DIRECTIONAL INSIGHTS

Australia’s Preferred Shopping Environment Report

March 2014

Why Read this Report?

The Directional Insights Australian Preferred Shopping Environment Report 2014 provides valuable insights for retailers, property managers and marketers into the shopping environment preferences of Australian customers.

This research highlights the success of Australian shopping centres in catering to customer expectations on a range of Shopping Environment and Retail Offer attributes.

Over the past five years, however, online retailing has become an increasingly powerful competitor to retailers operating in all bricks and mortar environments.

From a low base growth has been strong and, until recently, considerable unease has been expressed about the future of various shopping centre formats, retail models and particular brands.

This report shows that online retailing performs well on particular drivers, and will continue to take market share, but at this stage shopping centres are well established and dominate the retail hierarchy.

Continual adaptation and innovation, though, will be required to maintain this position.

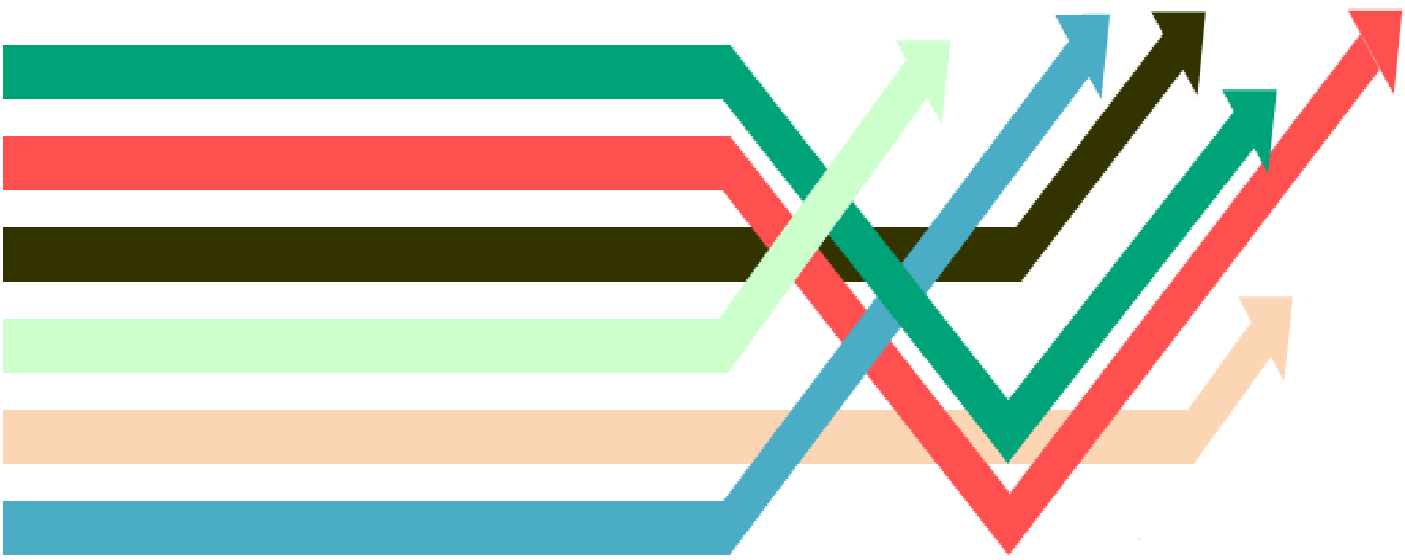
Methodology

This report is based on an online survey of 1000 shoppers across Australia and examines the Shopping Environment preferences of Australian shoppers.

Respondents were asked to evaluate the importance of a range of drivers and to indicate which Shopping Environments performed best on each.

The survey sample had quotas set by gender, age and location by state in order to be representative of the Australian population.

The survey was conducted over a one week period at the beginning of March 2014.



Summary

Shopping Centres are a dominant force within the retail hierarchy. While street retail precincts are an important component within the retail mix, they must overcome considerable structural challenges in order to effectively compete.

Australian shopping environments have historically drawn on international models, albeit with adaptations and improvements to suit the local market. In the late 1950s, following the North American development of pre-planned, one-stop shopping malls, developers and retailers began introducing enclosed shopping centres to the Australian market.

Despite economic fluctuations the industry has grown steadily (and at times spectacularly) with shopping centres now dominating the retail hierarchy of Australian urban, suburban and regional areas.

Increasingly, online retailing has become a powerful competitor to retailers operating in all bricks and mortar environments, online retailing performs well on particular drivers, and will continue to take market share, but at this stage shopping centres are the established and dominate retail environment.

This is not to say that street retail precincts do not remain a viable and important component of the retail mix. As this report demonstrates, however, shopping centres have been extraordinarily successful in catering to the needs and expectations of Australian shoppers, and by many measures high street retail struggles to maintain its position.

This, of course, varies considerably across different markets, and the strengths of high street retail – local ambience, coffee shops, food catering and customer service – indicate affinities with certain demographics that are evident upon examination of successful street retail precincts across the country

Driver Breakdown

Drivers were categorised into two groups:

1) Shopping Environment:

This refers to a range of factors both utilitarian and experiential: from atmospherics through to accessible and convenient parking.

2) Retail Offer:

These drivers include the availability of product categories, retail mix, levels of service, and the quality and suitability of stores.

All these factors combine to shape and inform the consumer's shopping experience.

Driver Importance Ratings:
Shopping Environment

Since the 1960s, adequate and convenient parking has been a crucial factor for retail success, and parking consistently ranks highly in Directional Insights' site-specific surveys. Feeling secure whilst shopping in an ambient and pleasing environment speaks to the experiential side of retail consumption. While easy access and navigation through retail environments highlight the importance that shoppers place in utility and efficiency.

Table 1 indicates the relative importance that consumer's assign to Shopping Environment attributes (rated on a five-point scale, with 1 being not important at all to 5 being very important).

Table 1: Shopping Environment	
Ease of parking the car	**4.10**
Feeling safe when shopping	**4.03**
An enjoyable and pleasant shopping experience	**3.88**
Ease of access	**3.87**
Easy to find my way around	**3.86**

Driver Importance Ratings:
Retail Offer

The value placed on quality food retailing underscores the central role that supermarket anchors play in Australian shopping environments. Interestingly, whilst cafes and restaurants play a key role in the social and leisure function of retail environments, they are less of a driver for visitation than other factors such as quality service in stores. This desire for good service is a reminder that increased investment in this area needs to continue. The value placed on tenancy mix indicates the importance of a cohesive offer, and the difficulties faced by retail precincts lacking centralised management and control.

