Feeding consumers' needs is an intrinsic part of a centre's role – and taking it down to basics, that means meat, drink and some fruit and veg.

Hungry hearts (and

By Helen Bakewell

The Property Council of Australia defines a neighbourhood centre as a local shopping centre comprising a supermarket and approximately 35 specialty shops.

The total gross lettable area is usually less than 10,000sq m but can be larger, depending on the number of supermarkets held by it. Typically, it's in a residential area and services the day-to-day retail needs of the immediate residential community.

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how to win them)

Throughout Australia today, there are around 700 neighbourhood shopping centres.

But the really important aspect of a neighbourhood shopping centre is that each and every one is a building block for the larger centres. There isn't a single super-regional shopping centre in Australia that doesn't contain a supermarket and fresh food hall.

Put simply, most centres in Australia have a neighbourhood centre as part of their offer, and this is why there is a lot to be learnt from our successful neighbourhood shopping centres.

Feeding the needs of consumers

Neighbourhood centres have higher visitor frequency than other types of centre by their pure nature - they're convenient centres for local consumers. As a result, they often have strong customer loyalty and are able to build shopping habits that can last a lifetime - resulting in customers for life, which can be a hard habit for emerging competitors to break.

The turnover that can be produced by neighbourhood shopping centres - stand-alone or embedded in a super-regional centre - is important not only in terms of turnover but also with regard to other benefits yielded.

Whether you are responsible for a neighbourhood centre or a larger retail offer, understanding and maximising the performance of your food offer can have positive benefits for the centre as a whole, and for its stakeholders.

Dimasi Strategic Research provides independent market and economic research, specialising in the retail and property sectors. Managing Director Tony Dimasi has extensive experience in analysing neighbourhood shopping centres throughout Australia and New Zealand and shares his market intelligence concerning these assets.

"There is a fairly typical retail mix to neighbourhood centres regardless of their size," says Tony. "They are by their very nature food and convenience retailing-orientated."

As a result, he says, they generally include, in addition to the one or two supermarkets, the following:

- Food retailing specialties, which are generally butcher, bakery, poultry, a patisserie such as Michel's which doubles up as a coffee shop, and maybe a seafood operator - depending on the centre's location. A liquor outlet may also be included, but these days they are often included in the supermarket offer.
- Food catering offer. Usually there is no food court but there will be between one and four takeaway food outlets and coffee shops.
- Non-food convenience retailing such as pharmacy, newsagent, hairdresser, film processing, key cutter/shoe repairer, and maybe up to two apparel retailers.

> *"The range of neighbourhood centre total retail sales is anything from $35 million to $65 million depending on the number of supermarkets, the location and the trading strength of the supermarkets," says Tony. "Single supermarket centres are generally in the range of $35 million to $45 million, double supermarket centres between $50 million and $65 million."*

Both shops and supermarkets in double supermarket centres tend to trade at lower rates per square metre, he says.

"For the supermarkets, this reflects the competitive presence of another supermarket in the centre (sales volumes are, of course, higher in combination), while for the shops it is a reflection of adding more convenience-type retailing and more comparison shopping, resulting in a more competitive environment.

"In addition, in larger neighbourhood centres there are often a few additional larger traders such as discount variety stores and more apparel, all of which trade at lower levels than food retailing specialties, which brings down the average per square metre slightly."

In terms of specialty shop occupancy cost, Tony says they generally range from $500-$600 per square metre and can carry occupancy cost ratios of 10 per cent to 11 per cent, with smaller centres towards the upper end of that range.

What makes it work

The composition and performance of neighbourhood centres is reasonably consistent. Variations tend to be based on supermarket performance, centre location and competition.

Similarly, how customers use neighbourhood centres is also reasonably consistent. At Directional Insights, we have studied the shopping behaviour of customers in neighbourhood shopping centres, the domain of the female shopper. At such centres, between 70 per cent and 80 per cent of customers are female. In addition, our research has shown that the average age of consumers using neighbourhood shopping centres is typically older - around 45 years.

Qualitative research indicates that mature customers prefer to shop locally and shy away from what they call the "big" centres, preferring to go where they are known not only to other customers but also to the retailers.

