from centre) subject to gradient, otherwise closer
Residential care accommodation	400m (from centre) subject to gradient, otherwise closer
Retirement complex	400m of shops subject to gradient
Aged persons units	400m of shops subject to gradient
Boarding house, mobile home, long stay caravan	400 m to shops, near restaurants and cafes where possible
Guest house	400m to shops, near restaurants and cafes where possible
Short stay caravan park	Not specified.

Photo: WOLTER PEETERS

Big supermarkets under attack

Marcus Priest and **Louise Dodson**

The federal government has ratcheted up pressure on Coles and Woolworths over complaints by suppliers and small retailers that the big supermarkets are abusing their market dominance to force down prices.

Before the release of a Senate report on milk pricing today, Industry Minister Kim Carr accused the supermarket chains of "constricting choice" and "killing innovation". Senator Carr also referred suppliers' complaints to the Australian Competition and Consumer Commission.

It is the latest move by the Gillard government against corporate Australia after it targeted the banks last year over rate rises and took on Telstra and also the mining industry through its minerals resource rent tax.

The government ramped up its attack on Qantas yesterday when Transport Minister Anthony Albanese called the action by the airline "extremely militant".

But in a rare case of political bipartisanship Opposition Leader Tony Abbott and the Greens joined the attack on Coles and Woolworths, saying reform was needed.

"There are too many small guys in competition with too few big guys and we do need to ensure fairer competition than it currently is," he said.

The political attacks came after Woolworths said it would double its Home Brand range and negotiate better deals with suppliers in fresh food and packaged groceries.

"We will be told that this is all about consumer rights. It's not. It's about supermarket profits," Senator Carr said. "The reality is this. The retailers' behaviour is not about expanding choice. It is about constraining choice."

In response, ACCC chairman Rod

Continued page 6

Woolworths profit plan, pages 27, 28 ■
Chanticleer, page 83 ■

Big supermarkets under attack

From page 1

Sims flagged that he would examine the Woolworths plans, after signalling last month he wanted to closely monitor the two supermarket chains.

Woolworths hit back, saying all the of the claims had been made, and investigated, by the ACCC in its comprehensive 2008 inquiry.

That inquiry found while there were limited incentives for Coles and Woolworths to compete aggressively on price, it could not identify anything "fundamentally wrong".

"We've not been asked, nor has the minister raised these concerns with us," Woolworths spokeswoman Claire Kimball said.

"Woolworths is a highly visible, highly scrutinised Australian company and we are always mindful of our legislative and regulatory obligations. Compliance with competition legislation and regulation is part of how Woolworths does business every day."

A spokesman for Wesfarmers-owned Coles, Jim Cooper, said Coles engaged in "robust but fair negotiations with all of its suppliers, in accordance with the law".

"Coles was aware of its obligations under the Competition and Consumer Act," Mr Cooper said.

But Senator Carr said on the basis of complaints put to him, there was "a case to be concerned about an abuse of market power".

These complaints included demanding concessions in contract negotiations by denying access to shelves; forcing manufacturers to pay freight charges between warehouses and stores; arbitrarily rescinding contracts; and auctioning off shelf space.

"In practical terms, you deal with Coles and Woolworths, or you go out of business," Senator Carr said.

He claimed the practices of the two companies killed innovation, consumer rights and manufacturing.

"I am not setting myself up as judge and jury on this," he said.

"The chair of the ACCC has said he is interested in pursuing this and exploring the full limits of his power. We have provided him with material and clearly there is a real interest in pursuing it."

Ms Kimball said Woolworths simply did not do shelf auctioning. Coles also highlighted a report for it by Allen Consulting that said Coles's "vigorous" use of buying power was pro-competitive — rather than anti-competitive — where customers got the benefits of price tension.

Queensland independent MP Bob Katter, who has campaigned hard against the market dominance of Coles and Woolworths, accused both sides of politics of "gross hypocrisy", given both had previously spoken out on the issue but not acted.

"They are going out and saying 'Coles and Woolworths are naughty boys and we are going to go out and have an inquiry', which is what Kevin Rudd said when he was elected in 2007," Mr Katter said.

"It is market power — they can do what they like. If they tell farmers to crawl backwards through their stores with scantily clad girls on their back, then they will have to do that."

IGA board chairman Michael Daly said the retailing of liquor by Coles and Woolworths via Dan Murphy's and First Choice needed immediate attention, not just for competition grounds but also for health reasons.

"I can go there and get liquor cheaper there than I get it from a supplier," Mr Davey said.

"It is out of control."