Table 2 indicates the relative importance that consumer's assign to Retail Offer attributes (rated on a five-point scale with 1 being not important at all to 5 being very important).

Table 2: Retail Offer	
An excellent fresh food and grocery offer	4.21
An excellent level of service	4.08
A wide variety of different stores	3.88
Fashion offers that suit my needs	3.56
Cafes/restaurants that I like to visit	3.12

Driver Preference

Preferred Environments and Offers:

Australian Shoppers were then asked to identify which type of shopping destination (Shopping Centre, Strip Retail or Online) best meets their expectation for the drivers listed.

While higher performance across the widest range of drivers is the marker of successful retail environments, different shopping environments, by their nature, will perform better on different drivers.

What stands out in this report, however, is that pre-planned, one-stop shop environments currently perform very well in the eyes of the Australian public.

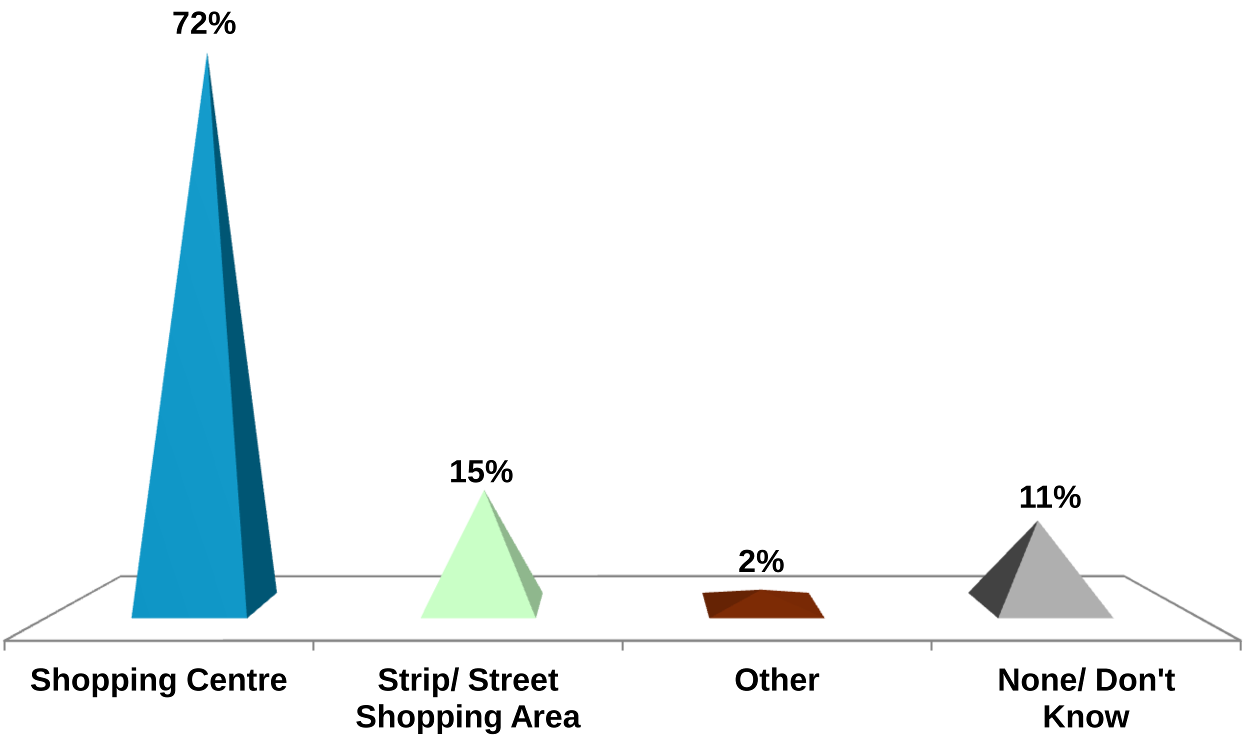
Preferred Shopping Environment:

Ease of Parking the Car

The rapid growth of automobile ownership and usage that accompanied suburbanisation in the 1950s and 1960s was one of the impetuses for pre-planned shopping environments with attached multi-deck car parks.

High streets could not cope with the amount of traffic on roads that had been built before the Second World War. Pedestrianisation schemes in the 1980s and 1990s largely failed because of inadequate parking provision.

Car parking remains a key advantage held by shopping centres over retail strips.



Preferred Shopping Environment:

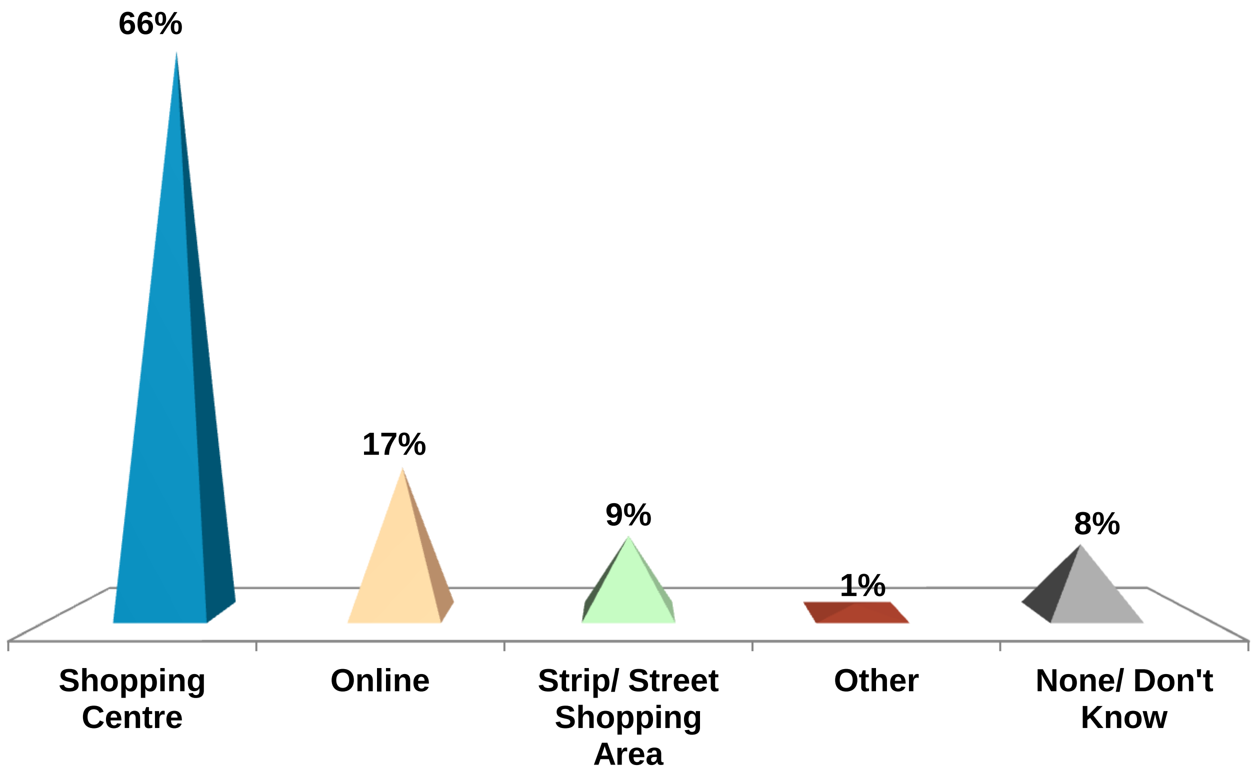
Feeling Safe When Shopping

Shopping centres have also successfully positioned themselves as safe and secure environments for families, women and children. In-house security staff, good lighting, and large customer traffic volumes all contribute to the advantage held by shopping centres over retail high streets on this measure.

Given this was the second most important attribute for consumers, performance on this measure must be seen as a significant traffic driver.

Perceptions of online security have improved considerably in recent years, but lingering doubts may be contributing to the response by consumers on this measure for online retailing.

While better than the low score for strip-shopping precincts, 17% is relatively low for an activity undertaken from within one's home or other familiar environments.

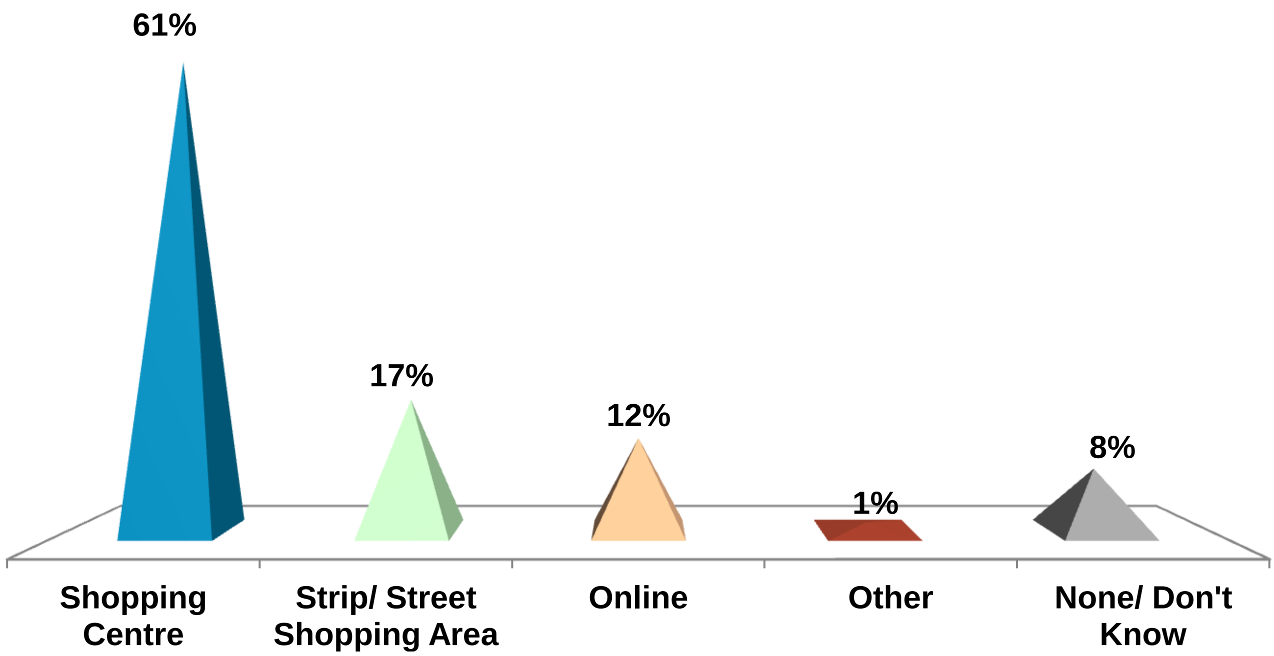


Preferred Shopping Environment:

An Enjoyable and Pleasant Experience

A variety of different factors come into play when considering this attribute. Shopping centres offer air-conditioning, protection from the elements and cohesive management of both the environment and activities taking place within it. Retail strips provide engagement with the outdoors, potentially a more bespoke environment, can be more easily positioned as ‘local’, and appeal to consumers who find the clean lines and tenancy mix of shopping centres too homogenous.

Online, for obvious reasons, sits below physical environments on this measure, although still manages to garner 12% of support, just 5% below retail strips. The gap between online and shopping centres here reinforces the focus that has been placed on ‘experiential retailing’ in the past 3 years. Technological and marketing innovation, though, will see online retailing continually improve on this measure, making investment in this space an ongoing priority for all property owners and bricks and mortar retailers. The latter, of course, have the opportunity to include such innovations in their own multi-channel offerings.



