22nd February 2019

Mr Michael Lennon
Planning Commissioner
State Planning Commission
GPO Box 1815,
Adelaide SA 5001

Dear Michael,

RE: Submission Productive Economy Paper

I refer to the release of the Productive Economy Policy Discussion Paper for consultation and wish to provide the following response on behalf of State’s independent retail sector, South Australian Independent Retailers (SAIR).

Background

SAIR advocates on behalf of the 120 owners representing 235 independent supermarkets stores which are branded Foodland, IGA and Friendly Grocer. This sector employs 15,000 people which also includes staff in the sector’s major wholesale distribution centre.

The Retail/Wholesale Industry is the biggest ‘private’ employer in South Australia (circa 112,000) and independent supermarkets are the largest sector i.e. circa 13%

As a collective group, this sector is the largest private employer in the State and has a 29% market share. The sector is extremely competitive and punches well above its weight with a respectable circa $2b annual turnover, equating to 2% of South Australia’s Growth State Product (GSP).

Clearly the independent retail sector makes an enormous contribution to the local productive economy, which is key intent of this entire discussion paper, explicitly enhancing the State’s economic competiveness.

The economics and associated spin off effects of independent supermarkets speak for themselves, with independents stocking a larger proportion of South Australian produce from local suppliers as well as running greater staff levels and paying higher wages as a percentage of their turnover than the competitors.

Foodland/IGA owners and operators make an enormous contribution to regional towns through their commitment to stocking local suppliers which in turn generates greater local jobs, economic impacts and growth in our regional towns for example e.g. Fleurieu Milk, Myponga, Laucke Flour Mills, Strathalbyn, Spring Gully Foods, Dry Creek, Beerenberg Farm, Hahndorf and Udder Delights, Lobethal to name just a few. It is well documented that many of South Australia’s food manufacturers/producers who are now icons nationally & internationally have been ‘kick-started’ via the Foodland/IGA brands.
Retail principles

Page 32 of the discussion paper highlights some guiding principles for retail. Below are the principles with our comments:

1. **Existing centres – recognise existing activity centres, main streets and mixed use areas as the primary place for commercial and retail activity.**

   Agree, it is vital that existing centres remain the primary focus for commercial and retail activity and are part of a broader policy framework that encourages them to maintain a strong retail mix of tenancies (food, grocery, fashion, cafes and restaurants and services) and invest in and refresh their retail offerings on a regular basis. Allowing an over-supply of retail floor space, particularly supermarket floor space, stifles this investment capability and negatively impacts on retail mix capacity.

2. **Expansion – in existing designated centres, allow for expansion at ‘edge of centre’ locations, as well as intensifying within those areas.**

   Agree, existing centres should be able to expand at the “edge of centre’ allowing for transition zones around or adjacent to existing centres thus enabling sustainable growth of a centre over time, whether that be in the form of improved traffic and parking, additional retail floor space or better utilisation of overall floor space.

3. **New Activity Centres – allow new activity centres to be established to support equitable and convenient access to services, while also supporting productive settlement patterns.**

   This principle appears to potentially be contradictory to the activity centres policy approach. It is our firm view that new activity centres should only be developed based on sound strategic economic planning grounds where under supply and/or over-trading can be clearly demonstrated in the catchment and moreover that the catchment demographics indicate sound expenditure capability, in other words the new activity centre is warranted due to under supply of retail land uses and the locality have the expendable income in which to financially support new activity centre developments.
   
   We agree that new activity centres should not be approved on an ad hoc or reactive basis. Rather they should be an integral consideration in the formation of strategic spatial plans at both the metropolitan and sub-regional levels.

4. **Hierarchy – protect higher order centres that support a productive settlement pattern, while allowing for smaller-scale activity centres to emerge and diversify.**

   SAIR agrees that the centre’s hierarchy should be maintained, and should be reviewed in the light of significant growth in neighbourhood activity centres in recent years and in particular larger size neighbourhood centres, for example centres of 3,000m2 and above. Larger neighbourhood centres have the ability to impact on catchments and thus they should be included as part of any strategic led economic and retail assessments.

   In our view, looking purely at Regional and District size activity centres can give a false reading on the actual rates of convenience retailing and in particular supermarket floor space in a locality.
Larger neighbourhood centres should be added to page 38, Map 3: Activity centres and mass transit routes.