Master Grocers Australia chief executive Jos de Bruin, who represents independent retailers, said Mr Sims seemed more sympathetic to the concerns of small business than his predecessor, Graeme Samuel.

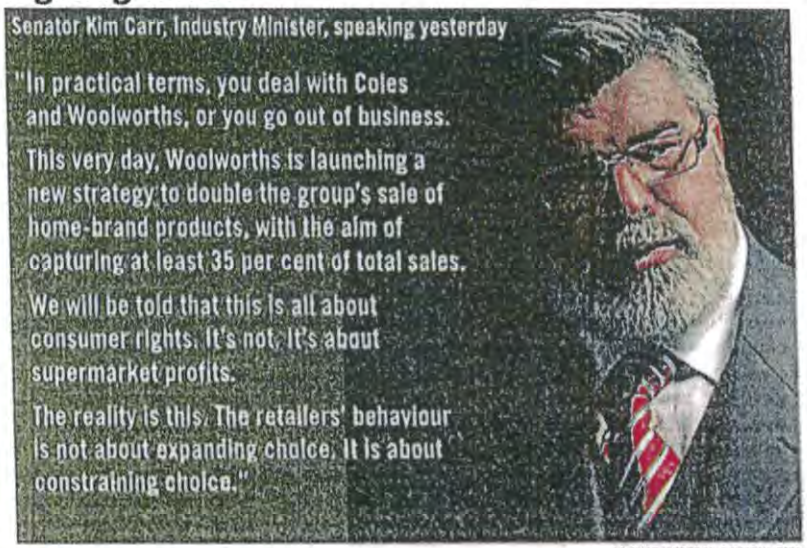
"I'm hoping he will look at ways to create a more sustainable retail platform," Mr de Bruin said.

"What is happening is that diversity, innovation and small business will disappear if the growth of Woolies and Coles continues the way it has. It really is time Australia did ask, does it value diversity and small business?"

The chief executive of the Food and Grocery Council, Kate Carnell, said some consumers were influenced in their supermarket buying choices by the cheaper prices offered by private-label imports.

But she said consumers also wanted the choice of being able to buy Australian-made goods, and preserve jobs.

Fighting words



SOURCE: FEDERAL GOVERNMENT

appointment linked to Greens

MEDIA REVIEW

INQUIRY: Matthew Ricketson.

The Federal Opposition has asked whether a University of Canberra journalism professor, appointed to help lead an independent inquiry into Australia's print and online media, has links to the Greens.

In September, former journalist and now academic Matthew Ricketson was commissioned along with former Federal Court judge Ray Finkelstein to review media regulation and produce a report by the end of February.

The media inquiry arose out of concerns related to the British *News of the World* phone hacking scandal.

During Senate question time yesterday, Liberal senator Ian Macdonald asked Communications Minister Stephen Conroy whether Greens leader Bob Brown or any Greens politician had lobbied for Dr Ricketson's appointment.

Senator Conroy denied this was the case.

Senator Brown has been a vocal critic of the reportage of some News Limited publications.

Senator Macdonald asked if Senator Conroy had sought assurances or disclosures from Dr Ricketson about the extent of any contact with the Greens Party before and after his appointment.

Senator Conroy told parliament Dr Ricketson and a group of academics and journalists had written a letter about policy issues to himself, Senator Brown and "a whole range of people". Senator Conroy said he was aware of Dr Ricketson's views.

"In fact one of the reasons one might choose someone to examine these issues is because they have some experience and training and knowledge in these areas," he said.

Senator Macdonald asked whether the minister had discussed independent journalism start-ups receiving tax deductibility status with Senator Brown.

Senator Conroy said he had not discussed the issue paper with Dr Ricketson, Mr Finkelstein or Senator Brown.

Senator Brown also indicated he had not discussed the issues paper with the inquiry heads. Dr Ricketson declined to comment last night. **AAP**

Minister to refer supermarkets to ACCC

MARKET FORCES

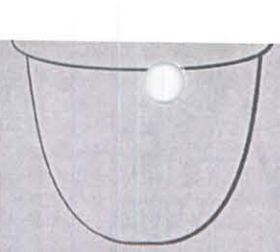
Federal Industry Minister Kim Carr is to inform the Australian Competition and Consumer Commission of allegations of abuse of market power by major supermarket chains.

Senator Carr said yesterday there was "serious cause for concern" on the basis of what reputable companies had told him.

"There is a widespread series of allegations . . . concerning the misuse of market power by the major retail chains in this country, who now are able to control some 80 per cent of the retail food sales," he told Parliament.