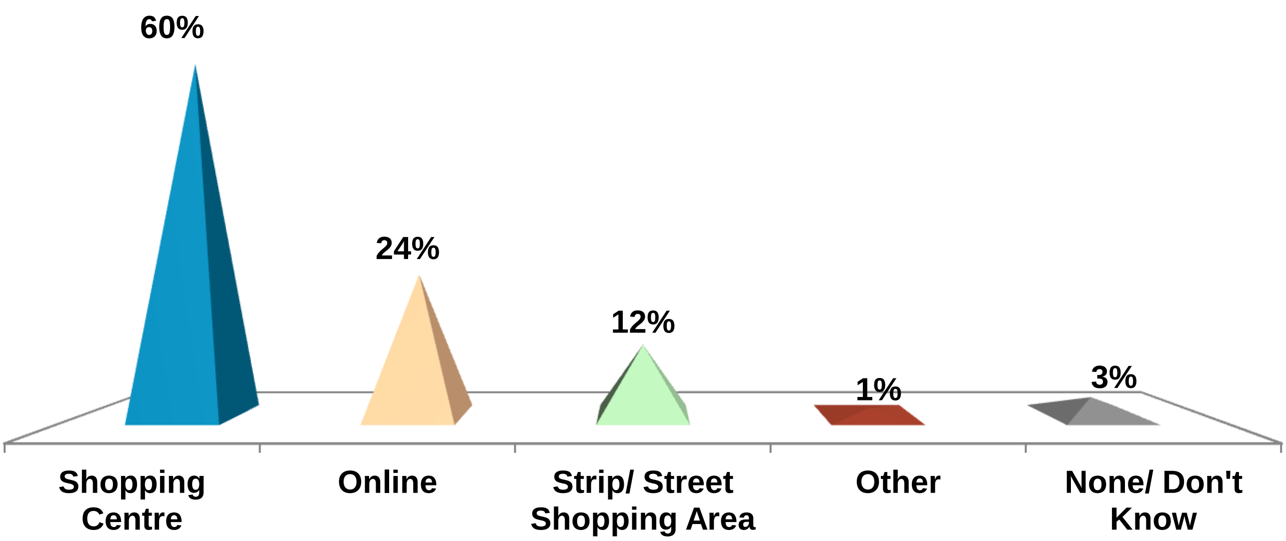
Preferred Shopping Environment:

Ease of Access

Ease of access has long been a core goal of one-stop shop environments and is related to the points made above regarding car-parking facilities. That retail strips fall below both shopping centres and online retailing on this measure raises serious concerns for such retail environments. Parking and traffic congestion are obvious impediments, but for shops that ideally should be strongly positioned for local residents, difficulties with access is a significant problem.

Online scores well on this measure, but still falls well short of shopping centres which at this stage can trade heavily on familiarity. Perceptions of accessibility to online retail will improve, however, as consumers build capacity in negotiating virtual terrains and retailers operating online expand their marketing and develop greater capacity in establishing prominence.

In considering this measure we can think of online retailing as a single shopping precinct in which accessibility is shaped by search engines, brand strength, the online shopping capabilities of the consumer, and their preferences regarding distribution. The online retail precinct, viewed this way, is shaped and constructed by the consumer who chooses either through choice or the limitations of their knowledge and understanding what is included within it. The job of online retail marketers is to expand consumers' knowledge and understanding in regard to brands, stores, products or services: that is, to facilitate ease of access.

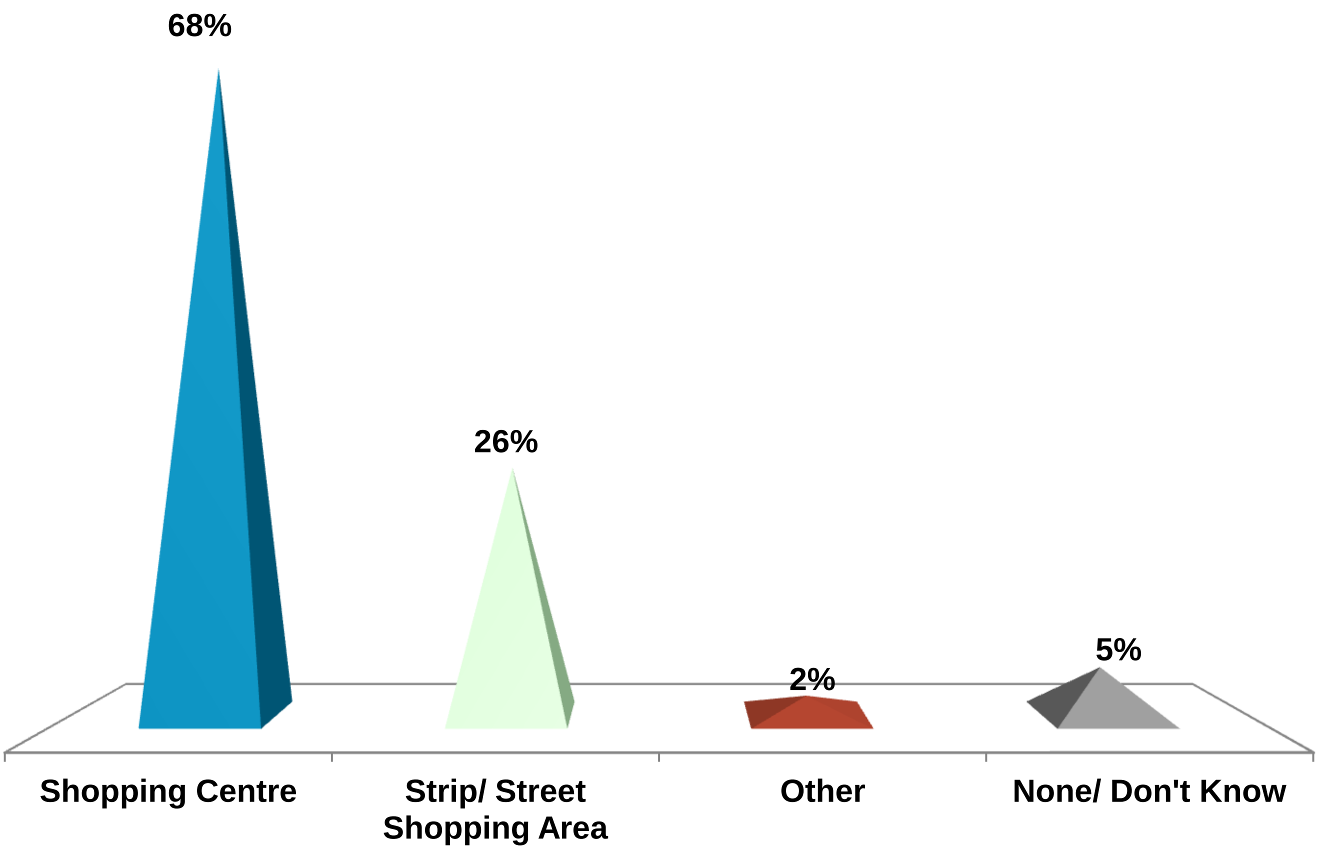


Preferred Shopping Environment:

Easy to Find My Way Around

Strip shopping precincts perform reasonably well on this measure, most probably because of their size and the familiarity held by local shoppers. Many strip shopping precincts are also relatively simply structured around a few main streets. That said, the signage, mapping and planned layout of shopping centres still supplies them with a distinct advantage in conveying locational information.

