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Costco Auburn

Economic Impact Assessment

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Costco Wholesale Australia Pty Ltd

by

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EXECUTIVE SUMMARY

- 1 **Purpose:** This report has been prepared for Costco Wholesale Australia Pty Ltd ('Costco'), and presents an analysis of the potential economic impacts associated with the construction and operation of a Costco warehouse in Auburn. The report has been prepared in the context of an Environmental Assessment of the proposed development, and responds to those matters identified in the Director-General's Requirements that relate to economic impact.
- 2 **Parramatta Road Corridor Context:** The site is located at 15-21 Parramatta Rd, Auburn, and is bounded by the M4 Freeway to the north, Parramatta Road to the south, light industrial premises to the east and Haslams Creek to the west. The Auburn Power Centre is located on the southern side of Parramatta Road. This part of Parramatta Road (mainly within the City of Auburn) has developed as a major node for bulky goods and lifestyle retail shopping, together with other highway-related activities such as car dealerships, automotive services, wholesalers and other business supplies, distribution centres, factory outlets, and so on. More intensive industrial activities are generally located away from the Parramatta Road frontage. The importance of the precinct for retail activities is evident by the large number of major retailers that have established in the area, either on stand-alone sites or as part of integrated homemaker or lifestyle developments.
- 3 **Costco Wholesale:** Costco operates from 556 locations worldwide, and employs around 143,000 people around the world. The Costco approach operates on the principle of a warehouse *membership* which costs \$60 for household members and entitles the member to shop at any Costco store, worldwide. Corporate memberships (at \$55) are also available, and this is designed for small businesses to enable them to purchase products at low cost for resale. Costco offers brand-name products and services at low cost because of its very significant purchasing power, with savings passed on to members. Lower costs are achieved through carrying a relatively limited number of products (4,000 SKUs or stock keeping units) with high turnover, thus enabling Costco to operate on lower-than-usual margins which are typically only around 10%. No-frills merchandising is also a feature of the Costco operation, including minimal handling costs, with most of the merchandise displayed on the original shipping pallets from the receiving dock to the store floor, and in some cases displayed on steel shelves. For the shopper, the hallmark of shopping at Costco is the high quality and competitive prices of the products and services that are available. Having regard for this aspects of the business, it is apparent that Costco does not operate as a conventional shop, and nor can it be considered to operate as a supermarket, department store, discount department store, factory outlet or specialty shop.
- 4 **Main Trade Area:** A Costco store typically serves a main trade area (MTA) that covers a 25 to 30-minute drive time, with some 80% of customers coming from within this catchment and the balance of sales from beyond. The MTA defined for Costco at Parramatta Road in Auburn covers a wide area which extends generally from inner Sydney in the east to the West Link Motorway 7 in the west, and from the South Western Motorway in the south to the Hills Motorway in the north. This total area covers approximately 463 km², while the City of Auburn, which is situated centrally within this MTA, covers an area of some 33.5 km².
- 5 **MTA Resident Population:** Costco's MTA has a resident population of approximately 1.31 million persons in 2009, and accounts for 34% of the total metropolitan population of Sydney. This is a very significant population figure, reflecting the ease of access to the Parramatta Road Enterprise Corridor from throughout much of central and western Sydney. Population growth is expected to continue to occur in the MTA, with forecasts showing a total of 1.33 million persons by 2011 (and this is adopted as the base year for the market assessment), and 1.43 million persons by 2021.

- 6 **Existing Available Retail Expenditure of Catchment Residents:** In 2009, residents of the MTA have total available spending estimated at approximately \$15,200 million. This substantial level of available retail spending reflects the extensive catchment that the Costco store would serve. Total available food spending of MTA residents in 2009 is estimated at \$8,270 million, while total non food spending is estimated \$6,290 million and spending on retail services accounts for a further \$640 million.
- 7 **On-Going Growth in Retail Expenditure:** Significant opportunity exists for new retail development to serve the MTA, noting that growth in the retail market is being driven by the increase in resident population and by growth in average per capita retail spending in real terms. Spending is forecast to reach \$15,900 million by 2011 (which is taken as Year 1 for the Costco operation), and reaching \$17,750 million by 2016 and \$19,800 million by 2021 (all values expressed in constant 2008/9 prices).
- 8 **Costco's Annual Sales:** Costco is forecast to generate total sales of approximately \$97.5 million to households and businesses in 2011 (expressed in constant 2008/9 dollars). This estimate is based on typical turnover levels achieved in Costco operations elsewhere. It takes approximately three years for a Costco operation to reach maturity in a sales context, and by 2014 Costco would be expected to be achieving sales of approximately \$143.5 million pa (in constant 2008/9 dollars). This estimate has been prepared with reference to typical trading patterns in Costco stores elsewhere, which also indicate that approximately 70% of sales would be retail sales generated by households, with the 30% balance generated by sales to (mainly small) businesses.
- 9 **Costco's Forecast Market Share:** With sales of \$97.5 million in its initial trading year, and with an estimated 70% of these sales to households (the balance going to business members), Costco would achieve only a very small market share of approximately 0.4% of available household retail spending in 2011. Even with further growth in sales as the store reaches maturity, the market share would still be at very low levels of approximately 0.6% of available spending across the MTA by 2016. With such a small market share, Costco would be expected to have only a marginal effect, if any, on other individual retailers or centres.
- 10 **Very Low Trading Impacts:** Costco would attract just 0.4% of the available spending of MTA residents, and its trading impact would be equivalent to a reduction of just 1.2% of sales captured by the main centres and free-standing retailers in the MTA with which it will compete. Costco sales captured from retailers located in the City of Auburn would be equivalent to just 1.5% of total sales at these centres in Auburn in 2011. The lack of trading impact arising from Costco operations is principally because Costco - as a destination retailer - is expected to draw its custom from a very extensive regional catchment, and thus the store achieves only a very small share of all available retail spending by MTA residents. In fact, some businesses may experience a positive impact - for example those that will use Costco as an alternative source of low-cost merchandise for resale, or retail businesses in the immediate area that stand to gain by the increase in shopper visitation to this part of inner west Sydney.
- 11 **Employment and Investment:** Costco would be expected to generate 25 positions in management and 175 positions in sales, stock-keeping and so on, giving a total of 200 jobs. These jobs would equate to approximately 160 Equivalent Full-Time positions (EFTs). Allowing for the employment multiplier effect (which reflects the linkages and flow-on effects between retail and other sectors in the economy), a further 160 EFTs would be generated elsewhere in the local, metropolitan and national economies. As the store matures, total employment would be expected to reach 250 positions, or 200 EFTs; similar multiplier effects would be generated.

Employment associated with the head office component is estimated at 70 positions initially, rising to 90 positions in subsequent years. The initial 70 jobs will generate a further 100 jobs in the wider economy through the employment multiplier effect.

Total investment at the Costco site in Parramatta Road would be an estimated \$58 million (excluding land value and fit-out), and this would generate an estimated 130 site-related construction jobs, plus a further 210 indirect or flow-on jobs during the construction phase as a result of the employment multiplier effect.

- 12 ***In summary***, the introduction of Costco on Parramatta Road in Auburn would generate considerable benefits for the precinct and for Auburn and the wider community. Costco would -
- Meet planning objectives which emphasise the importance of the Parramatta Road corridor for employment activities;
 - Introduce a new format for retailing and attract 630,000 shoppers annually among households and (mainly small) businesses;
 - Involve \$58 million in investment (excluding land and fit-out) and create 160 EFT jobs in store operation and management and a further 160 EFT elsewhere in the local and national economies due to the employment multiplier (or flow-on) effect;
 - Create 70 positions in the head office component, plus a further 100 indirect jobs as a result of the employment multiplier;
 - Provide shoppers with retail choice, competitive prices, and personal interest in their shopping trip;
 - Provide small businesses with the opportunity to purchase low cost, high quality merchandise for their own use or for re-sale (and sales to business would represent approximately 30% of all sales at Costco); and
 - Significantly, Costco would play an important role as a retail anchor in Auburn, and would generate flow-on benefits for the wider area.

INTRODUCTION

Background

This report has been prepared for Costco Wholesale Australia Pty Ltd ('Costco'), and presents an analysis of the potential economic impact associated with the construction and operation of a Costco warehouse and associated Costco head office in Auburn.

The site for the Costco warehouse and head office is located at 15-21 Parramatta Road, Auburn. The site is bounded by the M4 Freeway to the north, Parramatta Road (Great Western Highway) to the south, light industrial premises to the east, and Haslams Creek to the west. The Auburn Power Centre development is located directly opposite the site, on the southern side of Parramatta Road.

Costco introduces a unique operation into the Australian retail context as it provides high quality merchandise and services at low prices to its customers who pay an annual membership fee. The first Costco store was recently opened at the Docklands in Melbourne.

Costco is able to offer brand-name products at low prices through its considerable buying power and low-cost operations, thus delivering the best value possible to members. While Costco's format is along the lines of other large-format retailers with respect to site layout, urban design and architectural presentation, the store does not operate as a conventional shop and can be easily differentiated from existing store types such as supermarkets, department stores, discount department stores, factory outlets, specialty shops, and bulky goods stores.

This report has been prepared as part of an Environmental Assessment of the proposed development, noting that the proposal has been designated as a Major Project under Part 3A of the Environmental Planning and Assessment Act 1979.

Objectives

The objectives for this economic report are as follows:

- 1 To describe the locational context for the Costco development on Parramatta Road, including assessment of relevant retail planning considerations (Chapter 1)
- 2 To describe the Costco format, operation and underlying principles (Chapter 2)
- 3 To present a retail market assessment for Costco in Auburn (Chapter 3)
- 4 To undertake an assessment of the potential economic impacts generated by the proposed Costco in Auburn (Chapter 4)
- 5 To indicate the economic outcomes associated with the construction and operation of a Costco store in Auburn, including effects such as project investment, employment, retail choice and competition, and so on (Chapter 5)

These objectives respond to the particular matters identified in the Director General's Requirements (DGRs) that are related to economics and retail planning.

1 LOCATIONAL CONTEXT

1.1 Introduction

This chapter presents a broad description of the locational context for the proposed development in Auburn, including a description of the current pattern of uses in the Parramatta Road corridor, and the particular attributes of the precinct as a location for major destination activities such as a Costco warehouse.