Senator Carr said the allegations included the use of home brands to destroy the intellectual property of suppliers.

"I am told, for example, that suppliers are forced to divulge their product plans 12 months in advance to major supermarket chains and that having disclosed these plans we find copycat products being developed as home brand products," he said. **AAP**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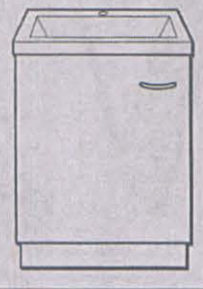
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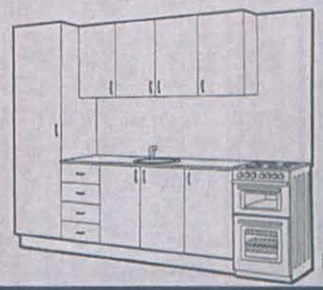
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12 July 2007

Mr Eric Koundouris
Koundouris Group
161 London Circuit
CANBERRA CITY ACT 2601

Dear Mr Koundouris,

SUPABARN SUPERMARKET

This letter outlines our views in relation to the size and trading strength of Supabarn supermarkets as compared with major chain stores such as Woolworths and Coles. This letter is prepared as part of a submission to the ACT Government.

Canberra Supermarkets

Map 1 illustrates the location of major supermarkets throughout the Canberra urban area while Map 1 also details the size of these major supermarkets and the types of centres that they are located in. Major supermarkets are defined to be any supermarkets or food stores greater than 400 sq.m in size.

As indicated, Woolworths and Coles have the highest representation of supermarkets throughout the Canberra urban area, both in terms of numbers and the actual size of the stores.

IGA also have a number of stores throughout Canberra but typically the average size of these stores is less than 1,500 sq.m as compared with stores greater than 2,500 sq.m-3,000 sq.m for Woolworths and Coles.

A full-line supermarket in Australia is typically considered a store of at least 2,500 sq.m. At this size it can contain a full range of goods including bakery, produce, deli, meat etc to meet the needs of modern consumers. A major full-line supermarket is typically 3,200 sq.m in size. As indicated, IGA does not have any stores of this size in Canberra.

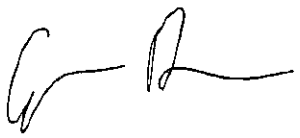
Besides Coles and Woolworths, the only other operator with full-line supermarkets in Canberra is Supabarn. These stores include the very successful Supabarn store at Canberra Centre, the major regional shopping centre, and also at Kaleen, a group centre. The Supabarn chain are able to compete with Coles and Woolworths both in terms of product ranging and pricing, with such size stores in these centres.

MapInfo Australia Pty Limited
ABN 93 070 492 410
Level 7
1 Elizabeth Plaza
North Sydney NSW 2060
Australia
Telephone 02 9437 6255
Fax 02 9439 1773
www.mapinfo.com.au
www.dimasi.com.au

The Supabarn chain are experienced operators of major full-linestores, also operating stores throughout Sydney and non-metropolitan New South Wales. In each of these locations, Supabarn competes with Coles and Woolworths, head to head, both in terms of range and price.

I hope this information meets your requirements and please contact me if you have any queries.