Further, high loyalty and visitation frequency amongst shoppers translate to sound knowledge of shopping centres amongst consumers. Whilst redevelopments and expansions can potentially reduce performance on this measure, management capabilities and capital resources enable the adaptation and implementation of new technologies to assist with way finding.

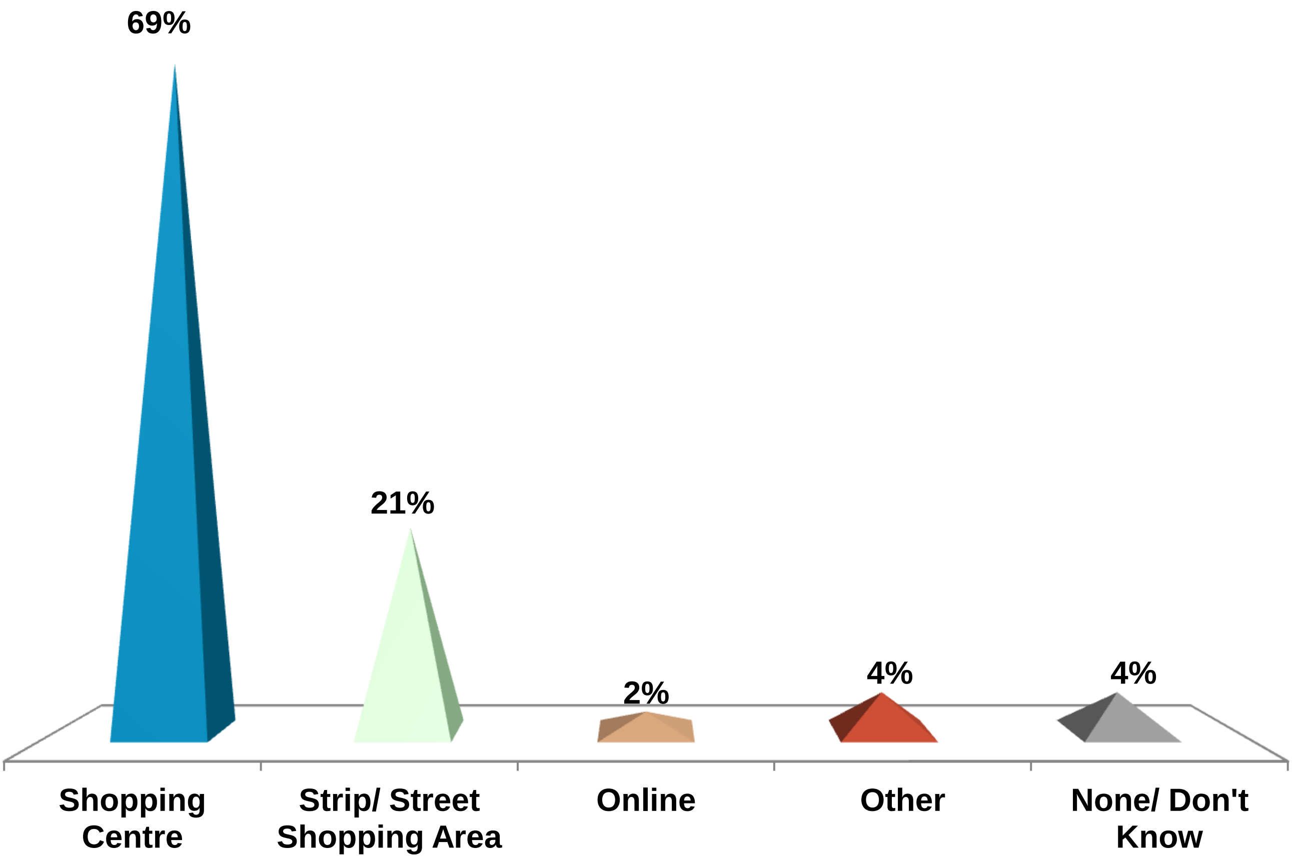


Preferred Retail Offer:

An Excellent Fresh Food and Grocery Offer

Supermarket anchors and fresh food precincts remain core strengths of Australian shopping centres and essential anchors for successful strip shopping precincts. Successful retail precincts attract multi-purpose trips: a high quality, wide-ranging food offer drives regular visitation and increased customer traffic for other retailers.

The low score for online retail on this measure reflects the minimal take up of shopping in this category amongst Australian consumers at this point in time, but there will be growth in this space over the next five years as retailers and distribution networks adapt their operations to cater to a market that exists in potential and which is being more effectively exploited overseas.



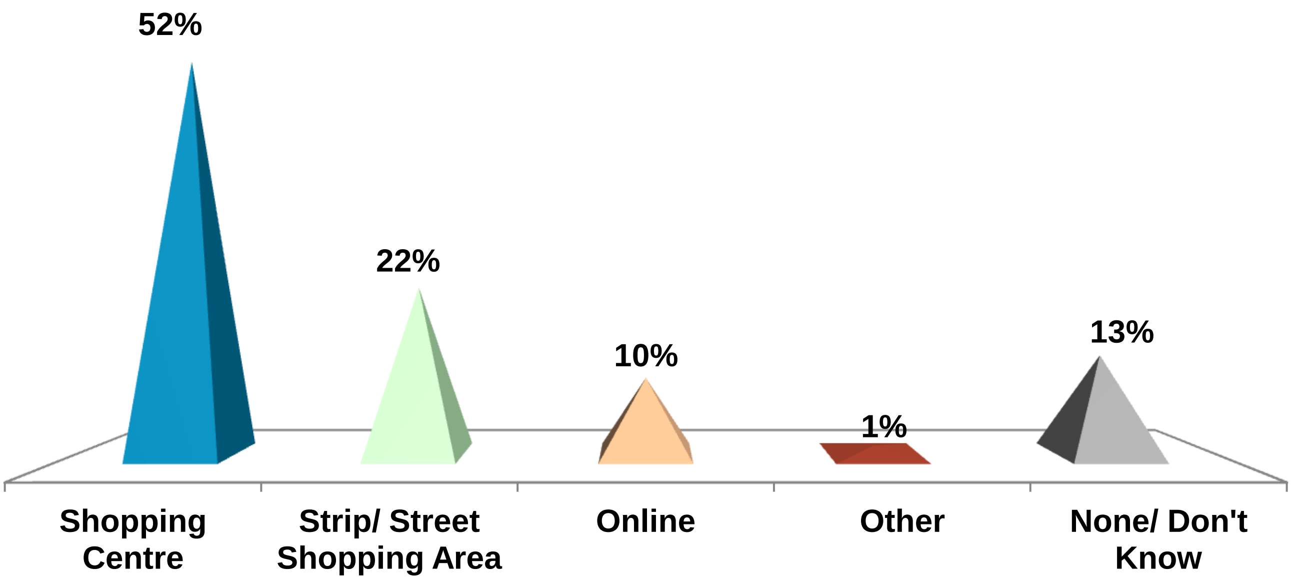
Preferred Retail Offer:

An Excellent Level of Service

Retail operations have come under increased scrutiny since the GFC reshaped consumer spending patterns. Even as people were spending less, they were also becoming more demanding of the retail offer.

Overlay this with an influx of international retailers with sophisticated and robust business models, and the challenges facing Australian retailing become clear. For consumers, service has become a lightening rod for discontent with established Australian retail – particularly in the department store sector, where the competition from international fashion retailers is being brought to bear.

There is a high non-response to this question, indicating dissatisfaction. Shopping centres were not as dominant on this measure as others, suggesting that the major chains may have an issue with service. Given its market share, online scored relatively well on this measure, especially given the comparative advantage that bricks and mortar retailers should enjoy. Technological and marketing innovations will improve online performance on this measure, even as physical retailers continue to face wage and costs pressures that limit their capacity to respond. Given that this measure was rated in importance only behind the functional imperatives of good parking and quality food retail, however, all retailers do need to improve in this area. Those who make the investment will use quality service as a positive point of differentiation.



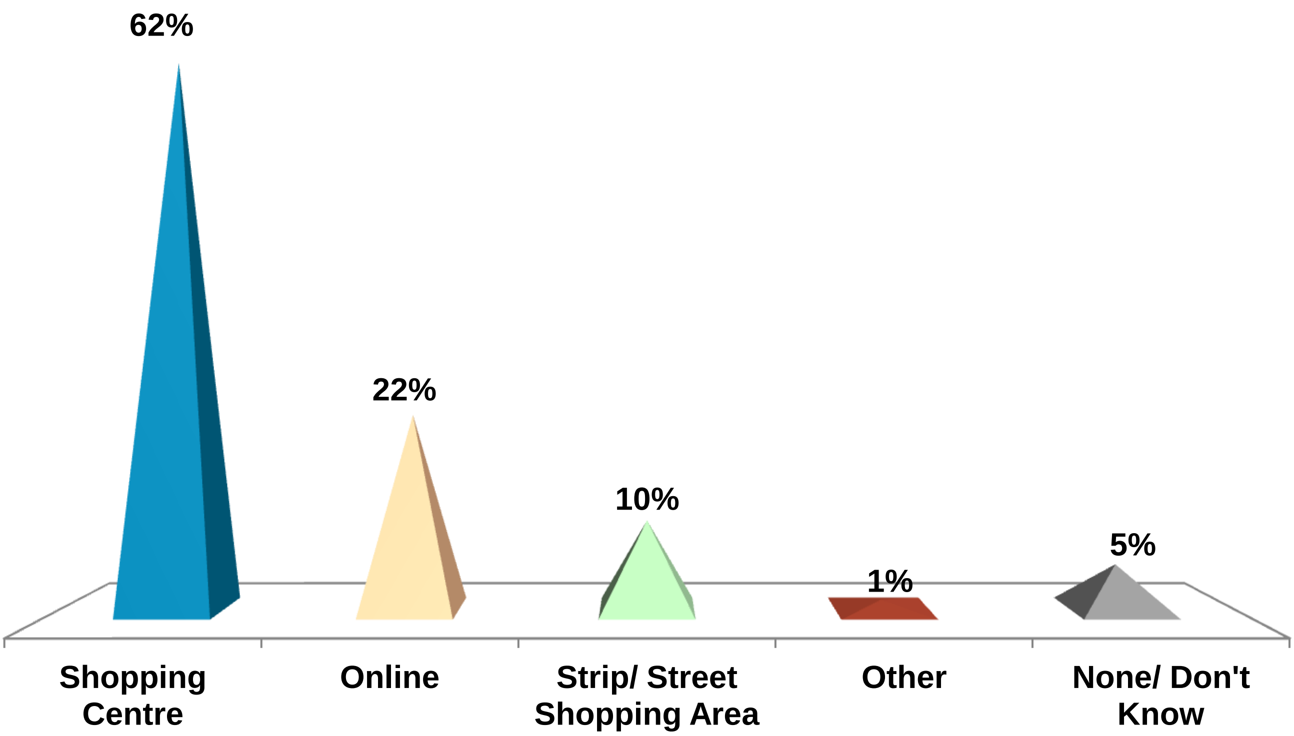
Preferred Retail Offer:

A Wide Variety of Different Stores

Continuing with the idea of online being, in some ways, a single shopping precinct in terms of accessibility, it is no surprise that it outguns strip-shopping precincts in terms of variety. Online potentially offers more variety than any physical retail precinct can possible accommodate.

The difficulty remains in the accessibility and visual presence of such a vast offer, as well as the willingness of consumers to explore it. Clearly this is growing, though, and online will continue to improve on this measure. Shopping centres, for now, remain dominant with unified management and leasing teams being very successful in creating cohesive tenancy mixes.