A broad assessment of the relevant planning considerations for the precinct is also provided, including in particular the draft *Centres Policy – Planning for Retail and Commercial Development*, and the hierarchy of centres as represented in the *Metropolitan Strategy* and the *West Central Subregion Draft Subregional Strategy* (WCSDSS). Consideration is also given to the draft *LEP 2000 Amendment No. 22* and the *Auburn Employment Lands Study*.

1.2 Parramatta Road Corridor Context

The site for the proposed development is at 15-21 Parramatta Road, Auburn. This part of Parramatta Road has developed as a major node for bulky goods and lifestyle retail shopping, together with other highway-related activities such as car dealerships, automotive services, wholesalers and other business supplies, distribution centres, factory outlets, and so on. More intensive industrial activities are generally located away from the Parramatta Road frontage.

The main focus of retail activity on Parramatta Road is generally the area within the City of Auburn, from Hill Road in the east to the municipal boundary in the west. This area is shown in Figure 1.1.

The importance of the precinct for retail activities is evident by the large number of major retailers that have established in the area, either on stand-alone sites or as part of integrated homemaker or lifestyle developments. Some of the major retail tenants include:

- | | |
|--------------------------------|-----------------|
| • Bunnings (2 stores) | • Domayne |
| • Dick Smith Powerhouse | • Clive Peeters |
| • Rebel Sport Clearance Centre | • Officeworks |
| • Nike Factory Store | • Spotlight |
| • Nick Scali | • Anaconda |
| • Harvey Norman | • Plush |

The main centres are:

- Red Yard Lifestyle Centre
- Auburn Power Centre
- Auburn Home Megamall

Figure 1-1: Parramatta Road Corridor Homemaker Retail Tenants

Produced by Essential Economics with MapInfo and StreetPro

The retail offer in the corridor includes these main homemaker and lifestyle centres, as well as other smaller centres and groups of shops, and a large number of individual tenancies along Parramatta Road. These retail uses are interspersed with non-retail activities, particularly car dealerships and other automotive-related activities.

Non-retail tenants also include trade-related businesses – that is, businesses selling products for purchase by other businesses, tradespeople, and other non-household customers. Trade-related businesses include those selling building supplies (eg paint, plumbing supplies, etc), office furniture, office equipment and so on. Many retail businesses, such as Bunnings, have a significant component of trade-related sales, and this is also the case with Costco, which sells products for purchase by corporate members (and sometimes this would involve merchandise bought for resale).

1.3 Precinct Attributes for Costco Operation

The attractiveness of the Parramatta Road corridor as a potential location for the Costco operation is related to the following attributes of the site:

Access

A Costco store typically draws its patronage from a wide regional catchment, with some 80% of customers living within a 25 to 30-minute or so drive time. This is the experience of established Costco stores in North America and the UK, and a similar pattern is evident for major destination retailers serving regional catchments in metropolitan cities in Australia.

Accessibility from the regional catchment is therefore critically important for the commercial success of such stores. In this respect, the subject site is highly accessible for residents who use the Parramatta Road corridor as their main route to and from work or for other shopping and related trips. The precinct is also well-served by north-south linkages including Concord Road/Centenary Drive and Silverwater Road/Olympic Drive.

Exposure

The Costco store would be located with frontage to Parramatta Road, thus providing excellent exposure to passing traffic. This section of Parramatta Road currently carries an estimated 60,000 vehicles per day (RTA, 2005 estimate at Duck River Bridge).

For major destination retailers, exposure to a high volume of passing traffic is a critical locational feature, as shown by the existing attractiveness of the precinct for homemaker and lifestyle retailers.

Synergies

The Parramatta Road corridor – and in particular that section within the City of Auburn – has particular appeal for the Costco operation as it is already well-recognised as a major shopping destination, being home to a wide range of major retailers including Harvey Norman, Domayne, Clive Peeters, Bunnings, and others.

While a detailed audit of all retail floorspace has not been undertaken, a conservative estimate is that the precinct contains at least 150,000m² of retail floorspace associated with the major tenants (as shown in Figure 1-1); when secondary and trade-related tenancies are included, the floorspace provision is likely to be in excess of 250,000m².

1.4 Planning Considerations

The relevant planning matters for the proposed development on Parramatta Road which are considered in this report include:

- The current zoning which is applied by the existing *LEP2000*, and proposed *Amendment No. 22*;
- The *Metropolitan Strategy* and the *Western Central Sub-region Draft Subregional Strategy*, particularly as they relate to the hierarchy of centres;
- The findings of the *Auburn Employment Lands Study* (HillPDA, 2008), which are intended to guide the implementation of the planning controls as they relates to the Parramatta Road corridor (among other employment lands) and implement the recommendations of the WCDSS; and

- The draft *Centres Policy – Planning for Retail and Commercial Development*.

LEP2000 and proposed Amendment No.22

Under the existing policy instruments, land along the Parramatta Road Auburn corridor is zoned 4(c) *Industrial Enterprise* under the existing Local Environment Plan (LEP2000).

The objectives of the 4(c) Zone are:

- to recognise the special character of Parramatta Road frontages and surrounding areas,*
- to ensure that development in this zone does not reduce the economic viability of businesses in the business zones,*
- to provide the flexibility required to encourage innovative and high technology industrial uses in the zone,*
- to prohibit shops in this zone generally but permit minor retail development only where it is providing for the daily convenience needs of the local work force, is ancillary or incidental to other permissible development or is in the form of bulky goods retail outlets or motor showrooms*

Under the zone conditions, Permissible Uses include:

bulky goods retailing; depots, equipment hire centres, light industries, showrooms, warehouses or distribution centres.

Shops are a prohibited use under the 4(c) zone.

In December 2008, the Auburn Council released a draft of proposed changes to the Auburn Local Environmental Plan 2000 (Amendment No.22). The objectives of these changes to the LEP are:

- To encourage large scale retail premises on a section of Parramatta Road; and*
- To revitalise a defined area of Parramatta Road by the introduction of new economic and employment opportunities; and*
- To create an attractive precinct containing a range of uses and well designed buildings.*

The proposed Costco site is located within the defined precinct.

The draft Plan proposes to permit 'retail premises' within the precinct, subject to developments meeting the following standards:

- A minimum site area of 20,000 m² ;*
- A minimum gross floor area of 10,000 m²;*
- A maximum floor scale ratio of 1.5:1 for retail premises and 3:1 for office premises.*

The proposed development of a Costco Warehouse and Australian operations head office satisfy the above standards, and as such can be considered to be a supported use under draft Amendment No.22.

Notwithstanding the support that the changes to the LEP give to the Costco development proposal, it is important to recognise that Costco is not a traditional retail format of the type that the Amendment is seeking to allow into the Parramatta Road Precinct. Costco's business model operates differently from the

traditional shopping centre type retailing that is facilitated by Amendment No.22. Nevertheless, Costco's format is complementary to this type of retail format and as such will sit comfortably within the existing and future retail environment along Parramatta Road.

Metropolitan Strategy

For the purposes of the Metropolitan Strategy, the proposed development is planned for a site in the *City to Parramatta Enterprise Corridor*.

City of Cities, A Plan for Sydney's Future, describes the City to Parramatta corridor as having the characteristics of:

- An Economic Corridor, due to the concentration of employment along Parramatta Road
- A Renewal Corridor, reflecting the fact that reinvestment in some parts of Parramatta Road is required to ensure full utilisation of community assets and infrastructure
- An Enterprise Corridor, due to the concentration of commercial activities that take advantage of the highway frontage along Parramatta Road.

The proposal responds appropriately to the designation of the corridor, in the following ways:

- 1 Economic Corridor: The development will generate a significant increase in employment at a location which is designated for employment activities
- 2 Renewal Corridor: The proposal represents an appropriate redevelopment of the site which was formally used by Linfox as part of their distribution and freight business
- 3 Enterprise Corridor: The development accommodates a new retail format which has potential to add to the variety of commercial enterprise which already occurs on Parramatta Road in Auburn.

Section B: Centres and Corridors Strategy identifies a hierarchy of centres which includes:

- Global Sydney
- Regional Centres
- Specialise Centres
- Major Centres
- Planned Major Centres
- Potential Major Centres

Smaller centres, comprising Towns, Villages and Neighbourhood Centres, are identified in the West Central Subregion Draft Subregional Strategy.

Corridors are also identified as having importance in terms of economic outcomes and commercial development. In this regard, the subject site is located in the City to Parramatta corridor. A wide range of centre types is evident in the surrounding region, with the closest being Auburn and Lidcombe (Town Centres), and the Olympic Park-Rhodes Specialised Centre.

In relation to Centres and Corridors relevant actions in the Metropolitan Strategy include:

- *B4.1 Concentrate retail activity in centres, business development zones, and enterprise corridors*
- *B5.1 Establish a stronger corridors planning and development initiative*
- *B6.1 Implement the Parramatta to City Corridor Plan*
- *B7.1 Create a zone recognising the role of enterprise corridors*
- *B7.2 Provide guidance on development in enterprise corridors*

In general, these actions aim to improve outcomes in the Parramatta Road Enterprise Corridor, including in relation to employment generation, investment in built form, and accommodation of commercial facilities which require frontage to Parramatta Road.

West Central Subregion Draft Subregional Strategy (WCSOSS)

The *West Central Subregion Draft Subregional Strategy* identifies a number of Enterprise Corridors, which are defined as:

“areas which provide low cost accommodation for a range of local and regional services, including start-up offices, light industrial, showrooms, building supplies and retail, which benefit from high levels of passing traffic. They run along major arterial roads which generally carry over 50,000 vehicles per day and provide a valuable buffer from surrounding residential development” (WCSOSS, p46)

In relation to the Parramatta Road Enterprise Corridor, the WCSOSS states the following:

“Stretching approximately 4km along Parramatta Road, this precinct forms part of the broader Parramatta Road corridor which, in its entirety, spans 22 kilometres, linking Parramatta to Global Sydney. The NSW Government has identified the need to improve this corridor’s built form consistent with its employment character. It is expected that the prevailing land use pattern of urban services and other employment land activities will continue throughout the period to 2031” (WCSOSS, p36)

The WCSOSS identifies a number of particular directions in relation to centres and corridors. In this respect, the relevant actions that are identified in the draft strategy include B4.1, which is to:

“concentrate retail activity in centres business development zones and enterprise corridors” (WCSOSS, p76).