Yours sincerely



Gavin Duane
Director, Client Services
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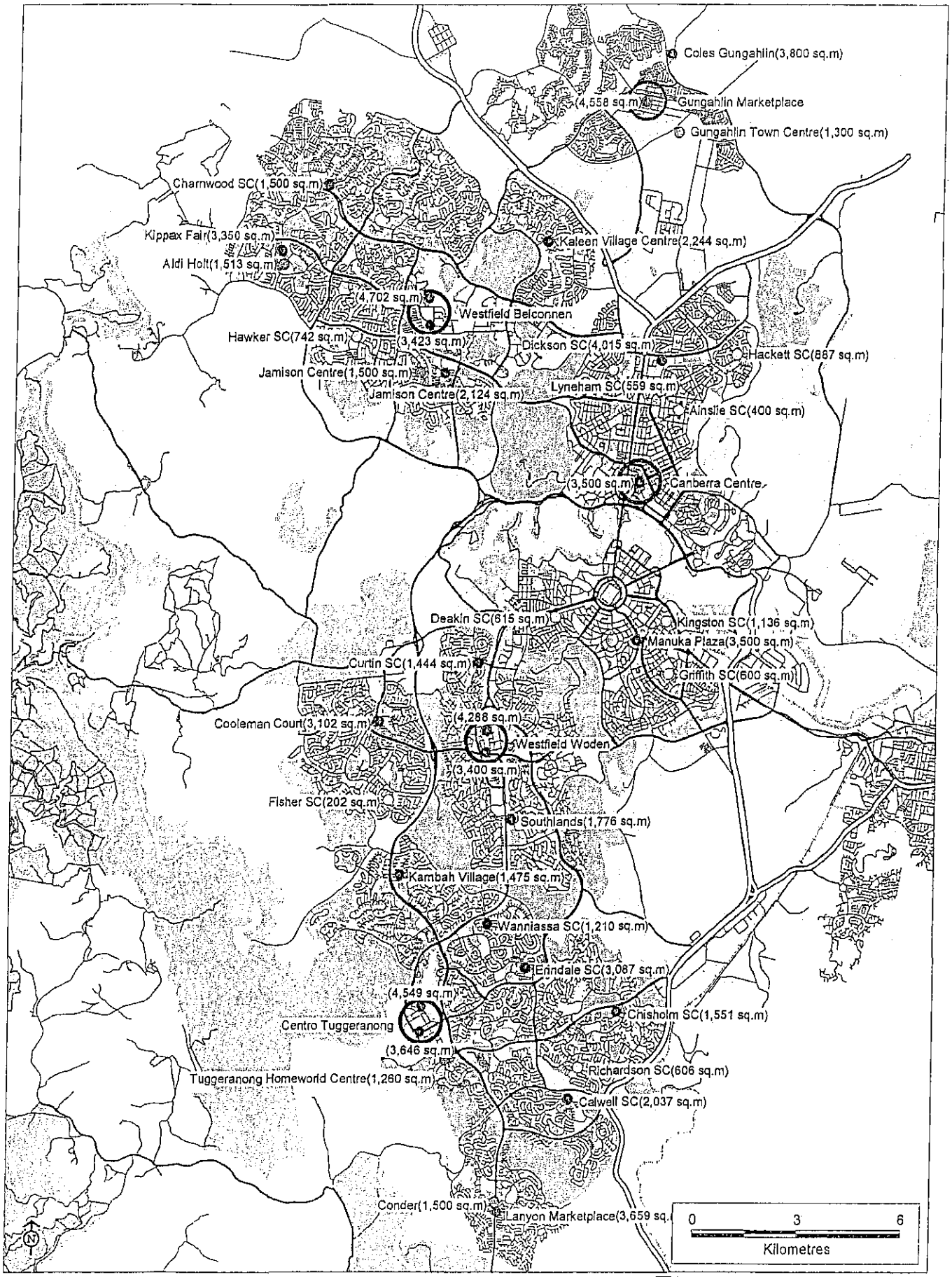

Map 1: Canberra

Supermarket Competition

20 July 2007

Mr James Koundouris
Koundouris Group
161 London Circuit
CANBERRA CITY ACT 2601

Dear Mr Koundouris,

ACT SUPERMARKETS

Further to your request, this letter provides an overview of our understanding of the extent and nature of the supermarket industry in Australia and Canberra, and provides an opinion on the likelihood of other major independent operators establishing in Canberra in the foreseeable future.

National Supermarkets

The national supermarket industry in Australia generally comprises the following major operators and banner groups :

- Woolworths – 765 supermarkets
- Coles / Bi-Lo (Coles Group Ltd) – 750
- Aldi – 140 (Qld, Vic, ACT, NSW)
- Franklins – 80 (NSW)
- IGA (Independents & Metcash) – 1,000+
- Foodworks (Independents) – 700+
- Other independents – 1000 +

The industry has witnessed substantial change and restructuring over the last 10 years including the demise of Franklins, sale of Foodland's operations, the arrival of Aldi, the consolidation and revival of the independent supermarket sector and, more recently, the partial closure and re-branding of the Bi-Lo supermarket chain by Coles.

The evolving changes to the industry and rapid growth of the major operators has created a two-tiered industry, where Coles and Woolworths remain the tenants of choice in most major shopping centres and new neighbourhood centres with a supermarket in excess of 2,000 sq.m. The independent sector has gained share in recent years and remains a serious player as the third force in market share terms. However, their inability to offer 'full-range' supermarket formats and the independent operator's risk profile, means they are not presenting to major owners a serious alternative to Coles or Woolworths.

At the discount end of the market, Aldi has grown to 140 stores in 6 years and is rapidly building ownership of this market segment, a position traditionally held by Franklins and Bi-Lo

In terms of size range, there are no commonly accepted definitions of what constitutes a 'supermarket' as opposed to a 'convenience store', or a 'full range' supermarket as opposed to a smaller supermarket with limited departmental offerings. However we suggest the following can be adopted as a useful guide to the terminology :

A **supermarket** is, for our purposes, defined as a grocery and fresh food operator in excess of 400 sq.m.