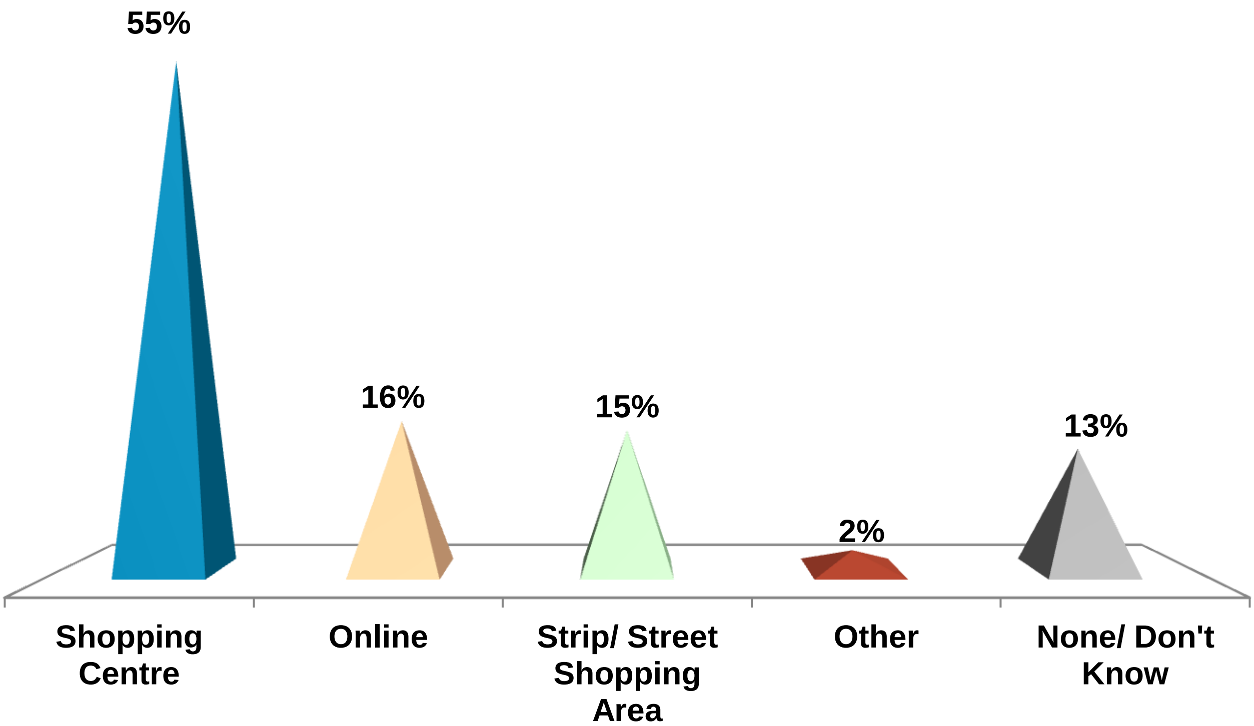
The imperative for high performing stores, however, raises risks of homogenisation and it will be important for centres to both localise and differentiate from the competition, as well as to continually assess their offer in light of what online can provide to consumers.



Preferred Retail Offer:

Fashion Offers that Suit My Needs

The issues of homogenisation raised above, is perhaps nowhere more evident than in fashion. Despite the structural advantages held by shopping centres and the amount of both specialty and anchor floorspace devoted to fashion, shopping centres do not dominate this category as well as they would like. The eagerness with which both consumers and landlords have embraced international fast fashion retailers is an indication of structural shortcomings in the Australian industry, which has been effectively protected from competition for too long. The healthy figures displayed here for online retail is a further reflection of this dynamic. Online fashion competes effectively on breadth of offer, quality, and its immediacy with international trends. Strip-precincts on the other hand can provide bespoke environments, eclectic design and, in the right areas, cultural cache. Shopping centres will improve their performance here with the inclusion of international fashion retail and the trend to more customised environments and fit outs. Improved multi-channeling by established physical retailers should also improve their in-centre performance by broadening offers, improving service and extended reach.

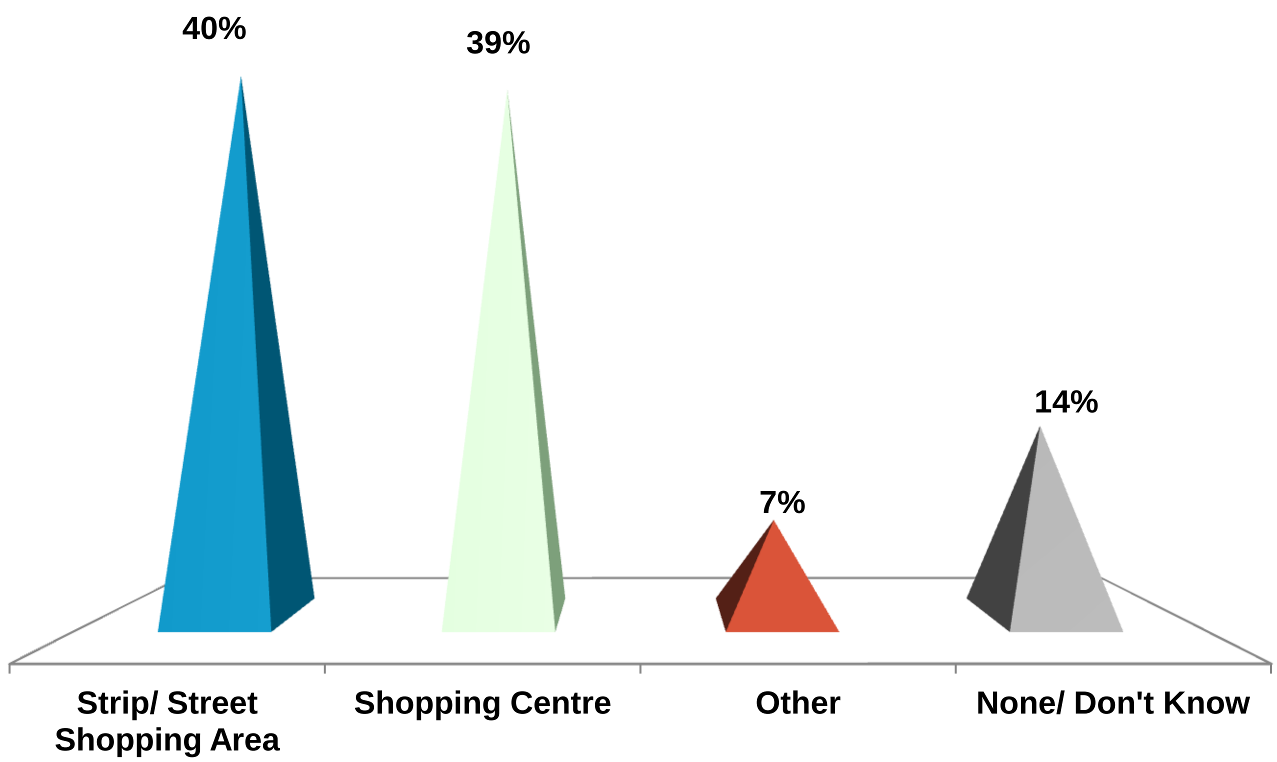


Preferred Retail Offer:

Café/ Restaurants that I Like to Visit

Consumers rated appealing cafes and restaurants as a neutral (positive) feature of Shopping Environments. This was the one measure where strip retail outperformed shopping centres, suggesting that shopping centres still have a way to go in producing bespoke, ambient eateries that convey a sense of authenticity. This may in part be attributable to the prevalence of chain and franchise operations holding centre tenancies.