The underlying objective of this part of the strategy is to ensure that retail activities are concentrated in or near existing centres where this can lead to demonstrated benefits to centre performance, activity and net community benefit. Business development zones are identified as being suitable locations for retailing where they contribute to the performance of nearby centres, while Enterprise Corridors are suitable for some types of retailing that, by their nature, are not suited to centre locations.

Specific actions are also identified for the Parramatta to City Corridor, including the following:

“The department of planning with the eight councils established a Task force to investigate opportunities to revitalise Parramatta Road as an Enterprise Corridor which can support a diverse range of economic activities, from boutique shops, local industrial services, commercial premises, transport and manufacturing facilities” (WCSOSS, p78)

It is recognised that the WSCDSS recommends the retention of industrial zoning for the part of Parramatta Road in which the subject site is located.

Auburn Employment Lands Study

The Auburn Employment Lands Study was undertaken in response to the requirement for local councils to provide direction on the preparation of their Principal LEPs as they relate to employment land.

A draft report has been prepared for Auburn Council by Hill PDA (June 2008), with one of the outcomes being *“recommendations as to key strategies and principles that will enable sustainable and viable business and employment growth across the LGA up to 2031”* (Hill PDA, p6).

In relation to Precinct 3 – Parramatta Road Corridor, the study recognises the mix of uses that currently occurs in this part of the municipality, including the increasing importance of the precinct as a location for bulky goods and other large format retailing. Two potential zones are considered to be appropriate for the precinct:

- ***B6 Enterprise Corridor Zone** – this zone “permits a wide range of uses with consent including business premises (which as a group term itself encompasses, and its mandatory uses, “function centre”, “media centre”, “office premises”, “pub”, “landscape and garden supplies”) as well as hotels, warehouses and distribution centres, community facilities and shop top housing. To facilitate the provision of bulky goods premises this use would need to be added to those uses permitted within this zone with consent. This zone is also consistent with the directions established in sections B4 and B6 of the WCDSS” (Hill PDA, p103)*
- ***B5 Business Development Zone** – this zone is “more focused towards employment uses and permits warehouses and distribution centres. It does not however permit residential uses thereby eliminating potential conflicts between these uses and the function of businesses in addition to the conflict between residential uses and vehicle traffic/ pollution from traffic. Along Parramatta Road bulky goods premises would need to be added to the uses permitted within this zone with consent” (Hill PDA, p103)*

Essentially, the Employment Lands Study provides support for the recommendations in the WSCDSS, particularly as they relate to the opportunity for retail activities to occur in the Parramatta Road corridor. Importantly, while the study recognises the need to provide continuing support for the development of the precinct as a node for bulky goods retailing, there is no reference to the opportunity to accommodate emerging operations such as Costco, which does not easily fit within the normal land use definitions. Nonetheless, Costco has many similarities with bulky goods retailing in relation to the size of the building, the requirement for a large site, and the need for a high profile site with exposure to significant levels of passing traffic.

Draft Centres Policy – Planning for Retail and Commercial Development

A draft of the Centres Policy was published in April 2009 for consultation purposes, and it is understood that the document has relevance as intended government policy.

The Centres Policy is based on six key Principles:

- Principle 1: Retail and commercial activity should be located in centres
- Principle 2: Centres should be able to grow and new centres form
- Principle 3: Market determines need for development, planning regulates location and scale
- Principle 4: Ensuring the supply of floorspace accommodates market demand

Principle 5: Support a wide range of retail and commercial premises and contribute to a competitive retail market

Principle 6: Contributing to the amenity, accessibility, urban context and sustainability of centres

In general terms, the thrust of these principles is that the clustering of activities – mainly in centres but also along corridors – generates economic and community benefits by stimulating economic activity,, ensuring the most efficient use of infrastructure, providing accessible shopping and business facilities, creating environment improvements through reduced trip-making, and creating opportunities for healthier lifestyles.

While centres are the preferred location for a range of retail and commercial activity, corridors also play an important role by supporting the movement of people and goods and providing opportunities for development, particularly those types of development that may not easily locate in centres.

The policy also recognises the dynamic nature of the retail sector, and the need for the planning system to respond appropriately to accommodate additional retail development and facilitate the entry of new competitors and new retail formats. In this regard, reference is made to recent work by the ACCC and the Productivity Commission, which identify the need for additional competition in the retail market. In particular, Principle 5 states that there are *“clear public benefits ... from allowing competition between retail and commercial premises and innovation in different formats, including the potential for providing customers with access to a wider variety of quality products and services at competitive prices”* (draft Centres Policy, p4).

Another relevant comment in the draft policy is that *“Planning policies should not be used to limit innovation in the development of different formats and the mix of uses in centres unless there is a public policy justification to do so. Centres should be able to respond when market and consumer preferences change”* (draft Centres Policy, p7).

The policy also specifically considers those situations in which retail and commercial development might occur outside designated centres. Identified options include land in business development zones (B5) and in enterprise corridors (zoned B6). These are considered to be zones which are suited to out-of-centre development such as bulky goods retailing, hardware and building supplies, and other types of uses that are evident along Parramatta Road. A relevant quotation in relation to the Enterprise Corridor zone is the following:

“As a general approach, the Department’s preference is for retail and commercial development to be located in centres. However, the Department also recognises that there may be exceptions to this approach. In determining the types of retail and commercial development to permit in the B6 (Enterprise Corridor) zone, the key consideration for councils is ensuring that development in that area will not reduce the efficiency of the road, add traffic congestion or add road safety risks.” (p17)

In addition, although the B6 zone has a threshold of 1,000m² developments (as a maximum size for retail activities), the draft policy suggests that this threshold may need to be reviewed.

The draft Centres Policy considers the planning issues associated with a number of different retail formats, and this includes a section titled “Planning for ‘Big Box’ and other emerging formats”. This section concludes that these emerging formats which include large stores can be classified as shops under the standard LEP template. Appropriate zones are B2 to B4. However, it is unclear the extent to which these comments are made with knowledge and consideration of the particular characteristics of new entrants such as Costco, which have characteristics which lend themselves to other zones such as B5 (in relation to bulky goods) or B6 (for example, in relation to sales to business, hardware items, and so on).

A process of assessing net community benefit is described in section 8 of the draft policy, and this information has been used as a guide in presenting the economic analysis later in this report.

1.5 Conclusion

The Parramatta Road corridor is recognised as an important location for a wide range of economic activities. It has historically been developed for industrial, service industry and other types of highway-related activities, but increasingly has metropolitan importance as a major bulky goods retailing node. Amendment No. 22 to the Auburn LEP2000 seeks to expand the range of uses permissible in a defined part of the Parramatta Road corridor, to include a wider range of large-scale retail premises, and this provides additional support for the Costco development. The WCSDSS provides support for the continuing development of the corridor for utilities and urban services and as a location for industrial activities and large format retailing.

The draft Centres Policy also provides support for accommodating new retail formats in order to ensure ongoing retail competition and to generate community benefits. While centres are to be the focus for the clustering of retail and other business activity, corridors are also identified as locations where some types of retail activity is appropriate. Centres Policy also provides guidance on the methodology by which development proposals should be assessed for their contribution to net community benefit.

Overall, it appears that policy provides strong support for the development of land along the Parramatta Road enterprise corridor for uses such as Costco which require large sites with exposure to high levels of passing traffic, subject to an appropriate assessment of the effects of this development on the existing hierarchy of centres and in the context of net community benefit.

2 COSTCO WHOLESALE

2.1 Introduction

This chapter provides a description of the Costco operation, including:

- Underlying concept of the company
- Merchandise mix and services
- Catchment served
- Retail floorspace and sales
- Employment policy

Importantly, this chapter also indicates that the introduction of the Costco operation to Sydney would mark the entry to the national retail market of a new and innovative concept in merchandising. Costco places emphasis on providing the highest quality products for the most competitively low prices, achieved through a unique merchandising strategy where the focus is on customer membership and a low cost store environment.

For various reasons, the Costco operation can be distinguished from existing retail concepts such as supermarkets and department stores, and it represents the emergence of a new concept that is not easily described by current land use definitions.

2.2 Underlying Concept

The 'wholesale club' concept originated with the introduction of 'Price Club' in the USA in 1976, and subsequently Price Club developed into 'Costco Wholesale'. Thirty years on, Costco now operates from 556 locations worldwide, including the USA, Canada, Mexico, UK, Japan, South Korea, Puerto Rico and Taiwan. Costco's first store in Australia has just been constructed in the Docklands precinct in Melbourne.

An underlying principle supporting the Costco approach is *membership*. In North America a membership costs USD\$50 and entitles the member to shop at any Costco store, worldwide. Memberships can also be taken out by businesses, especially small businesses, and this is a feature of existing store operations. The company has more than 24 million member households in the USA and Canada, alone. For Costco's Australian operation, a membership fee of \$60 for household members, and \$55 for corporate members, is envisaged.

For most products, the sales margins achieved by Costco are in the order of 10% or less. This is much lower than the margins achieved by most competitors, and means that members are easily able to recoup their membership cost through price savings.

The Costco concept is to leverage its considerable purchasing power so that it can offer high quality brands to its members at low cost. Further savings are achieved through bulk-packaging and 'no frills' merchandising and store display, and through an emphasis on large packet sizes which reduces pilfering. Savings are also generated by having minimal handling costs, with most of the merchandise displayed on the original shipping pallets from the receiving dock to the store floor, and in some cases displayed on steel shelves.

While low operating costs is a feature of the Costco operation, from a shopper's viewpoint the hallmark of shopping at Costco is the availability of high quality products and services at low prices. And if the customer is

not satisfied, then the product can be returned for a full refund. Memberships are also refunded in full if there is any dissatisfaction.

2.3 Merchandising

The variety of products and services stocked by Costco is extensive, as noted in the listing provided in Table 2.1. However, typically only 4,000 SKUs (stock-keeping units) are carried at any time and this contrasts with some 20,000 SKUs carried in a typical supermarket and more than 40,000 SKUs in a discount department store such as Kmart, Target and Big W.

The relatively small selection of merchandise reflects the Costco intention to offer only the best products and services in each category at the best possible price. Moreover, it introduces a 'treasure hunt' aspect to the shopping experience, thereby encouraging repeat visitation to discover the latest product offers. This merchandising model works in the absence of any standard media advertising.