In addition, SAIR believes there is also an opportunity here for the review to clearly define “smaller-scale activity centres” going forward so the market is quite clear what is intended in by the term “smaller-scale activity centre”.

We are keen to see what the planning system considers this to be and we’re all for allowing for smaller-scale activity centres to emerge, but stress smaller-scale in our view does not include 3,000m² plus supermarkets either stand alone or as part of a broader mixed use land use offering, development of this scale are more akin to a neighbourhood centre style development and would by their very nature be highly disruptive.

Furthermore, we believe that Government and Councils require more guidance and clear principles about how out of centre proposals will be assessed. Proposals that directly compete with higher order centres should be strongly discouraged if not prohibited in planning policy. Elsewhere, a clear net community benefit test should be applied under which any anticipated benefits from the new proposal in terms of consumer choice and competition are netted off against disbenefits including increased vehicle travel in accessing retail opportunities, loss of retail services in adversely affected centres and blighting effects. These impacts should be the subject of rigorous analysis when assessing retail proposals which are not consistent with the adopted centres hierarchy.

5. **Urban Design – reinforce the role of land use policies to guide urban form and place making in mixed use activity centres.**

Agree, with the proviso that those are high level, not overly restrictive and allow individual centres to respond to emerging trends and adopt new business models as part of their service offering.

The need for a strategic led economic planning approach

The removal of caps from retail activity centres was a positive move to enable expansion over time and free up the market’s ability to respond to retail trends. However, there are still Land Management Agreements (LMAs) in place between Councils and land owners which limit development to certain floor areas and these should be reviewed as they have the ability to stifle development and growth by separate but adjoining land owners that happen to reside in the same zone.

SAIR is very encouraged that the discussion paper now appears to be trending away from the ‘unrestricted path’ the Government was headed in back in 2015-16 and back towards a strategic led economic planning approach with the Centres hierarchy to underpin new future retail development.

This approach is certainly something that SAIR and its members strongly support as it is the only way in which to try and achieve a level playing field for current and future market entrants.

In recent months, SAIR has engaged with several different independent economic analysts and retail specialists both locally and interstate. They are united in their support for adopting a strategic planning approach to the State’s future retailing in stark contrast to advocating for ‘out of centres’ development.
SAIR share’s their views in terms of the need for a strategic and planned approach and as a result would hold grave concerns about any regression to a policy which encourages or advocates for ‘out of centres development’ in the absence of any catchment based strategic framework.

SAIR believes that locating centres in and around existing and future populations is the right approach, but it needs a planning framework for the marketplace to operate within.

For this to successfully occur, retailing must be planned and based on catchment analysis, identification of areas where there is a lack of retail supply (and/ or over-trading) and then a capital intensions overlay which analyses the local demographics and their expenditure capability in which to financially support and sustain addition retailing.

This strategic planning approach to activity centres policy can generate considerable positive economic and social benefits such as economic development, jobs growth, more convenient access to consumer goods and services, more compact settlement formations, improved place making, more efficient use of infrastructure and greater physical and incidental activity. By ensuring new retailing can be supported and sustained by the local catchment, as well as reducing the often not considered negative environmental impacts associated with ‘out of centres’ development, such as increased travel patterns, higher infrastructure costs, greater congestion and the allied environmental impacts of greater vehicle use.

SAIR believes that centres operate more successfully when located adjacent to existing residential areas, areas of residential growth due to gentrification and infill development and areas where the residential growth patterns and timing are known and where there is a demographic overlay that demonstrates clear capital intensions ability.

This planned methodology is at complete odds with an “out of centres” approach which appears to have been adopted, in part, as an avenue to encourage additional players into the supermarket sector and in part to create the ‘perception of economic development’.

Unplanned growth, in the absence of any economic and retail modelling rigour can, and has, resulted in retail floor space over-supply which in turn gives rise to numerous negative economic and social impacts that ultimately arise from retail floor space saturation, such as increased vacancy rates in existing centres and along strips, a loss of tenancy mix (in particular the current demise of fashion retailing), while driving down valuations and in turn borrowing capacity of owners. Some recent examples of this can be seen along Unley Road, King William Road and O’Connell Street.