The lower value attached to this attribute than others such as supermarket anchors, tenancy mix and customer service, however, suggests that the comparative advantage held by high street retail strips in this area may not be sufficient to drive significant traffic volume. It does, though, indicate strengths of high street precincts in which unregulated operators have the capacity to cater to local and diverse tastes, experiment with store layout, fit outs and product mix, and create interesting and appealing environments.



Conclusion

Australian retailers operate in a variety of different shopping environments, each with inherent strengths and weaknesses, and conditioned by a range of local factors, both internal and external.

This survey of 1000 shoppers suggests that, by and large, pre-planned, one-stop shopping centres hold a powerful position in the country's retail hierarchy because of their capacity to cater to consumers' needs and expectations.

This is not to say that they are immune to competition: far from it. Online retail will continue to take market share and performs comparatively well on a range of drivers, particularly Ease of Access and breadth of offer.

The ability of physical retailers to incorporate the strengths of online innovation into their multi-channel operations will thus play a role in determining consumers' ongoing perceptions, not only of their own brands, but of the shopping centres within which they hold tenancies.

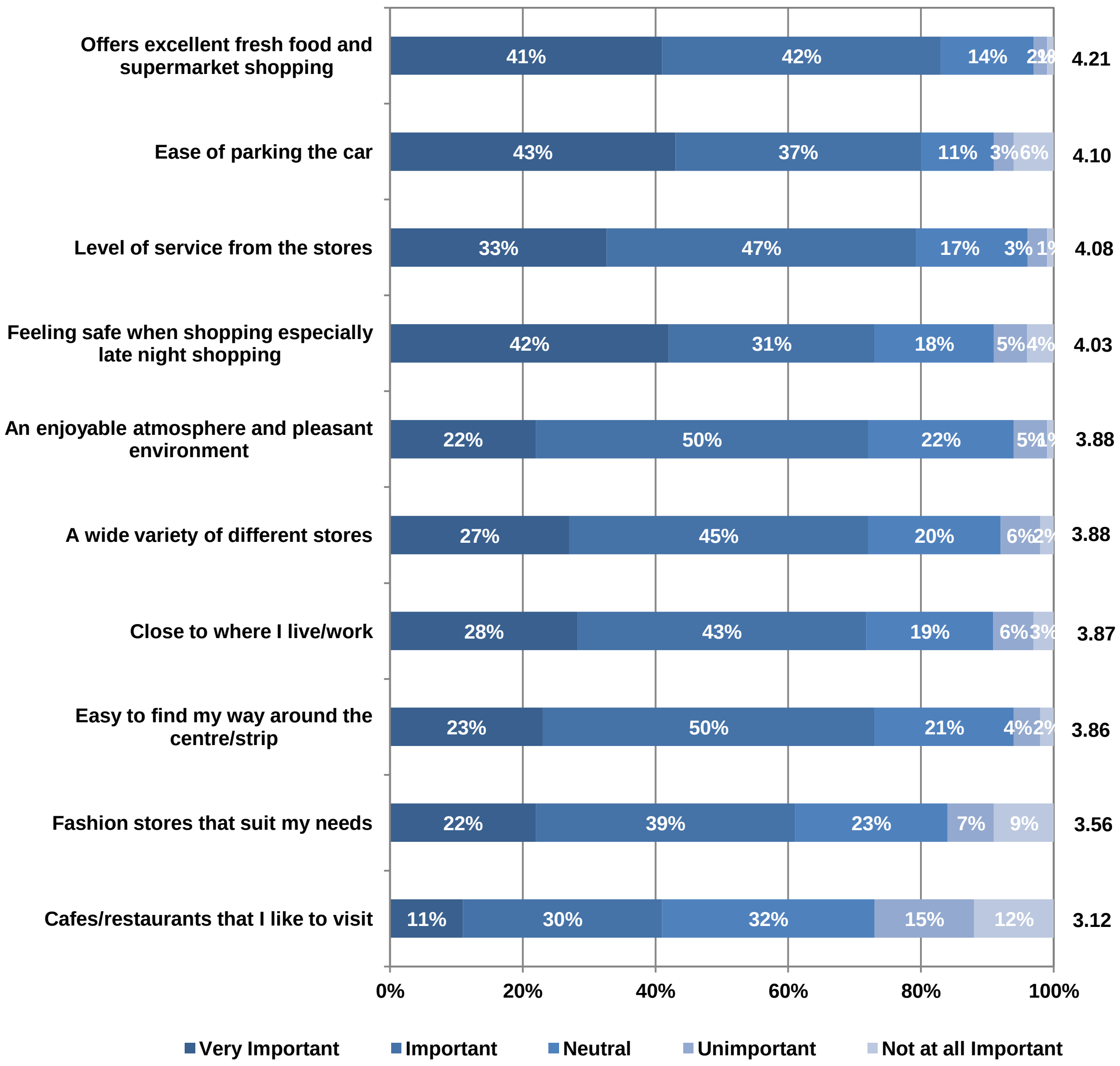
At the centre level, consciously combating the strengths of online through leasing strategies, technological innovation, marketing, promotional activity, and investment in the centre environment will be crucial to maintaining market share.

Strip shopping precincts also have strengths, although they are hampered by a lack of unity and resources. Those that can maintain the presence of key anchors, particularly supermarkets, and provide a compelling fresh food and café offer with an eclectic mix of specialty retail catering to the local market can attract shopping traffic. The difficulty lies in the organisational capacity of such precincts to achieve and maintain such tenancy mixes.

A further danger is that as centres move to counter the strengths of online they will increasingly invest in place making, becoming more localised, bespoke environments, with stronger offers, more individualised store fit outs, and with more open air space. This will further increase the pressure on street retailing to improve performance.

Appendix 1:

Importance of Drivers



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