CITY OF MELBOURNE

City of Melbourne submission to the Productivity Retail Inquiry into the Economic Structure and Performance of the Australian Retail Industry

1. Introduction

Melbourne is the capital of the state of Victoria and Australia's premier destination for culture, shopping, dining, sports, events, festivals and the arts. The City of Melbourne, as the responsible local government authority leads the development and realisation of the community's vision of an inspirational and sustainable city. Protecting and strengthening the city's economic prosperity is one of the Council's seven strategic goals.

In 2006 the City of Melbourne and Victorian Government launched as a joint imitative, the Melbourne Retail Strategy 2006 – 2012, an Australian first. The strategy was developed to strategically position Melbourne as a global retail capital and ensure the continued advancement of retail in Melbourne.

Implementation of the strategy is overseen by a high level, industry based board – the Melbourne Retail Advisory Board, which provides Council advice on retail initiatives to enhance the strategy's vision.

Annual report cards continue to be produced that track the implementation of the strategy, the most recent produced in 2010. The Melbourne Retail Strategy and annual report cards can be accessed via www.enterprisemelbourne.com.au

2. Retail in Melbourne

A snapshot of Melbourne's retail landscape

Statistics	Now	Then
Estimated resident population	93,105 [p] (2009) [1]	89,968 [r] (2006) [1]
Top three estimated residential populations of City of Melbourne by small area	(2009) [2] Melbourne CBD – 18,690 Carlton – 14,729 Southbank – 11,036	(2006) [2] Melbourne CBD – 15,404 Carlton – 12,880 Southbank – 9,941
Residential dwellings	49,712 (2009) [3]	43,775 (2006) [3]
Day time city users per day (average)	773,000 (2010) [3]	765,000 (2009) [3]
Late night city users (6pm – 6am) per day (average)	305,000 (2008) [3]	304,000 (2006) [3]
International visitors per year	1,439,900 (2010) [4]	1,376,073 (2008) [4]
International higher education student residents	13,750 (2008) [5]	11,650 (2006) [5]
Total employment (workers)	413,136 (2008) [6]	367,034 (2006) [6]
Number of establishments	15,284 (2008) [6]	13,900 (2006) [6]
City retail		
Vacancy rates (street frontage)	Below 2% (2010) [8]	2.7% (2009) [8]
Retail industry by establishments	2,330 (2008) [6]	2,218 (2006) [6]
Retail industry by floor area	781,146 m^2 (2008) [6]	768,303 m^2 (2006) [6]
Retail industry by employment	20,564 (2008) [6]	19,294 (2006) [6]
Number of above awning retail space use by establishments	3,319 (2008) [6]	3,157 (2006) [6]
Above awning retail (1st floor) by floor area	108,298 m^2 (2008) [6]	93,700 m^2 (2006) [6]
Laneway retail by establishments	283 (2008) [6]	258 (2006) [6]
Indicative rent in super prime locations (net)	$6,000 m^2 per year (2010) [8]	$5,775 m^2 per year (2009) [8]
Indicative rent in secondary locations (net)	$1,375 m^2 per year (2010) [8]	$1,354 m^2 per year (2009) [8]
Docklands retail		
Retail trade by establishments	284 (2010) [9]	10 (2002) [9]
Lettable retail space	158,059 m^2 (2010) [9]	7,595 m^2 (2002) [9]
Retail trade by employment	2,786 (2010) [9]	29 (2002) [9]
Melbourne Metropolitan area		
Estimated resident population	3,995,537 [p] (2009) [1]	3,473,015 (r) (2006) [1]
Residential dwellings	1,471,155 (2006) [10]	1,344,624 (2001) [10]

Source: Melbourne Retail Strategy 2006-12 Year 4 Report 2009-2010, City of Melbourne

Central Melbourne's retail is mixed, from high end retail with world class department stores and modern retail complexes to one of the world's great heritage markets (Queen Victoria Market); from well known national and international brands, through to the local, emerging, innovative designers, the boutique and quirky vertical retailers housed in unconventional spaces and within the city's world famous laneways – Melbourne has it all. This is the great strength of Melbourne's retailing opportunity and evolution – it's also part of the challenge for Council, retail and business organisations to work with such diverse businesses.

Retail is a significant employer and source of inwards investment to the city (via property trusts for major development such as the multimillion dollar redevelopment and restoration of the Myer and David Jones flagship stores in the Bourke Street Mall.