The minimum size of a **'full-line' supermarket** is also subjective, but typically includes an operation that has the full compliment of packaged grocery, fresh meat, fresh fruit and vegetables, frozen foods, delicatessen, dairy and bakery departments, health and beauty and some general merchandise lines. While the major supermarkets and some independents can provide minimum offerings of these departments in stores as small as 1,500-2,000 sq.m, it is generally acknowledged that all these departments :

- Can only begin to be effectively offered in stores of at least 2,500 sq.m,
- Can be accommodated comfortably in stores of about 3,000 sq.m, and
- Are fully maximised in stores of 3,500-4,000 sq.m.

We estimate that about 80% of **Coles** and **Woolworths** supermarkets nationally are in excess of 2,500 sq.m, constituting a 'full line' supermarket offering and about 60% are in excess of 3,000 sq.m.

The independent IGA banner group, supplied by wholesaler Metcash Holdings, operates four types of supermarkets under the following banners :

- Supa IGA - largest format IGA catering for shoppers who want to purchase most of their food and grocery items in one store.
- IGA – medium format, neighbourhood stores catering for customers purchasing smaller number of items, more frequently.
- IGA Express / Friendly IGA – small stores catering to the convenience market.

Of the 1,000+ IGA supermarkets nationally, we estimate that less than 5% of these supermarkets would be in excess of 2,500 sq.m. Those exceeding this size are, in most cases, former Foodland or Franklins supermarkets, acquired by Metcash and/or IGA operators through the sale of these operations. To our knowledge, there are very few purpose built, new supermarkets for IGA operators in excess of 2,500 sq.m around the country and almost none in excess of 3,000 sq.m that we are aware of.

The Supabarn operators in Canberra are one of the few exceptions to this observation that we are aware of across Australia.

The break up and sale of the Franklins and Foodland supermarket operations has seen the emergence and rapid growth of some independent operators, the principal ones being:

- Ritchies – a chain of 49 IGA branded supermarkets operating throughout Victoria, Newcastle and the Hunter Valley, northern NSW and the outskirts of Sydney,
- Cornetts – a chain of 40 IGA branded supermarkets operating in Queensland only,
- Drakes – a chain of 35 supermarkets sharing the South Australian Foodland and IGA banner, predominantly in South Australia but with a number of stores in Queensland and New South Sales operating under a joint venture with wholesaler Metcash

None of the supermarkets groups listed above operate in Canberra, Southern NSW or the NSW South Coast.

We believe the likelihood of any of these operators establishing in Canberra is very remote for several reasons :

- The tightly held nature of the market and lack of opportunities makes it near impossible to gain any scale of operation, particularly for larger stores that require logistics, IT, administration and marketing support;
- The entrenched position of the major supermarkets in ACT;
- The remote distance from their current core areas of operation;
- The presence and brand loyalty of Supabarn as the major independent operator.

Supermarkets in Canberra

The ACT supermarket industry reflects, in part, the national structure observed above. However it is characterised by an even stronger market position held by the majors, particularly Woolworths. The independent Supabarn operation is presenting strong competition to Coles and Woolworths, albeit from only three locations. Below this, a proliferation of small independently owned and operated IGA and Foodworks supermarkets exist in the smaller Local Centres.

Store numbers by operator and average store sizes are as follows :

- 8 Coles and 13 Woolworths with a combined gross leasable floor (GLA) area of about 65,000 sq.m – averaging 3,100 sq.m per store.
- 6 existing or proposed Aldi stores with a total GLA of about 8,500 sq.m – or about 1,400 sq.m per store,
- 3 Supabarn stores totalling 9,100 sq.m or 3,000 sq.m per store;
- 29 IGA independents with an average size of approximately 650 sq.m or 18,850 sq.m in total. We understand most of the IGA supermarkets are in fragmented ownership with limited prospects of increased scale or major operators emerging; and
- 4 small Foodworks supermarkets.

On this basis, we estimate total supermarket floorspace in the ACT at approximately 104,000 sq.m generally occupied by :

- Coles and Woolworths – 63%
- Aldi – 8%
- Supabarn – 9%
- IGA and Foodworks – 20%

The strong market position of the major's can be generally put down to :

- Acquisition of former Canon's independent supermarket chain by Woolworths in the early 1990's;
- A planning system which has reinforced the entrenched position of the Group and Town Centres;
- The aggressive and successful pursuit of new development opportunities when they arise.