While the list of products and services carried at Costco is extensive, a number of the lines shown in Table 2.1 might not be carried at Costco at Auburn, and this reflects Australian merchandising patterns and the particular product supply contracts that are negotiated by Costco.

Table 2.1: Product and Service Categories at Costco (*)

Category (Examples)	Sub-categories (Examples)
Appliances	Refrigerators, humidifiers, kitchen electrics, water filtration, wine cellars
Auto	Auto accessories, auto electronics, emergency equipment, tyres, trailers
Baby	Bedding, car seats, infant care, gift baskets, health & safety, toys
Books/CDs/DVDs	Books, music, movies
Electronics	Televisions, cameras, audio, MP3, Batteries, GPS electronics
Food and Beverage	Meat, pizza, desserts, wine, bakery, fresh fruit and vegetables
Furniture	Living room, bedroom, dining room, mattresses, lamps, massage chairs
Hardware	Bath & shower, ceiling fans, flooring, lighting, safes, power tools
Health & Beauty	Cosmetics, skin care, first aid, hearing care products
Décor	Rugs, lamps, mirrors, art & collectibles, wine storage
Sports	Bicycles, billiards, camping, fishing, marine, golf, pools, spas & saunas
Toys & games	Arcade games, arts & crafts, video games, outdoor fun, team sports
Musical instruments	Guitars & amplifiers, keyboards, pianos, string instruments
Jewellery & fashion	Diamond solitaires, rings, necklaces, earrings, bracelets, gemstones, jeans, shirts
Source:	Costco Wholesale (www.costco.com).
Note:	* Some of these products would not be on sale at Costco in Sydney

While some of the merchandise is sold in sizes appropriate for small businesses and large families (ranging from restaurant portions of food to large packs of toilet rolls), a large share of the merchandise is sized for typical families and even in some cases in individual portions.

As noted, a feature of the Costco approach is to provide top quality merchandise to members. The following examples taken from the current products on offer at Costco in Melbourne indicate this commitment to quality across a range of merchandise categories:

• 15K White Gold 5.12Ctw Emerald Cushion Cut Diamond Ring	\$159,999.99
• Platinum 1.40Ctw Princess Cut Diamond Ring with 0.4Ctw channel	\$7,499.99
• Samsung 55" LED 1920 x 1080p Full High Definition TV	\$4,499.99
• Behringer Digital Baby Grand Piano with Bench	\$2,699.99
• Whirlpool 640litre Side by Side Fridge	\$2,099.99
• Whirlpool 900mm Gas Range with Electric Multifunction Oven	\$1,499.99
• Murano Hand-crafted Italian Glass Goccia Vase	\$729.99
• Samsung LCD Computer Monitor 21.5" HD Resolution	\$249.99
• Henckels Forged Knife Block 10pc Set	\$239.99
• Kleenex Facial Tissue 8x 170 pack	\$23.49
• Pedigree Dog Food Beef Lamb Vegetable 24x 400g Cans	\$20.99
• James Halliday Australian Wine Companion 2010 Edition	\$18.99
• Beechworth Honey 2x 1.5Kg	\$19.99
• Coca Cola 30x 330ml Cans	\$16.98
• Whole Fresh Atlantic Salmon	\$14.99/kg
• Store-baked Butter Croissants 12x Pack	\$8.99
• Kikkoman Soy Sauce 1.6L	\$7.99
• Strawberries 1kg Punnet	\$6.99
• Pine O Clean Floor Cleaner 2L	\$6.99

As the list shows, Costco is able to combine a mix of retail necessities with high-value merchandise, ranging from bulk detergent and toilet paper, to diamond necklaces and fine wines. This mix is a strong feature of the Costco retail offer, where emphasis is placed on maintaining a wide range of merchandise at the best price.

Some items are only available for a short period until stocks run out, and may not be re-stocked until a later date when an attractive pricing arrangement can be negotiated with manufacturers and suppliers. As best described in one media commentary, this form of retailing *"turns ho-hum shopping into an exciting environment"* (Times Daily, 28 January 2007).

This 'exciting environment' for shopping is an important feature as it generates many hundreds of thousands of visitor trips to a Costco store over the course of a year, with shoppers being provided with a range of high quality merchandise otherwise not available in such a price-competitive format in traditional strip shopping centres or in modern, enclosed shopping malls.

Sales at Costco are forecast to reach approximately \$97.5 million in its initial year of trading (2011) and would be expected to reach approximately \$143.5 million as the operation matures after 3 to 5 years. These sales figures are expressed in constant 2008/9 prices (ie, excluding inflation). Also, the sales figures quoted above include both households and businesses.

A Costco operation on Parramatta Road may generate some 630,000 or so visits a year to the precinct. This is a significant number of visitors, especially considering that many of these shoppers may not otherwise visit the region. But once they do visit Costco and have enjoyed the unique shopping experience, there is potential for these customers to return to visit other traders on Parramatta Road, such as the bulky goods retailers, outlet stores, and so on.

2.4 Trade Area

As a destination retailer, Costco typically attracts shoppers from across an extensive trade area. It draws its sales *widely and thinly* from across a large region, and therefore market share is very low, as are trading impacts on other retailers in this broad regional context (as shown in the analysis presented in Chapters 3 and 4).

Typically, a Costco store serves a main trade area that covers a 25 to 30 minute drive time, with some 80% of turnover coming from within this trade area and the balance coming from beyond.

2.5 Employment Policy

A feature of the Costco operation is the organisation's employment policy, and important aspects are as follows:

- Costco would employ a total of 200 persons, equating to 160 Equivalent Full-Time positions; as the store matures, total employment would be expected to increase to 250 persons or 200 EFTs.
- At a time when some major retail operations are paying minimum wages to their staff, Costco's policy is to provide above-award rates to its employees.
- A guaranteed 25-hour working week is provided.
- Promotion is from within the company.

2.6 Conclusion

Costco provides the membership shopper with choice in best quality merchandise at competitive prices. Moreover, the Costco format is unique in today's retail landscape, including membership shopping and the focus on selling only best brands at the lowest prices. With this background, the following Chapter shows how the Costco store proposed for Parramatta Road can be expected to trade in the surrounding metropolitan retail market.

3 RETAIL MARKET ASSESSMENT

3.1 Introduction

This Chapter contains a retail market assessment for the proposed Costco store at the subject site on Parramatta Road, Auburn. The assessment includes the following information:

- Identification of the trade area likely to be served by the Costco store;
- Existing and forecast population levels in the trade area;
- Existing and forecast levels of available retail spending of trade area residents;
- Estimate of likely retail sales at the Costco store; and
- Estimate of likely market share for the Costco store.

3.2 Trade Area

The trade area is the geographic locality from which a retail development is expected to draw most of its sales. Boundaries for the trade area are defined by a number of factors including the location of existing and proposed retail competition (such as regional shopping centres), the surrounding arterial road and freeway network, and physical barriers to movement (such as water courses, railway lines, etc).

As earlier noted, a Costco store typically draws 80% of its trade from within approximately a 25 to 30 minute drive time. This trading pattern is drawn from the experience of Costco stores in other markets such as USA, Canada and UK, and reflects the fact that people are attracted from a very wide region in order to shop at Costco.

A Main Trade Area (MTA) has been drawn to identify the likely trading influence of a Costco store on Parramatta Road Auburn, and is shown in Figure 3-1.. The MTA reflects approximately a 20-30 minute travel time to Parramatta Road, depending upon traffic conditions.

The MTA defined for Costco at Parramatta Road in Auburn covers a wide area which extends generally as follows:

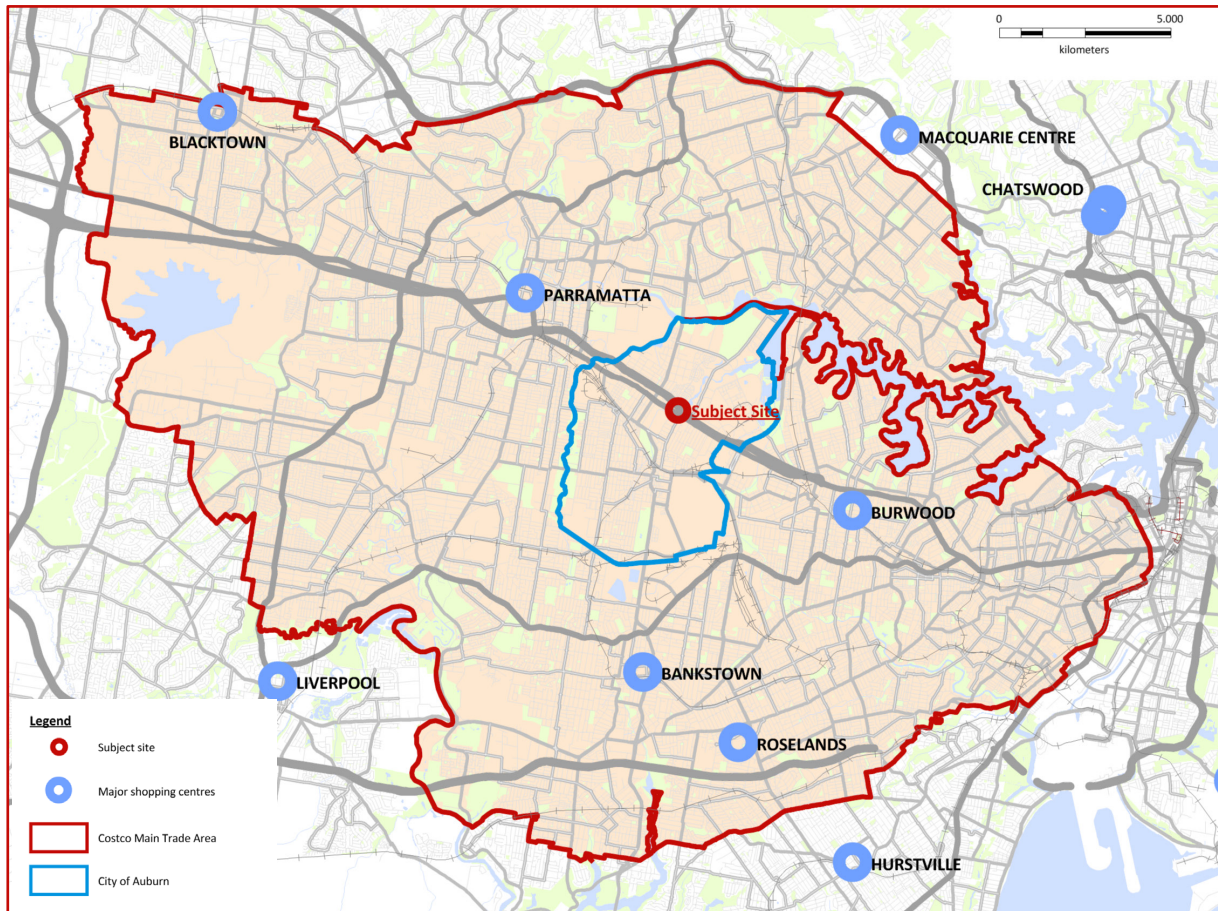
- to the east: from inner Sydney
- to the west: Link Motorway 7
- to the south: South Western Motorway
- to the north: Hills Motorway.