Familiarity is key. Neighbourhood centres have very high visitor frequency with, typically, between 40 per cent and 60 per cent of consumers visiting daily or two to three times a week. The main mode of travel to the centre is by car, with 85 per cent to 90 per cent of customers getting there and back by car - which is true for most types of centre in Australia and New Zealand.

Fewer than 10 per cent of customers are light users of a neighbourhood centre (visiting monthly or less often).

This shows that people who use neighbourhood shopping centres are very familiar with them.

So if the retail offering is to remain fresh and relevant, it's vital that neighbourhood centres have a regular turnover of window displays and promotional activities (such as food tastings). Customers are so familiar with the centre that they can become blind to the retail offer of a stagnant shop that rarely, or never, changes its appearance or appeal.

What draws the crowds

The dominant stores in terms of visitors are the anchor supermarkets, generally followed by specialty food stores and services such as banks, building societies and a Medicare outlet.

Customer purchases are dominated by food, liquor and groceries, followed by takeaway and sit-down meals.

The main reason for shopping is typically dominated by top-up food and grocery shopping, followed by main grocery food shopping. Services such as banking, post offices, facilities and Medicare are also important reasons for people going to a centre and often are mentioned by customers as desired additions.

But it's important to recognise that shopping in neighbourhood centres is all about mission shopping. People are there for a purpose. They move quite quickly through the centre, do their shopping, and leave.

Typically, 80 per cent of customers class themselves as mission shoppers and 20 per cent as leisure shoppers - taking their time and enjoying the experience. Neighbourhood centre shoppers typically stay around 45 minutes, as compared to a sub-regional's expectations of an hour-long visit and a regional centre visit of around 80 minutes.

Based on this knowledge, media campaigns for neighbourhood centres tend to focus on what's local. Local newspapers and letterbox drops are what the customers expect, and they use them to find out about events and specials in neighbourhood centres.

Suzee Brain is the Managing Director of Success Cycle, a specialist food retailing consultancy that provides independent advice on food retailing, covering areas including layout of the retail food precinct, store designs, menu item selection, signage and retailer upselling skills.

Suzee explains the ingredients of a successful food hall.

"You need a minimum of four fresh food retailers to create the critical mass of a fresh food hall," she says. "Abundance is what counts. A great neighbourhood food hall is groaning with produce".

"All retailers have store designs allowing for produce to come right to the front of the shop, with excellent strong lighting pouring down on the produce. The hall should be alive with the sights, aromas, sounds and theatre of a fresh marketplace."

Functionally, customers need to be able to browse, queue, order and pay easily.

"That means outlet designs that allow a minimum 3 metres for customers queuing at the counter, or the equivalent space to queue in store so customers can enter a store without obstruction. Counters need to be low enough for women and seniors to be able to easily talk to the server and reach out to hand over money and collect their purchases," she says.

Feeding the need

In the past decade there's been a growth in fresh food national chains such as Bakers Delight and Lenards Poultry, and with a corresponding growth in the number of supermarkets, competition has been aggressive. So how have the food chains adapted to compete with supermarkets, particularly discount supermarkets?

"Chains are becoming more responsive to the individual needs of the local market, allowing franchisees to offer optional products along with compulsory lines," says Suzee. "Value-added lines such as pre-mixed cooking sauces, semi-cooked products, low-fat lines, etcetera, set a point of difference when you can't compete on price."

Chains also have started to understand the value of sponsorship, locking into the local community through school programs, community events and senior citizen activities.

"Many are still slow to adapt to the next level, and for all fresh food operators, be they chain or independent, they need to develop their brand more completely," she says.

As an independent operator in a centre, or one who has as competitors discount supermarkets and national chains, how can you compete?

Suzee has a 10-point plan for independent retailers, which entails learning from successful chains and applying their principles of branding, such as:

1. Apply your brand name to uniforms, packaging, ticketing and promotional material.
2. Always have a loss leader special.
3. Always have a weekly special within a popular category i.e. a weekly cheese special, so customers start to look for it during their weekly shop.
4. Stock recipe cards that promote a higher average spend. This can be done through centre marketing to promote cross-purchasing and branding the centre's "marketplace".
5. Abundance, abundance, abundance - colourful, blocked, piled-high food displays must be on show at all times.
6. Capitalise on providing for niche markets within the community and their food customs - take into account cultural foods, religious celebrations, children's parties and so on.
7. Try to stock different, or larger, range of brands than the supermarket so as to create a comparison shopping environment based on quality, brand and range, rather than price.
8. Always have some product available for a free tasting/sample and use suppliers to host regular in-store cooking demonstrations and product sampling.