With a raft of IGA and Foodworks stores in Local Centres occupying a neighbourhood and convenience shopping function and Aldi offering a specialised discount role, Supabarn is the only major independent in Canberra presenting competition to Coles and Woolworths in a large format supermarket (>2,500 sq.m).

In relation to future development opportunities, we expect that Coles and Woolworths will continue to seek new stores in the ACT as they arise. In particular, Woolworths will not surrender market leadership in retail floorspace and market share lightly while Coles, with a store deficiency compared to Woolworths, will be looking to bridge the gap.

The positioning of Supabarn in the ACT market is a unique one, built around quality stores and a differentiated and extended product range and offering compared to Coles and Woolworths. This position has been used to good effect in the successful establishment of a presence in Sydney, a market that Supabarn is currently expanding into.

We believe there is little or no prospect of other major independent operators looking to establish a major 'full-line' supermarket presence in ACT for the reasons already outlined, particularly in the range above 3,000 sq.m – a format that we see little evidence of the independents growing into in any other market of the country.

We trust the information meets your requirements and should you have any further questions please do not hesitate to contact me on 03 8663 4938.

Yours sincerely,

Chris Abery
Director Property Economics

Jon Stanhope Chief Minister, Australian Capital Territory
Treasurer | Minister for Business and Economic Development | Minister for Indigenous Affairs | Minister for the Arts

Section: Jon Stanhope, MLA | Media Releases

ACT Government supports supermarket competition

Released 06/08/2008

Chief Minister Jon Stanhope today welcomed the public release of the Australian Competition and Consumer Commission's report into Australia's grocery sector and restated the ACT Government's policy position on fostering competition in the ACT retail grocery sector.

"The ACT Government supports the ACCC's grocery report, delivered after a thorough and wide ranging examination of the Australian grocery sector," Mr Stanhope said. "Like the ACCC, the ACT Government is committedto fostering supermarket competition."

The ACCC has recommended the introduction of unit pricing to enable comparison shopping.

"The ACT Government strongly supports the introduction of unit pricing so that consumers can easily determine what is 'value for money' on the supermarket shelves. Consumer choice and convenience is increasingly important as we all adapt to the rising costs of living."

The ACCC found that local planning laws can impede competitors' ability to establish a strong presence in the grocery retailing sector.

The ACT Government recognised this when releasing land to Aldi at the Conder and Kippax Group Centres in 2004.

"Consumers around Conder and Kippax benefitted from the ACT Government's foresight to release land to Aldi - a major new competitor in the grocery sector - that allowed them to enter the market and compete head on with major supermarket chains. The ACT Government will continue to actively support a diverse and competitive retail grocery sector.

"In considering the use or sale of land for grocery supermarkets we will continue to take into account a retailer's capacity to access suitable sites, as well as the nature of the benefits a particular category of supermarket may bring," Mr Stanhope said.

"The ACT Government looks forward to the Commonwealth Government's response to the ACCC report and will work cooperatively with the Commonwealth Government and the other States and Territory through the Coalition of Australian Governments to rectify any structural issues that are identified.

"This will maintain our flexible planning approach in the ACT, taking into account the grocery market dynamics in our community, to ensure consumers receive all the benefits of a competitive environment.

Mr Stanhope said he was aware of the interest in a site in Kingston with potential for future commercial development.

"At this stage, the Government has received four expressions of interests in the site including some from supermarket chains but has not made a decision in relation to the future use of the site or whether it will be a direct grant.

"The Minister for Planning, Mr Andrew Barr, today announced that ACTPLA will oversee a Master Plan for both the Kingston and Dickson Shopping Centres.

"The outcome of the Master Planning of these centresmay lead to a decision to release land at both centres for the development of a supermarket," Mr Stanhope said.

Media Contact:

Jess Wurf	6205 0504	0411 772 700	jess.wurf@act.gov.au

Back to Media Releases

ACT & REGION
CHAMBER OF
COMMERCE
& INDUSTRY

12a Thesiger Court
Deakin ACT
PO Box 192
Deakin West ACT 2600
Phone: (02) 6283 5200
Direct Phone: (02) 6283 5240
Direct Fax: (02) 6260 3369
Mobile: 0419 200 840
cpeters@actchamber.com.au
www.actchamber.com.au

Confederation of ACT Industry
ABN 60 892 936 832

21 July 2008

Mr Andrew Barr MLA
Minister for Planning
ACT Legislative Assembly
GPO Box 1020
Canberra ACT 2601

Dear ~~Minister~~ Andrew

Kingston Super Market

The Chamber's general policy position is that ACT Government should auction all government land and avoid direct land sales and that Federal Government completion laws should be relied upon to take care of competition issues.