This total MTA covers approximately 463 km² in area, while the City of Auburn, which is situated centrally within this MTA, covers an area of some 33.5 km².

Of note is that fact that Costco is likely to trade quite evenly across this wide region, and it is for this reason that the trade area has not been further defined into a primary sector, a secondary sector, and so on. The evenness of trade is a reflection of the fact that only a small share of a household's overall retail spending can be undertaken at Costco; people will continue to visit a supermarket for most of their food purchases, and will

visit traditional centres to undertake clothes shopping and purchases of other goods and services. Moreover, the concept of membership payment may not be attractive for some people in close proximity to the site, while it may be attractive for a business owner or household member that lives some distance from the store.

Figure 3-1: Costco Trade Area



Produced by Essential Economics with MapInfo and StreetPro

3.3 Trade Area Population

Costco's MTA has a resident population of approximately 1.31 million persons in 2009, and accounts for 34% of the total metropolitan population of Sydney.

This is a very significant population figure, reflecting the ease of access to the Parramatta Road Enterprise Corridor from throughout much of central and western Sydney.

Population growth is expected to continue to occur in the MTA, with forecasts showing:

- A total of 1.33 million persons by 2011 (and which is adopted as the base year for the market assessment), and
- A total of 1.43 million persons by 2021.

Population growth in the MTA between 2009 and 2021 is expected to total 126,410 persons, or an average of approximately 10,700 persons per annum, as summarised in Table 3.1.

The figures in Table 3.1 are based on information from the ABS up until 2008, and the data thereafter is based on analysis of population projections for relevant SLAs, prepared by the Department of Planning, Infrastructure and Natural Resources (*Transport and Population Data Centre, 2005 release 1*).

Adjustments have been made to reflect the latest 2008 population forecasts, although it is noted that the latest forecasts are currently only available on a Sydney wide basis. The forecasts are for population growth at rates that are similar to previous projections in the short to medium term. In the medium to long term rates are forecast to accelerate; adjustments to the MTA population projections have been made to reflect this stronger population growth.

Table 3.1: Population Trends in Costco Main Trade Area, 2001-2021

Year	2001	2007	2009	2011	2016	2021
Population	1,228,770	1,272,670	1,306,764	1,330,000	1,383,444	1,433,176
Average annual growth rate (% pa)		0.7%	0.9%	0.9%	0.8%	0.7%
Average annual growth (persons pa)		+8,780	+11,365	+11,618	+10,689	+9,946

Source: ABS; NSW Dept PINR (TPDC) 2005&2008; Essential Economics Pty Ltd

3.4 Retail Expenditure

In 2009, residents of the MTA have total available spending estimated at approximately \$15,200 million. This substantial level of available retail spending reflects the extensive trade area that the Costco store would serve, as previously indicated.

These estimates of total available retail spending by MTA residents have been prepared with reference to average per capita spending data from the MarketInfo retail spending model and population data presented in the preceding section.

Estimates of average per capita spending are presented in Table 3.2, with total available spending shown in Table 3.3. The MarketInfo data shows that the average retail expenditure in the MTA is slightly below the average for metropolitan Sydney as a whole.

Table 3.2: Average Retail Spending Per Capita, Costco Main Trade Area, 2009

Catchment	Food, Liquor, Grocery	Café and Restaurant	Takeaway Food	Apparel	Homewares	Bulky Merchandise	General Merch. & Leisure	Retail Services	Total Spend Per Capita
Main Trade Area	\$4,480	\$870	\$980	\$1,270	\$950	\$1,030	\$1,570	\$490	\$11,640
Metro Average	\$4,670	\$990	\$1,040	\$1,390	\$1,040	\$1,150	\$1,690	\$540	\$12,510
<u>Variation from metropolitan average (%)</u>									
Main Trade Area	-4.1%	-12.1%	-5.8%	-8.6%	-8.7%	-10.4%	-7.1%	-9.3%	-7.0%

Source: MarketInfo 2007, MDS Market Data Systems Pty Ltd; Essential Economics Pty Ltd. Updated to 2008/9 dollar values

Table 3.3 shows total available retail spending in the MTA, with spending and growth details for individual retail categories. The forecasts to 2021 reflect real growth in average per capita spending (ie excluding inflation) and growth in population numbers.

Table 3.3: Forecast Available Spending by Retail Category, Costco Main Trade Area, 2009 – 2021 (constant 2008/9 dollars)

Retail Category	2009	2011	2016	2021	Average Annual Growth 2007-2021
Food, liquor, groceries	\$5,850 m	\$5,960 m	\$6,240 m	\$6,500 m	+0.9%
Café and restaurant	\$1,140 m	\$1,200 m	\$1,340 m	\$1,500 m	+2.3%
Takeaway food	\$1,280 m	\$1,340 m	\$1,500 m	\$1,680 m	+2.3%
<u>Food</u>	<u>\$8,270 m</u>	<u>\$8,500 m</u>	<u>\$9,080 m</u>	<u>\$9,680 m</u>	<u>+1.3%</u>
Apparel	\$1,660 m	\$1,710 m	\$1,820 m	\$1,930 m	+1.3%
Homewares	\$1,240 m	\$1,360 m	\$1,680 m	\$2,060 m	+4.3%
Bulky merchandise	\$1,340 m	\$1,450 m	\$1,750 m	\$2,100 m	+3.8%
General merchandise & leisure	\$2,050 m	\$2,200 m	\$2,620 m	\$3,100 m	+3.5%
<u>Non-Food</u>	<u>\$6,290 m</u>	<u>\$6,720 m</u>	<u>\$7,870 m</u>	<u>\$9,190 m</u>	<u>+3.2%</u>
Retail services	\$640 m	\$680 m	\$800 m	\$930 m	+3.2%
Total available retail spending	\$15,200 m	\$15,900 m	\$17,750 m	\$19,800 m	+2.2%

Source: MarketInfo 2007, MDS Market Data Systems Pty Ltd; Essential Economics Pty Ltd

In terms of spending by retail category, it is evident that considerable growth is forecast in non-food retailing, with average annual growth of 3.7% in the spending of MTA residents over the period 2009 to 2021. This compares with overall retail spending growth in the MTA of 2.2% pa over the forecast period.

Between 2009 and 2011 (assumed to be the 1st year of operation), total retail spending by MTA residents is forecast to increase in real terms by \$350 million pa (ie, excluding inflation).

Available spending in food and non-food retailing is significant, with considerable levels of spending in particular retail categories.

For example, total food spending in 2009 was estimated at \$8,270 million and comprised:

- Food, Liquor, Groceries \$5,850 million
- Café & Restaurant \$1,140 million
- Takeaway Food \$1,280 million

Likewise, the total level of available spending in non food categories in 2009 was considerable at \$6,290 million, and comprised:

- Apparel \$1,660 million
- Homewares \$1,240 million
- Bulky Merchandise \$1,340 million
- General Merchandise & Leisure \$2,050 million

These are key categories in which the proposed Costco store at Auburn would be trading.

Table 3.3 also shows the longer-term forecasts of retail spending by MTA residents show continuing growth in real terms in the available spending. Thus, between 2009 and 2016, total available spending is forecast to reach \$17,750 million, representing an increase of +\$2,550 million over the period. And between 2016 and 2021,

available spending is forecast to increase from \$17,750 million to \$19,800 million, representing an increase of \$2,050 million pa by the end of the period. These values are quoted in constant 2008/9 prices, excluding the effects of price inflation.

In summary, significant opportunity exists for new retail development to occur at the subject site to serve a wide regional population, noting that growth in the retail market is being driven by:

- growth in resident population; and
- growth in average per capita retail spend in real terms (ie, adjusted to exclude inflation).

Although significant retail demand is identified in the MTA, the retail component that is proposed for Auburn must meet the vision and goals identified earlier for the Parramatta Road corridor. In this context, the proposed Costco development would represent a new form of retailing not yet operating in Sydney (with the first store just completed in Melbourne), and would provide an un-paralleled shopping experience, bringing many hundreds of thousands of visitors to Parramatta Road and Auburn each year.

3.5 Retail Sales by Product Type

Costco at Parramatta Road, Auburn is forecast to generate total sales of approximately \$97.5 million in 2011 (and expressed in constant 2008/9 dollars), which is taken as the first full year of operation for the store. This sales estimate is based Costco operations elsewhere.

The store would be expected to reach maturity in a sales context within 3 to 5 years' of trading, and would then be expected to generate sales estimated at \$143.5 million pa (in 2008/9 dollars).

Of the total level of sales, approximately 70% would be retail sales generated by households, with the 30% balance generated by sales to (mainly small) businesses. This is a feature of the Costco worldwide operation, where membership is available to both households and businesses.

Table 3.4 shows the estimated distribution of Costco sales by retail category and indicates the proportion of sales in each category that would be expected to be supported by household spending (as opposed to business spending). This allocation of sales by retail type takes into account Costco trading features worldwide, but modified for the anticipated trading situation at Parramatta Road, Auburn.