These physical developments also have significant impact on the urban form of the city – through their structure, function and operations. The location of anchor stores and clustering of like retailers (for example outdoor and adventure wear retailers in Little Bourke Street) has led to the establishment and organic growth of other compatible businesses such as travel agencies. These informal retail clusters are replicated across the central city creating distinct precincts.

Over the last two decades, central Melbourne has transformed from being a commercial downtown area to a thriving, multi-functional, 24-hour metropolitan centre. The retail core of the central city is Victoria's largest retail centre with about 781,146 m^2 of retail floor space use and an annual turnover of around $2.38 billion.

Additionally, the state's strong economic profile further enhances the city's retail prosperity with a state retail turnover of approximately $57.6 billion (2008-09) and the highest employment of any sector with 305,400 employees (20,564 in Melbourne city) as highlighted by the State Government's Department of Business and Innovation.

The central city is still a prime destination for work but more people are visiting, with the city welcoming more than 1.4m tourists each year or making it their home. The population is expected to reach 100,000 by end of 2011 with people living not only in the established inner city suburbs, but also in the newly developed areas of Docklands and Southbank, and in the heart of the city.

These combined with Council's solid commitment to infrastructure, services, sustainability and economic prosperity are all key drivers of future retail growth and investment.

3. Response to the Productivity Commission Inquiry

This submission focuses on the first three of the five questions the Commission has been asked to examine:

i) The current structure, performance and efficiency of the retail sector and impediments to its contribution to the Australian economy.

From the perspective of Melbourne as a capital city council, retail is one of the most important sectors in the overall economy of the city. Based on Council's 2006 and most current 2008 Census for Land Use and Employment:

- Since 2006, the amount of retail floor space in the whole municipality of City of Melbourne has increased from 779,600 sq m to 806,700 sq m in 2008, an increase of 3.5 per cent.
- There has been a 5 per cent increase in the number of retail trade establishments, from 2,218 in 2006 to 2,330 in 2008.
- Since 2006, retail trade industry employment in the City of Melbourne has increased from 19,300 to 20,567 in 2008, an increase of 6.6 per cent.

Additionally, the February 2011 Melbourne Retail Monitor report, which examines the health and performance of the retail market and produced by Savills Research for City of Melbourne, recorded a CBD vacancy rate of 3.2 per cent, a decrease from 6.7 percent in September 2010. This data indicates the highly competitive nature of retail in the central city for prime locations.

The growth of laneway retailing showcases the dynamic nature of retail in the city. Some retailers are downsizing tenancy in order to reduce costs. Many of these cheaper, smaller or boutique shops are located in laneways, hence the demand for laneway tenancy has increased.

The city's laneways were part of the city's foundation plan by Robert Hoddle, Melbourne's original surveyor and the 1990's saw the renaissance of our laneways and arcades. Since 1997, the number of retail establishments has risen from 152 in 27 laneways to 283 in almost 50 laneways. Total retail floor space in laneways increased by 118 per cent during the 1997 - 2008 period from 24,759 m^2 to 54,039 m^2. There is also a definite trend towards vertical retailing in laneways and arcades, with both above and below ground retail increasing – numbers of establishments, floor space and employment have all grown substantially. Below ground retail is present in 19 laneways and the floor space occupied increased by 112 per cent between 1997 and 2008. However, above ground retail is present in 35 laneways and recorded a huge 121 per cent increase in number of establishments, from 38 to 84 between 1997 and 2008.

What has the City of Melbourne done?

Melbourne has consistently ranked as one of the most liveable cities in the world. The challenges (and opportunities) are that the city experience is not bound under one roof. We are open to climatic issues and the dynamic relationships driven by multiple landlords. The competitive advantage of the CBD retail experience is that retail is just part of the broader city experience. The city is also renowned for its arts and culture, design and innovation, heritage and architecture, major events, world class dining and nightlife, street life and amenities.

- A long term city retail strategy - the Melbourne Retail Strategy 2006-12 was developed to strategically position the City of Melbourne as a

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global retail capital and to ensure the continued advancement of retail in Melbourne. It highlighted the importance of developing Melbourne's unique assets, its distinct network of laneways, its vibrant street life as well as the need for the city's retail sector to continually innovate and respond to competitors. The strategy is an evolving document, reviewed and revised over its six year time frame.