However, it is increasing becoming obvious that competition policy is not responding quickly enough to the issue of competition in super markets. As a result of increases in interest rate, petrol prices and the impact of the drought, these additional costs are flowing-through to significant increases in food prices. These cost increases are having a significant impact on the people of the ACT. The ACCC's reports indicate the super market sector is increasingly being dominated by the two major national companies and that SupaBarn is the only true competitor to the two national supermarket companies in the ACT.

A SupaBarn on the southside would significantly increase competition. This would result in the reduction of food prices, to the benefit of the people of Canberra.

As a result of these special circumstances, the Chamber requests the ACT Government to arrange a direct land sale to SupaBarn of the Kingston site. This would enable a competitive environment to be established. Coles already operates in Manuka. Woolworths used to operate in Manuka but made the commercial decision to close its store some years ago.

Yours sincerely

Christopher Peters AM
Chief Executive

CANBERRA
BUSINESS COUNCIL

11 August 2008

Mr Jon Stanhope MLA
Chief Minister
ACT Legislative Assembly
GPO Box 1020
CANBERRA ACT 2601

Dear Chief Minister

I write in relation to the recent release of the ACCC's report on the competitiveness of retail grocery prices which coincides with the ACT Government's deliberation about the release of development sites which may incorporate retail space for the purpose of operating a supermarket.

While the Canberra Business Council supports, in principle, an open tender system for the release/sale of development sites, the Council is cognizant of the recommendation of the Australian Competition and Consumer Commission (ACCC) in its recent ***Report of the ACCC Inquiry into the Competitiveness of Retail Prices for Standard Groceries***:
"The ACCC recommends that all appropriate levels of Government *(emphasis added)* consider ways in which zoning and planning laws, and decisions in respect of individual planning applications where additional retail space for the purpose of operating a supermarket is contemplated, should have specific regard to the likely impact of the proposal on competition between supermarkets in the area. Particular regard should be had to whether the proposal will facilitate the entry of a supermarket operator not currently trading in the area."

The ACCC Report made a number of other key findings about the factors that currently limit the level of price competition in the retail grocery sector. These include high barriers to entry and expansion, particularly in relation to difficulties in finding new sites for development and the fact that Coles and Woolworths account for approximately 87% of packaged grocery sales in Australia in supermarkets above 2000m2.

The critical importance, from the perspective of the ACCC, of preserving the competitiveness of retail grocery prices is demonstrated by its recent (25 June 2008) opposition to the proposed acquisition of the Karabar supermarket by Woolworths Limited because it would be likely to have the effect of substantially lessening competition in the local retail supermarket market in the Queanbeyan region. In that case the ACCC considered that the entry of the Supabarn Group into the Queanbeyan region "would likely lead to significantly higher levels of competition and competitive tension between large format full-line supermarkets in the local market when

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ABN 14 126 100 169
T 02 6247 4199
F 02 6257 4421

Canberra Business Council Limited
National Associations Centre,
Unit 4/71 Constitution Avenue
Campbell ACT 2612 Australia
PO Box 4255, Manuka ACT 2603 Australia

info@canberrabusinesscouncil.com.au
www.canberrabusinesscouncil.com.au

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compared with the likely outcome if the proposed acquisition by Woolworths proceeded".

Canberra Business Council recognises the importance of competition in the retail grocery sector and supports the need, as identified in the ACCC report, for competition with the Major Supermarket Chains (MSCs) from full-line supermarket operators.

Diversity of retail grocery outlets has the potential to improve the competitive nature of supermarkets in Canberra and the price competitiveness of groceries. This is important for maintaining the image and the actuality that Canberra is an affordable place to live. Not only is affordability important to Canberra's current population, it is essential if Canberra is to attract and retain skilled workers to meet the skills shortage and draw businesses to set up and operate here. Both of these are crucial to the economic development of Canberra and the Region.

In the light of the ACCC findings and the fact that the most significant underlying factor explaining the nature of competition in the grocery sector is the high barriers to entry, Canberra Business Council recommends to the ACT Government that its zoning and planning policies and, in particular, consideration of individual planning applications, should have regard to competition issues – specifically, whether proposed developments would assist in facilitating entry into an area of a full-line supermarket operator that is not presently operating in the area. Such consideration should go beyond the immediate catchment area for a particular site and take into account the overall dominance of the Major Supermarket Chains in the ACT to avoid further market dominance by creeping acquisition.