Table 3.4: Estimated Costco Retail Turnover by Main Retail Components, 2011 (2008/9 dollars)

Total Sales by Type	Estimated Allocation of Sales	Estimated Total Sales by Type	Estimated Allocation of Sales to Households	Estimated Sales to Households	Share of Sales to Households
Food, Liquor, Groceries	60.0%	\$58.5 m	65%	\$38.0 m	55.7%
Food Catering	1.0%	\$1.0 m	100%	\$1.0 m	1.4%
Apparel	7.0%	\$6.8 m	95%	\$6.5 m	9.5%
Homewares	6.0%	\$5.9 m	75%	\$4.5 m	6.4%
Bulky merchandise	12.0%	\$11.7 m	75%	\$8.8 m	12.9%
Leisure/general	9.0%	\$8.8 m	70%	\$6.1 m	9.0%
Services	3.0%	\$2.9 m	95%	\$2.8 m	4.1%
Non-retail	2.0%	\$2.0 m	na	na	na
Total	100.0%	\$97.5 m	70%	\$67.6 m	100.0%

Source: Essential Economics Pty Ltd; Costco

As indicated in the Table, sales of Food Liquor & Groceries would be expected to total approximately \$58.5 million pa, of which \$38 million would be to household retail customers. This represents 55.7% of all Costco sales to households. Other important retail categories include Bulky Merchandise sales of \$8.8 million to households and Apparel sales of \$6.5 million to households.

Overall, food sales to households would account for approximately 57% of Costco's total turnover, with non-food and services accounting for the balance of 43% of sales.

3.6 Market Share Analysis

In this assessment, calculations of market share are based on Costco drawing 90% of its sales from within the MTA, and with 10% from beyond the MTA. These figures are adopted in order to ensure that a conservative approach is taken in assessing likely market shares and likely trading impacts (noting that, typically, Costco stores draw of 80% of sales from the MTA, and this would mean even lower market share and lower trading impacts than indicated in this analysis).

Costco is expected to generate sales to households of \$67.6 million in 2011 (ie, total sales of \$97.5 million x 70%), which would be the first full year of operation. An estimated \$60.1 million or 90% of these sales would be expected to be drawn from across the MTA, as earlier defined, and with the balance of \$7.5 million or 10% of sales captured from beyond this trade area (dollar figures rounded).

Table 3.5 shows that these sales reflect very low market shares in all retail categories, with the total sales derived from the MTA (\$60.1 million in Year 1) resulting in a market share of just 0.4% overall. Across the retail categories the projected market share is similarly low, with the highest market share being 0.57% in the Food, liquor and groceries market.

Table 3.5: Costco Market Share Analysis, 2011 (2008/9 dollars)

Retail type	Food, Liquor, Groceries	Food Catering	Apparel	Homewares	Bulky Goods	General Merchandise & Leisure	Services	Total Retail
Costco Sales from MTA	\$34.2 m	\$0.9 m	\$5.8 m	\$3.9 m	\$7.9 m	\$5.5 m	\$2.5 m	\$60.8 m
Total Available Spending of MTA Residents	\$5,960 m	\$2,540 m	\$1,710 m	\$1,360 m	\$1,450 m	\$2,200 m	\$680 m	\$15,900 m
Costco Market Share	0.57%	0.03%	0.34%	0.29%	0.54%	0.25%	0.37%	0.38%

Source: Essential Economics Pty Ltd

These very low market shares indicate that the Costco store would be serving a wide regional trade area with a resident population of some 1.33 million people in 2011.

When the store reaches maturity in trading terms, annual sales would be in the order of \$143.5 million pa, and this could be around the year 2016 (ie, up to about five years after opening). Allowing for 70% of sales to households (or \$100 million pa), 90% of these sales (or \$90 million) would be expected to be drawn from the MTA; this level of sales would be equivalent to a market share of 0.5% in 2016. This is an extremely low market share.

As a comparison, traditional retail stores such as supermarkets and department stores tend to have more tightly-defined catchments in which a higher market share is achieved. For example, supermarkets can capture up to 40% or so of available grocery spending in the surrounding catchment which typically extends in a radius of about 2 km from the supermarket.

3.7 Conclusion

Costco at Parramatta Road, Auburn is expected to serve a significantly large main trade area, with a forecast resident population of 1.33 million in 2011, which is expected to be the first year of operation. The level of available retail spending of these residents is considerable, with total available spending of forecast at \$15,900 million in 2011. This total spend is forecast to continue to expand over time due to growth in population and in average per capita spending. By 2021, the MTA is expected to have available spending of \$19,800 million (in constant 2008/9 prices).

With sales of \$97.5 million in its initial trading year, and with an estimated 70% of these sales to households (the balance going to business members), Costco would achieve only a very small market share of approximately 0.4% of available spending in 2011. Even with further growth in sales as the store reaches maturity, the market share would still be at very low levels of approximately 0.5% of available spending across the MTA by 2016. With such a small market share, Costco would be expected to have only a marginal effect, if any, on other retailers. This aspect is addressed in the next Chapter.

4 ECONOMIC IMPACT ASSESSMENT

4.1 Introduction

An economic impact assessment investigates the extent to which a planned new retail development may have a competitive trading impact on existing or planned retail facilities or shopping centres. It is normally accepted in planning circles that an impact of between 10% and 15% on retail turnover levels can indicate a *possible* adverse impact on existing or planned retail centres. Of course, if an existing retailer or centre is over-trading, then an impact of even 15% on turnover levels may not represent a serious adverse impact.

In the Costco case, it is evident from the retail analysis that there would be very little observable trading impact on retail facilities in the MTA, including Auburn, having regard for the very low market shares that Costco would be expected to capture in its trade area.

The underlying reasons for this conclusion are described in the following sections.

4.2 Low Market Share for Costco

Retail analysis shows Costco would serve a wide catchment and would therefore achieve a very insignificant market share, equivalent to just 0.4% of the available spending of households in the MTA. This is evident in Table 3.5. In other words, Costco would attract only \$4 in every \$1,000 of available spending by these households.

4.3 Existing Retail Formats Continue to Meet Needs

Costco represents a new form of retail development that is not yet available in Sydney. The first Costco store in Australia has recently opened at Docklands in Melbourne.

While Costco is a very popular form of retailing in its 550-plus locations worldwide, its membership approach and special merchandising policies mean that the typical shopper at Costco will still need to visit conventional supermarkets, department stores, discount department stores and specialty stores located in conventional shopping centres in order to meet their full household shopping requirements. For example, it may be satisfactory for the shopper to travel, say, 20 or 30 minutes or more for a visit to Costco, attracted by specials on a range of retail merchandise, but the same shopper will continue to find that shopping at the supermarket nearer to home will be most convenient for day-to-day and weekly household needs.

In terms of shopping patterns, it is noted that the Costco store only carries some 4,000 SKUs (stock-keeping units), whereas a typical full-line supermarket stocks some 20,000-plus SKUs and a discount department store stocks some 40-50,000 SKUs. Thus, there is far more choice at these conventional shopping facilities, and they will continue to serve their existing and expanding retail markets. A Costco store cannot replace these conventional retail formats.

4.4 Competing Centres

The MTA defined for Costco at Parramatta Road in Auburn covers a wide area which extends generally from inner Sydney in the east to the West Link Motorway 7 in the west, and from the South Western Motorway in the south to the Hills Motorway in the north. This total area covers approximately 463km², while the City of Auburn, which is situated generally central to this MTA, covers an area of some 33.5km².

Numerous regional and major centres, as well as freestanding big box retailers (eg Bunnings stores) serve the MTA, with a selection of the main competing centres listed in Table 4.1 and illustrated in Figure 4-1. In addition to these selected centres, many Town, Village and Neighbourhood centres are located in the MTA and serve the retail and other service needs of MTA residents, but these centres (virtually all of which are likely to be less than 10,000m² in retail floorspace terms) are not identified for the purposes of this assessment.

In terms of higher-order shopping, a number of centres and freestanding retailers serve the retail (and other) needs of MTA residents. These centres/retailers are either located in the MTA (eg Blacktown, Parramatta, Bankstown, Westfield Burwood, Auburn, etc), or are located just beyond the MTA (such as Macquarie Centre, Megacentre Liverpool, Chatswood, etc) but still serve some of the retail and other requirements of MTA residents. Some of these centres are the ones that are most likely to experience an impact (if at all) arising from the operation of the proposed Costco Wholesale store.

It is unlikely that the smaller centres (Town, Village or Neighbourhood) would be impacted to any significant degree as Costco's retail role, as earlier explained, is regional in nature and does not replace the convenience role of smaller centres that serve more defined neighbourhood or local trade areas.

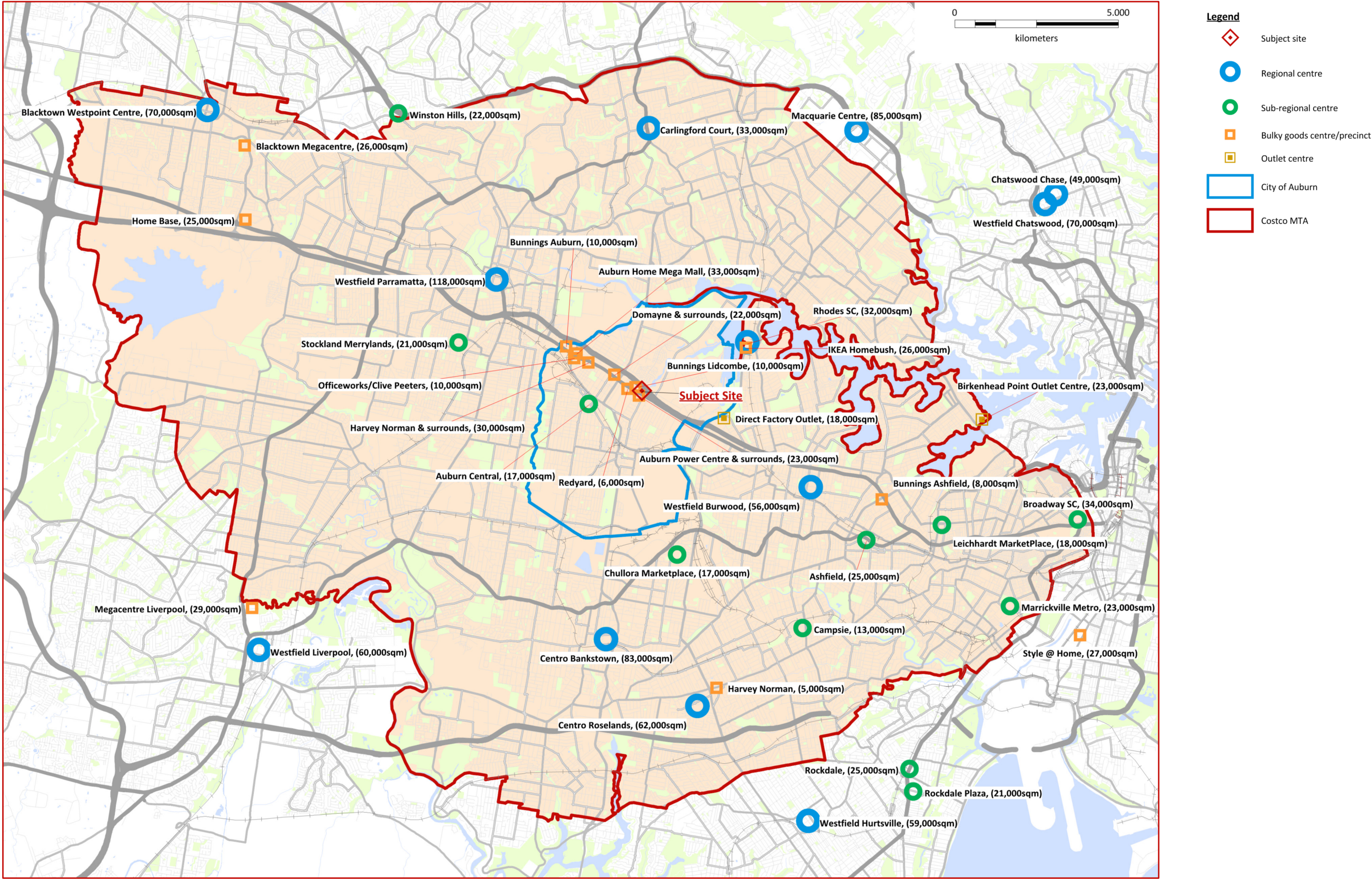
In addition to the centres mentioned above, a share of the available retail spending of MTA residents would be directed to the Sydney CBD, but this amount of spending would only represent a very small share of total sales recorded in the CBD and therefore no discernible impact would likely be felt in the CBD as a result of the Costco operation. For this reason, the CBD is not included in this impact assessment.