Five years on, the strategy has helped to define Melbourne's distinct and diverse retail character, encouraged new retail investment and developments, promoted cultural connectedness and exposed the concept of authentic Melbourne experiences and local narratives.

- Melbourne Retail Advisory Board - ongoing recognition of the importance of retail in the city's economy through the appointment of a high calibre Melbourne Retail Advisory Board, comprising of members from prominent city retailers, small and medium sized retail enterprises, property development and industry bodies with expertise and experience in advising on retail issues, industry research, vision development for retail and new initiatives such as Look.Stop.Shop[1].

- Business programs - supporting retail through various business initiatives including the district precinct program which supports the work of local business associations to market their special part of Melbourne; the small business grants which offer financial support to innovative businesses that enhance the city's offering and promote its point of difference; and the Lord Mayor's commendations which recognise the long term retail and other business heroes of the city.

- Marketing and events – consumer destination marketing campaigns; event and business promotional opportunities; sponsorship and delivery of major and community events through multimillion dollar triennial and in-kind sponsorship programs to support a diverse mix of major iconic annual events including (but not limited to) sporting, cultural, fashion and national events.

- Arts strategy – the City of Melbourne's art strategy sets out a vision for nurturing and enhancing Melbourne's vibrant arts community. It celebrates diversity and encourages achievement of prosperity through creativity. Key programs include Creative Spaces – a website listing of spaces suitable for arts projects, events, and innovative, emerging retailers and designers; the Laneway Commissions – an ongoing opportunity for artists to contribute to the interpretation of the urban

[1] Look.Stop.Shop. was a pilot project run as part of the State of Design Festival. It created an alliance between a retail-focused event and an existing well supported 'festival'; a recommendation from the Melbourne Retail Strategy 2006-12. Look.Stop.Shop. is a design-led walk through Melbourne's city centre, where diverse retailers were engaged in a round-the-clock program that uses design to promote a safe, vibrant and inclusive city as it moved from day into night, providing 24-hour viewing.

environment, extending the planned and familiar beyond its functional aspects. These programs importantly contribute to the city's street life, landscape, culture and visitation.

- Projects to enhance city amenity and infrastructure – cleanliness and city safety initiatives to accommodate the city's move towards a 24 hour city; financial investment in infrastructure such as the Swanston Street redevelopment; the widening of footpaths; improved street furniture; rest and pause spaces.

ii) Drivers of structural change in the retail industry, including globalisation, increasing household and business access to the digital economy, cost structures for the domestic retail economy, employment structure, the exchange rate and structural issues driven by the resources boom.

Since 2006, the global and local retail landscape has changed significantly. The 2009 mid-term review of the Melbourne Retail Strategy 2006-12 indicated that we are on target but that the next few years will present retailers with new challenges. It highlighted that Melbourne will need to continually evolve its retail offer to remain relevant to the modern consumer. Today's consumers expect a city that focuses on culture and 'liveability' with a retail offering that fits seamlessly into all spheres of their lives.

The mid-term review provided a blueprint for the continued implementation of the strategy, setting out in clear terms the actions that Melbourne should undertake to capitalise on its enviable position as Australia's leading retail city. Strategies included:

- integrate technology into the city retail offering
- Encourage experiential retail and leverage its media potential
- redefine and aggressively pursue innovative retail
- facilitate activity that fuses business with leisure
- create more pleasurable and user-friendly shopping experiences
- fortify and promote distinctive culture and history
- leverage the relationship between retail and cultural pursuits.

The future city consumer
The central city during the last decade has differed markedly in its consumer profile by virtue of its educated and well-paid workforce, tourist numbers and concentrations of young adult residents. However, some parts of Melbourne are projected to have significant population ageing. Will the city continue to have a different user profile, and what mix of products and services are likely to be in demand as a result of forecast population, workforce and visitor growth?

Forecast changes in consumption patterns and preferences in the City of Melbourne over the next decade, the impact that longer term changes in consumption may have on the location and mix of retail will be critical to the retail community for use in planning beyond the next few years.

In particular, the new generation of shoppers is very technology oriented and looks for communication in new areas as well as new shopping experiences.

The digital economy

Melbourne has been an international city from its earliest days of settlement. With the Gold Rush and the wealth it generated, the waves of post war migration, domestic and international magazines and in the last 20 years the advent of low cost international travel has meant Melburnians have always had an interest in what the world was doing in terms of retail and particularly in fashion. The advent of the digital economy and the opportunity to purchase online is only a continuation of this trend.