SAIR feel there is real merit in bringing forward the planned review of centres and activity centres policy for Greater Adelaide and regional areas as earmarked on page 11 of its Productive Economy Policy Discussion Paper.

A series of smaller studies into catchments or a Greater Adelaide Catchment Analysis is needed to determine any new floor space warrant, combined with an expenditure capability assessment (capital intensions )to clearly understand the State’s future retail needs to ensure future retailing can be supported by the catchment, is sustainable and will not result in negative economic, social and environmental impacts on localities and broader communities – a strategic and planned approach to future retailing, which is frequently reviewed to ensure it keeps up with population growth and more particularly the physical location of that growth.
Competition is strong

SAIR is firmly of the view that there is very strong competition in the SA supermarkets sector.

Independent supermarkets, i.e. Foodland, IGA & Friendly Grocer brands play a significant role within their local communities and economies, which enables healthy competition in the supermarket sector in South Australia.

The regions have strong independent supermarket representation, including businesses like Eudunda Farmers, Carters’ Group, Klose’s Retail, Barossa Coop, Rugless Group, Redding Group, where in many rural towns they serve as the only supermarkets in the area. Some other groups such as Drakes & Romeos, have stores located in Pt Lincoln, Wallaroo, Murray Bridge and McLaren Vale, where they go head to head with the majors.

However introduction of Aldi, and to a lesser extent Costco has been a game changer for the South Australian market in terms of their impact on driving down grocery prices. This is also evident by the likes of Coles and Woolworths following in the footsteps of Foodland and now stocking and price matching a generic / home brand product to equal Aldi in every grocery baseline category eg bread, butter, UHT milk etc.

The impact of Aldi’s pricing structure has also been felt through the reduction and demise of local butchers and fruit and vegetable retailers.

The rise of the integrated mixed use service station such as OTR and X Convenience to name a few have also made a significant impact to competition levels at the local convenience retailing level. There is no doubt competition in the supermarket sector has now been achieved and as such, ‘out of centres’ development is not required as a lever to increase competition.

SAIR is united with the State Government in wanting to generate new economic activity, growth and investment by existing and future market players, however it is crucial that this is enabled through a level playing field approach to retail planning, a known and proven framework, for all market players, existing and future in which to operate within.

Conclusion

This is an important time for activity centre policy and specifically supermarket retailing in South Australia. SAIR believes there is currently an over-supply of supermarket floor space in South Australia and in the absence of sound population growth the risk is that many more strip shopping high street areas and activity centres will become non-viable.

SAIR supports transition zones around existing centres as it also accords with Government policy moving towards greater sustainable urban consolidation, mirrors a greater market acceptance of this, especially in light of the proportional representation of infill development exceeding initial expectations. Medium density, in-centre residential development is preferable to corridor development given its ability to drive benefits such as activation, sustainable hours of operation and walkable access to shopping facilities.

SAIR supports a review into and the general maintenance of the centres hierarchy and activity centres policy framework, as the basis for future retail development. However, we strongly advocate for the commissioning
of a Greater Adelaide Catchment Analysis (followed by the regions), combined with an expenditure capability assessment to determine areas of retail floor space oversupply and / or over trading to ensure that new activity centres are sited in the right locations whether that be in existing urban areas or on the periphery and to ensure these centres can be sustained by the catchments in which they are located.

There is sufficient competition in the local convenience retailing sector and the supermarket sector generally and as such ‘out of centre’s development is not required as a lever to stimulate competition in the sector.

Furthermore, the negative impacts associated with out of centres development, giving rise to increased travel patterns, higher infrastructure costs, greater congestion and the associated environmental impacts of greater vehicle use are too great.

A strategic and planned approach, the creation and maintenance of a level playing field means existing and future market supermarket operators have an open and transparent set of planning rules in which to base their investment decisions upon.

We look forward to working with you on the next stages of the planning reforms.

Yours sincerely

Colin Shearing  
Chief Executive Officer

Cc: Minister for Planning, Stephan Knoll MP  
Leader of the State Opposition, Peter Malinauskas MP  
Shadow Minister for Planning & Local Government, Hon Tony Piccolo MP

SAIR acknowledges Amanda Price-McGregor in providing assistance and planning advice towards developing this submission.

‘advocating for all independent owners of Foodland; IGA and Friendly Grocer supermarkets in South Australia’
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