As shown in Table 4.1, the identified centres in the MTA have total combined retail floorspace estimated at approximately 896,000m², with approximately 160,000m² located within the City of Auburn (noting that this is not intended as an estimate of total retail floorspace within the City, as it excludes a range of centres and retail locations as noted above).

Taking an average retail turnover density of \$5,832/m² (derived from the figures in Table 4.2), these identified centres in the MTA would have total combined retail turnover of \$5,262.2 million per annum. This is a very significant level of retail sales when compared against the forecast Costco sales in Year 1 of \$97.5 million, reaching \$143.5 million approximately five years later by which time trading in the new store has matured. The trading impact on any individual centre is likely to be very negligible, and this includes potential impacts on existing centres operating in the MTA, including also the Auburn Central Shopping Centre, as described in the next Section.

Note that the analysis in this section uses terms adopted by the retail industry and associated consultant professions, in which centres are defined as *regional* or *sub-regional* centres. This reflects their overall size and the presence of major anchor tenants such as a department store or discount department store. Generally, a regional centre is equivalent to either a Regional City (eg Parramatta) or a Major Centre (eg Bankstown) in the Metropolitan Strategy, while a sub-regional centre is typically defined either as a Major Centre or in some cases a Town Centre in the draft Sub-regional Strategy. Some Stand-alone Shopping Centres identified in the Sub-regional Strategy are defined as sub-regional retail centres for the purpose of retail-economic analysis.

Figure 4-1: Selected Main Competing Centres



Produced by Essential Economics with MapInfo and StreetPro

Table 4.1: Main Competing Centres Located in Costco MTA, 2008

Centre	Estimated Retail Floorspace (rounded)	Department Store	Discount Department Store	Other Major Tenants
<u>CENTRES IN CITY OF AUBURN</u>				
Auburn Central Shopping Centre	17,000 m ²		Big W	Woolworths
Auburn Power Centre & surrounds	23,000 m ²			Spotlight, Anaconda, Dick Smith, Rays Outdoors
Harvey Norman & surrounds	30,000 m ²			Harvey Norman, Nick Scali, Furniture R Us, Forty Winks
Auburn Home Mega Mall	33,000 m ²			Freedom, Fantastic, Oz Design, BBQ Galore, Beacon Lighting, Retravision
Domayne & surrounds	22,000 m ²			Domayne, Nike Factory Centre
Officeworks/Clive Peeters	10,000 m ²			Officeworks, Clive Peeters
Other (Bunnings, Redyard)	25,000 m ²			Bunnings (x2), Rebel Sport, Kathmandu
Sub-total selected centres	160,000 m²			
<u>CENTRES IN BALANCE OF MTA</u>				
Ashfield Mall	25,000 m ²		Kmart, Target	
Birkenhead Point Outlet Centre	23,000 m ²	David Jones	Spotlight	Table Eight
Blacktown Megacentre	26,000 m ²			Bunnings, Harvey Norman, Bing Lee
Blacktown Westpoint Centre	70,000 m ²	Myer	Big W, Target	Spotlight, Rebel Sport
Broadway Shopping Centre	34,000 m ²		Kmart	Rebel Sport, Dymocks, Harvey Norman, Freedom
Bunnings Ashfield	8,000 m ²			Bunnings
Campsie	13,000 m ²		Big W	
Carlingford Court	33,000 m ²		Target	
Centro Bankstown	83,000 m ²	David Jones	Kmart, Target	Spotlight, Best & Less
Centro Roselands	62,000 m ²	Myer	Target	Best & Less, Lincraft
Chullora Marketplace	17,000 m ²		Big W	
Direct Factory Outlet	18,000 m ²			
Harvey Norman Wiley Park	5,000 m ²			Harvey Norman
Home Base Shopping Centre	25,000 m ²			Freedom, Barbeques Galore, Fantastic
IKEA Homebush	26,000 m ²			IKEA
Leichhardt Marketplace	18,000 m ²		Target	
Marrickville Metro S/Centre	23,000 m ²		Kmart	
Rhodes Shopping Centre	32,000 m ²			Bing Lee
Stockland Merrylands	21,000 m ²		Kmart	Best & Less, Go-LO
Westfield Burwood	56,000 m ²	Myer	Kmart, Target	
Westfield Parramatta	118,000 m ²	Myer, David Jones	Kmart, Target	Toys 'R Us, Lincraft, Rebel Sport, City Beach, Best & Less
Sub-total selected centres	736,000 m²			
TOTAL SELECTED CENTRES	896,000 m²			

Source: Property Council of Australia NSW Directory

Table 4.2: Estimated Sales at Selected Centres and Share of Sales Attributable to Residents in Costco MTA, 2009 and 2011 (constant 2008/9 prices)

Centre	Retail Floorspace	Estimated Average Sales/m ² (1)	Estimated Total Sales/Yr	Estimated Share Attributable to MTA Residents (2)	Estimated Total Sales Attributable to MTA Residents	Distribution of Sales Attributable to MTA Residents
<u>CENTRES IN CITY OF AUBURN</u>						
Auburn Central Shopping Centre	17,000 m ²	\$6,000/m2	\$102.0 m	100%	\$102.0 m	2.5%
Auburn Power Centre & surrounds	23,000 m ²	\$3,500/m2	\$80.5 m	100%	\$80.5 m	2.0%
Harvey Norman & surrounds	30,000 m ²	\$3,500/m2	\$105.0 m	100%	\$105.0 m	2.6%
Auburn Home Mega Mall	33,000 m ²	\$3,500/m2	\$115.5 m	100%	\$115.5 m	2.9%
Domayne & surrounds	22,000 m ²	\$3,500/m2	\$77.0 m	100%	\$77.0 m	1.9%
Officeworks/Clive Peeters	10,000 m ²	\$3,750/m2	\$37.5 m	100%	\$37.5 m	0.9%
Other (Bunnings, Redyard)	25,000 m ²	\$3,500/m2	\$87.5 m	100%	\$87.5 m	2.2%
Sub-total selected centres	160,000 m²	\$3,781/m2	\$605.0 m	100%	\$605.0 m	15.0%
<u>CENTRES IN BALANCE OF MTA</u>						
Ashfield Mall	25,000 m ²	\$5,900/m2	\$147.5 m	90%	\$132.8 m	3.3%
Birkenhead Point Outlet Centre	23,000 m ²	\$6,000/m2	\$138.0 m	70%	\$96.6 m	2.4%
Blacktown Megacentre	26,000 m ²	\$3,500/m2	\$91.0 m	60%	\$54.6 m	1.4%
Blacktown Westpoint Centre	70,000 m ²	\$5,605/m2	\$392.4 m	50%	\$196.2 m	4.9%
Broadway Shopping Centre	34,000 m ²	\$6,000/m2	\$204.0 m	55%	\$112.2 m	2.8%
Bunnings Ashfield	8,000 m ²	\$3,200/m2	\$25.6 m	80%	\$20.5 m	0.5%
Campsie	13,000 m ²	\$6,000/m2	\$78.0 m	85%	\$66.3 m	1.6%
Carlingford Court	33,000 m ²	\$6,715/m2	\$221.6 m	55%	\$121.9 m	3.0%
Centro Bankstown	83,000 m ²	\$5,100/m2	\$423.3 m	90%	\$381.0 m	9.4%
Centro Roselands	62,000 m ²	\$8,330/m2	\$516.5 m	75%	\$387.3 m	9.6%
Chullora Marketplace	17,000 m ²	\$6,085/m2	\$103.4 m	100%	\$103.4 m	2.6%
Direct Factory Outlet	18,000 m ²	\$6,000/m2	\$108.0 m	70%	\$75.6 m	1.9%
Harvey Norman Wiley Park	5,000 m ²	\$4,500/m2	\$22.5 m	60%	\$13.5 m	0.3%
Home Base Shopping Centre	25,000 m ²	\$3,500/m2	\$87.5 m	80%	\$70.0 m	1.7%
IKEA Homebush	26,000 m ²	\$3,500/m2	\$91.0 m	65%	\$59.2 m	1.5%
Leichhardt Marketplace	18,000 m ²	\$6,910/m2	\$124.4 m	80%	\$99.5 m	2.5%
Marrickville Metro S/Centre	23,000 m ²	\$9,660/m2	\$222.2 m	50%	\$111.1 m	2.8%
Rhodes Shopping Centre	32,000 m ²	\$8,635/m2	\$276.3 m	70%	\$193.4 m	4.8%
Stockland Merrylands	21,000 m ²	\$7,410/m2	\$155.6 m	100%	\$155.6 m	3.9%
Westfield Burwood	56,000 m ²	\$6,920/m2	\$387.5 m	95%	\$368.1 m	9.1%
Westfield Parramatta	118,000 m ²	\$5,770/m2	\$680.6 m	90%	\$612.6 m	15.2%
Sub-total selected centres	736,000 m²	\$6,110/m2	\$4,496.9 m	76%	\$3,431.3 m	85.0%
TOTAL 2009	896,000 m²	\$5,6902/m²	\$5,101.9 m	79%	\$4,036.3 m	100.0%
TOTAL 2011			\$5,204.4 m		\$4,117.5 m	

Source: Property Council of Australia NSW Directory

Note: (1) Estimates by Essential Economics and with reference to Shopping Centre News data

(2) Estimated by Essential Economics

Forecast to 2011 assumes 1% pa real growth in sales revenues, 2009 to 2011

4.5 Potential Trading Impact on Centres/Freestanding Retail in MTA

Potential Impacts on Main Trade Area

The Costco Warehouse is expected to draw from a very wide trade area, as earlier described, and this is typical of Costco operations. As indicated in Table 4.1 and Table 4.2, a large number of regional and sub-regional shopping centres are located within the Costco MTA, and they generate total sales estimated at \$5,102 million in 2009 (Table 4.2). By 2011, which is the anticipated Year 1 of trading for the proposed Costco store, combined retail turnover in the identified centres in the MTA is expected to reach \$5,204 million (expressed in constant 2008/9 prices).