The digital economy however opens opportunities for Melbourne's retailer to trade on a global stage – building their customer base from the 'bricks and mortar' in-store experience in Melbourne to a global customer base.

Quintessential Melbourne CBD retailer Captains of Industry is one example. A vertical and experiential retailer, Captains offers a unique proposition of a gentleman's outfitter that includes made to measure menswear and bespoke footwear with an onsite tailor and shoemaker, plus leather accessories, a traditional barber and grooming products as well as a thriving café on its first floor, warehouse-style premise. Recently, Captains of Industry have taken their one stop shop sartorial offer online to complement their 'bricks and mortar' and build an international clientele, and currently has a 12 month waiting list for custom orders.

The online experience is only part of the overall retail mix but an essential one. It must be integrated in a multi-channel consumer offer to remain competitive and advance with the change in consumer purchasing behaviour. It won't however replace the one to one, sensory and social experience which Melbourne's unique, innovative, experiential retail can generate. If anything, it demands retailers to be innovative, creative and to engage with their customers and complement their 'bricks and mortar' with the 'transactional' 24 hour practicality of the online channel.

Rental costs, the size of premise, and significant business costs have been important drivers in the development of Melbourne's retail environment. Secondary 'new' retail spaces offering cheaper rents is leading the move towards vertical retailing - above awning and below ground; the development of a unique retail mix in Melbourne's laneways; the exploration and regeneration of unconventional and nondescript spaces for unique collaborative, innovative, experiential and pop-up retail; and the organic proliferation of boutique retail, hospitality and other creative operations around the CBD fringe creating thriving retail hubs, that augment and compliment the CBD core offer.

iii) The broader issues which are contributing to an increase in online purchasing by Australian consumers and the role of online purchasing in providing customers with greater choice, access and convenience.

Issues contributing to an increase in online purchasing:

- Wider range of products at competitive prices overseas. Australians can purchase products unavailable locally via US and UK websites for example, be provided with a tracking number and guaranteed delivery in three to five business days.

- Soaring rents and limited prime retail spaces. The Melbourne Retail Monitor 2008-2009 indicated super prime retail rents increased to an indicative \$6,000 m^2, while prime and secondary rents rose to \$2,675m^2 and \$1,375m^2 respectively. However, online purchasing offers a way of enhancing domestic business, and facilitates expansion into the global retail environment with reduced overheads. Innovative technology can be used as a tool for retailers to showcase their full product line in-store and online, offering greater choice without the costs associated with larger floor space to accommodate a full line of stock. The online model in time will prove to be a more efficient model.

- Rapid adoption of mobile technology among Australians - the consumer going mobile – not just eCommerce but mCommerce. Mobile commerce is breaking boundaries. PayPal’s research report, mCommerce: Secure Insight indicates that Australia is now at the forefront of internet connectivity with the total number of mobile broadband users in Australia close to five million; and Smartphone ownership accounting for 63 per cent of the market. PayPal Australia’s mobile payment grew 14 fold to reach \$42 million. Key drivers include making purchases on the go and at their convenience.

- Online shopping offers 24 hour accessibility and convenience. The consumers’ needs have evolved. The retail industry’s business models must also evolve in line with the changing consumer behaviours and needs.

- Skills shortage in online retail in Australia with a lack of e-commerce experts poses a key challenge for retailers reluctant to embrace online. Skills such as the ability to develop digital marketing strategies, coordinating them across online and mobile devices, social media and customer friendly web design and user experience and search engine optimisation techniques compounds the establishment of polished online strategies. This is a greater challenge for local smaller retailers and more nimble start-ups compared to their more-established counterparts. There's also high staff turnover and poor understanding of online shopping.

- Conversely there are some consumer barriers for consideration including security of online transactions; shipping costs; long delivery times; after-sales service and warranty considerations.

As people shop online, retailers must work harder and smarter to connect with their customers. Online purchasing promotes and encourages the need for retailers to deliver compelling retail experiences in-store - highly responsive, intimate, face to face encounters that provoke; surprise and engage. Experiential retail can also promote online interaction via social networking sites to facilitate real world moments and experiences as a way to keep their brand values alive, and develop a brand relationship with consumers beyond the transactional.