The ACT Government has made a number of direct grants in the past and while Canberra Business Council does not, as a general principle, agree with this practice, the Council strongly supports the objectives identified by the ACCC along with its recommendation in relation to zoning and planning laws.

Canberra Business Council therefore recommends that the ACT Government require consideration of competition concerns in decisions relating to individual planning applications where additional retail space for the purpose of operating a supermarket is contemplated and determine the outcome of those individual planning applications to lower barriers to entry and expansion to independent supermarkets.

Yours sincerely

C. Faulks

Chris Faulks
CEO

Brendan Smyth MLA

Australian Capital Territory

Member for Brindabella

Shadow Treasurer; Shadow Minister for Business and Economic Development; Mental Health; Police; Tourism, Sport and Recreation; Government Accountability

Deputy Leader of the Liberal Party

Mr Eric Koundouris AM
Managing Director
Supabarn Supermarkets Pty Ltd
PO Box 13
CANBERRA CITY ACT 2601

Dear Mr Koundouris

I am writing in relation to the matter of the potential redevelopment of the site in Kingston that is currently occupied by a car park.

I am aware that a number of commercial retail companies have expressed interest in gaining access to this site for the purpose of constructing a new grocery supermarket. Indeed, the consideration of this matter bears as much on the nature of the grocery market in the ACT as it does on the method by which land is made available for particular purposes – in this instance, for retailing.

The ACT Liberal Party has considered the matter of the site in Kingston very carefully. In doing this, we have taken note of the information that has become available as a result of the inquiries, conducted by the Australian Competition and Consumer Commission (ACCC), into competition in the national retail grocery industry and about proposals to purchase a supermarket in Karabar in Queanbeyan.

We are aware that the ACCC made some quite strong recommendations about how competition can be enhanced within the grocery supermarket industry. The ACCC emphasised the existence of high barriers to entry in grocery supermarket retailing, including the difficulty of new operators obtaining suitable supermarket sites. The Commission suggested that new ways of incorporating competition analysis into planning decisions should be considered. The Commission also expressed concern about the ability of new operators to enter some retail supermarket markets.

The ACCC recommended that governments consider ways in which zoning and planning laws should have specific regard to the likely impact of retail development proposals on competition between supermarkets in an area. The ACCC also recommended that particular regard should be had to whether retail development proposals will facilitate the entry of a supermarket operator not currently trading in the area.

Civic Square, London Circuit, Canberra, ACT, 2600
GPO Box 1020, Canberra, ACT, 2601
Phone: 02 6205 0099; Fax: 02 6205 0859; Email: SMYTH@parliament.act.gov.au

We also are aware of the conclusion reached by the ACCC in its inquiry into the proposed acquisition of a supermarket in Karabar by Woolworths. The ACCC concluded that, if Woolworths was to acquire that supermarket, it is likely that there would be a substantial lessening of competition in the local retail supermarket market. Consequently, the ACCC was opposed to the proposed acquisition by Woolworths of the Karabar site.

In principle, the ACT Liberal Party supports the provision of land on a competitive basis and for uses that are consistent with the land use appropriate to the land. At the same time, however, we must be mindful of the current situation of the retail supermarket industry in the ACT and in the nearby region in Queanbeyan. A particular issue that we must take into account in our consideration is the impact of any developments or redevelopments on competition in the retail supermarket market.

After taking all the information that is available into account, the position of the ACT Liberal Party is that we would favour the allocation of the Kingston site as a direct grant to a full service supermarket, such as Supabarn Supermarkets. The reasons on which we have based our position include:

- there is precedent in the ACT of the ACT Government allocating land by direct sale to retail interests: current retailers Woolworths, Coles and Aldi have benefited from this strategy;
- this is the only way to ensure that effective competition within the retail market is maintained and enhanced to provide benefits to consumers in terms of the provision of the widest range of goods at the most competitive prices; and
- within a reasonable radius of the Kingston site, there is a good mix of supermarket properties owned by Woolworths, Coles and Aldi.

The ACT Liberal Party is committed to the provision of groceries to all consumers at the lowest possible prices. In the case of the Kingston site, to achieve this policy aim, we would agree, in principle, to a process that provides for the direct grant of the block to a full service supermarket, such as Supabarn Supermarkets.

The ACT Liberal Party also notes that Woolworths did have a supermarket site in Manuka but that the company closed that site some years ago. We assume that the company made this commercial decision after a careful analysis of the then current and prospective retail market situation in the Manuka and Kingston region of Canberra.

If you need any further information on this matter, please feel free to contact me at any time.

Yours sincerely

Brendan Smyth

15 Aug 2008