Profile of a neighbourhood centre

There are around 700 neighbourhood centres in Australia

Typical size:	6000-13,000 sq m
Average turnover:	$35m-$65m
Occupancy costs:	$500-$600sq m
Occupancy cost ratio:	10 per cent-11 per cent

Customer profile

% of females:	70 per cent-80 per cent
Average age:	45 years
Frequency of visit:	Weekly or more often
Mode of travel:	Car
Shopping mode:	Mission shopping
Time in centre:	45 minutes
Main reason for shopping:	Food and groceries
Main store visited:	Supermarket
Marketing use:	Local papers and letterbox drops

9 Take advantage of centre-led initiatives such as Red Spot specials and Mad Hour discounts.

10 Compete against the large supermarkets by providing personal, knowledgeable and helpful customer service.

Paco Underhill, renowned retail anthropologist and author of bestselling book *Why We Buy - The Science of Shopping*, has further ideas on how to compete.

He recommends that all employees be trained to offer baskets to any customer holding three or more items. Because people tend to be gracious when someone tries to help, shoppers almost unanimously accept the baskets.

Typically, as usage of baskets rises so does the size of the average sale. And we all know the easiest way to make more money is to sell more product to your existing customer base.

The future of the neighbourhood

Neighbourhood centres are here to stay so what does their future hold? Back to Tony Dimasi, who has extensive experience in the analysis of this asset class.

"First of all, over the past 10 years we have seen both the performance and, even more so, the value of neighbourhood centres increase enormously," he says.

"The recent sale of Northbridge Plaza in Sydney - the details which are confidential but is understood to have sold for between $85 million to $90 million - is the neighbourhood centre equivalent of the Chatswood Chase transaction last year, which set a new benchmark for regional centres.

"Estimated yields for supermarket-based centres have fallen by about 4 per cent over the past decade, from about 12.5 per cent to about 8.5 per cent, although the yield on Northbridge Plaza was way below that. This means that their value increased by about 50 per cent just as a direct result of this factor."

He says that a combination of factors have been underlying this outstanding performance.

"First, the supermarket and the sales and pedestrian traffic it generates. Australian consumers are increasingly spending more and more at the supermarket, and are now on average visiting it about 2.5 times per week," he says.

"We do not have to look at the neighbourhood centres to see the importance of supermarkets; - we can even see it at regional centres. The supermarket component of a regional centre now contributes considerably more sales to the regional centre than the department store component. About 21 per cent of centres sales on average are now contributed by the supermarket space, compared with 15 per cent contributed by the department store space at Australian regionals.

"The second factor is that there has been increasing time pressure on consumers, and a need for ever-more convenience. This has meant that a one-stop neighbourhood centre offering food and groceries and all necessary retail services is the ideal location.

For all of these reasons, Tony sees the outlook for neighbourhood centres as extremely strong, and says we are likely to see yields pushed down even further. Another important factor that will help to achieve this is that the national major anchor, typically Coles or Woolworths, underwrites the majority of their income.

"The third factor has been the sheer weight of money chasing these centres. With the superannuation funds now available throughout Australia, everybody is trying to get a slice of that action, with so many listed property trusts, syndicators, unlisted trusts and also private investors trying to buy these assets. Because they are relatively small assets compared with sub-regional centres or a major regional, it means the number of prospective purchasers is that much greater."

However, Tony does not expect the next decade to be quite as strong as the past decade has been for these centres, simply because of the many factors that have combined over the past decade to result in such a strong performance.

"I do not think that all those factors will be replicated to the same extent over the next 10 years," says Tony.

There is something to be learnt by every centre that has one to three supermarkets, and the associated specialty shops, when it comes to improving the overall performance of the centre and catering to local consumers' needs.

We are so familiar with our neighbourhood centres, and the food halls within our larger centres, that they *can* be taken for granted. But it's worth remembering that they really do offer a success opportunity to every centre Owner, Marketing Manager and Retailer.

Check put our feature pages 60-69. ■

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