Of these total sales, an estimated \$4,036 million in sales are attributable to MTA residents (in 2009), with the balance (\$1,066 million or approximately 19% of sales) attributable to shoppers who live beyond the MTA.

In Costco's case, the store is forecast to have Year 1 sales in the order of \$97.5 million in 2011, of which \$68 million (70%) would be to the household sector (and with the balance comprising sales to businesses). Allowing for 10% (or \$6.8 million, approximately) of these sales to households being drawn from beyond the MTA (reflecting the observation that Costco stores normally attract up to 20% of trade from beyond their extensive MTAs), Costco would be drawing an estimated \$61 million away from competing shopping centres which are operating in the MTA, as listed in Tables 4.1 and 4.2. This level of sales captured from existing centres would be equivalent to just 1.2% of the total retail sales in these centres in 2011, and represents a very small trading impact.

To be on the conservative side in assessing this potential impact on existing centres, if it is assumed that 100% of Costco's sales are drawn from shoppers living within the MTA, then the operation would be taking \$68 million from the existing \$5,204 million turnover otherwise achieved at the identified competing centres in 2011. This is equivalent to just 1.3% of total sales at these centres. However, in reality it is likely that Costco would attract a share of its sales from beyond the MTA, as well as drawing turnover away from a range of other smaller centres, and so the trading impact would be less than 1.3%, as indicated above.

In terms of measuring potential impacts of the proposed Costco Warehouse on individual centres, the conventional practice is to distribute the Costco sales on a proportionate basis against each existing centre in accordance with each centre's existing market share in the MTA. These existing shares are shown in Table 4.2 above, noting that the figures in Table 4.2 represent the distribution of MTA spending to these identified centres, and exclude spending that is directed elsewhere (eg to smaller neighbourhood centres or the Sydney CBD, etc). Table 4.3 takes these shares and shows the potential effect of the Costco operation in Year 1 (2011).

As shown in Table 4.3, it is assumed that Costco attracts 90% (or \$61.7 million) of its household sales from MTA residents, with a further 10% (or \$6.8 million) of sales coming from beyond the MTA. When the impact of the Costco sales to MTA residents are distributed to each centre according to each centre's market share, the impacts are identified as very low in every case. For those centres located in the City of Auburn, the impact is approximately 1.5%, while for centres located in the balance of the MTA the impacts average 1.1% and lie in the range 0.7% to 1.5%. These are very low impacts, and lie well below the 10% to 15% impact level which is generally considered to indicate when the impact of a new retail centre or major trader could contribute to a potentially serious decline in trading levels and viability in other centres.

Table 4.3 is shown below.

Table 4.3: Estimated Impact of Costco on Existing Centres in MTA, 2011 (in constant 2008/9 prices)

Centre	Estimated Total Sales In 2008	Estimated Total Sales In 2011 (*)	Share of Sales Attributable to MTA Residents	Distribution of Costco Sales Impact on Existing Centres (rounded)	Costco Impact on Sales at Existing Centres
<u>CENTRES IN CITY OF AUBURN</u>					
Auburn Central Shopping Centre	\$102.0 m	\$104.1 m	2.5%	\$1.6 m	1.5%
Auburn Power Centre & surrounds	\$80.5 m	\$82.1 m	2.0%	\$1.2 m	1.5%
Harvey Norman & surrounds	\$105.0 m	\$107.1 m	2.6%	\$1.6 m	1.5%
Auburn Home Mega Mall	\$115.5 m	\$117.8 m	2.9%	\$1.8 m	1.5%
Domayne & surrounds	\$77.0 m	\$78.5 m	1.9%	\$1.2 m	1.5%
Officeworks/Clive Peeters	\$37.5 m	\$38.3 m	0.9%	\$0.6 m	1.5%
Other (Bunnings, Redyard)	\$87.5 m	\$89.3 m	2.2%	\$1.3 m	1.5%
Sub-total selected centres	\$605.0 m	\$617.2 m	15.0%	\$9.2 m	1.5%
<u>CENTRES IN BALANCE OF MTA</u>					
Ashfield Mall	\$147.5 m	\$150.5 m	3.3%	\$2.0 m	1.3%
Birkenhead Point Outlet Centre	\$138.0 m	\$140.8 m	2.4%	\$1.5 m	1.0%
Blacktown Megacentre	\$91.0 m	\$92.8 m	1.4%	\$0.8 m	0.9%
Blacktown Westpoint Centre	\$392.4 m	\$400.2 m	4.9%	\$3.0 m	0.7%
Broadway Shopping Centre	\$204.0 m	\$208.1 m	2.8%	\$1.7 m	0.8%
Bunnings Ashfield	\$25.6 m	\$26.1 m	0.5%	\$0.3 m	1.2%
Campsie	\$78.0 m	\$79.6 m	1.6%	\$1.0 m	1.3%
Carlingford Court	\$221.6 m	\$226.0 m	3.0%	\$1.9 m	0.8%
Centro Bankstown	\$423.3 m	\$431.8 m	9.4%	\$5.8 m	1.3%
Centro Roselands	\$516.5 m	\$526.8 m	9.6%	\$5.9 m	1.1%
Chullora Marketplace	\$103.4 m	\$105.5 m	2.6%	\$1.6 m	1.5%
Direct Factory Outlet	\$108.0 m	\$110.2 m	1.9%	\$1.2 m	1.0%
Harvey Norman Wiley Park	\$22.5 m	\$23.0 m	0.3%	\$0.2 m	0.9%
Home Base Shopping Centre	\$87.5 m	\$89.3 m	1.7%	\$1.1 m	1.2%
IKEA Homebush	\$91.0 m	\$92.8 m	1.5%	\$0.9 m	1.0%
Leichhardt Marketplace	\$124.4 m	\$126.9 m	2.5%	\$1.5 m	1.2%
Marrickville Metro S/Centre	\$222.2 m	\$226.6 m	2.8%	\$1.7 m	0.7%
Rhodes Shopping Centre	\$276.3 m	\$281.9 m	4.8%	\$3.0 m	1.0%
Stockland Merrylands	\$155.6 m	\$158.7 m	3.9%	\$2.4 m	1.5%
Westfield Burwood	\$387.5 m	\$395.3 m	9.1%	\$5.6 m	1.4%
Westfield Parramatta	\$680.6 m	\$694.3 m	15.2%	\$9.4 m	1.3%
Sub-total selected centres	\$4,496.9 m	\$4,587.3 m	85.0%	\$52.5 m	1.1%
TOTAL	\$5,101.9 m	\$5,204.4 m	100.00%	\$61.7 m	1.2%
COSTCO SALES TO MTA (90% OF \$67 m)				\$61.7 m	
COSTCO SALES TO NON-MTA (10% OF \$67 m)				\$6.8 m	
COSTCO TOTAL SALES TO HOUSEHOLDS (\$95m x 70%)				\$68.5 m	
Source:	Property Council of Australia NSW Directory, Shopping Centre News performance estimates				
Note:	(*) Estimate by Essential Economics, based on 1% pa real growth, 2009-2011				

Potential Impacts on Centres/Retail in City of Auburn

To take a very conservative approach to the impact assessment (ie, leaning towards a high potential impact), even if 25% of Costco sales to households in Year 1 (\$68.5 million x 25% = \$17.1 million) are captured from centres in Auburn where sales in 2011 would otherwise be estimated at \$617.2 million, the impact would be approximately 2.8% on these centres ie, \$17.1m/\$617.2m), as shown in Table 4.4.

For reasons noted below, this alternative scenario is considered unlikely to be the case.

Table 4.4: Alternative Scenario - Costco's Potential Trading Impacts on Centres in Auburn Assuming High Share of Sales Drawn from City of Auburn, 2011

Centres in City of Auburn	Estimated Total Sales In 2011	Distribution of 25% Draw on Total Sales at Auburn Centres by Costco (pro rata on existing shares in Table 4.3)	Distribution of Costco Sales Impact on Existing Centres (25% of \$68.5 m)	Costco Impact on Sales at Existing Centres
Auburn Central Shopping Centre	\$104.1 m	4.21%	\$2.9 m	2.8%
Auburn Power Centre & surrounds	\$82.1 m	3.33%	\$2.3 m	2.8%
Harvey Norman & surrounds	\$107.1 m	4.34%	\$3.0 m	2.8%
Auburn Home Mega Mall	\$117.8 m	4.77%	\$3.3 m	2.8%
Domayne & surrounds	\$78.5 m	3.18%	\$2.2 m	2.8%
Officeworks/Clive Peeters	\$38.3 m	1.55%	\$1.1 m	2.8%
Other (Bunnings, Redyard)	\$89.3 m	3.62%	\$2.5 m	2.8%
Sub-total selected centres in Auburn	\$617.2 m	25.00%	\$17.1 m	2.8%

Source: Essential Economics

In reality, the Costco operation would be unlikely to have a significant adverse effect on the Auburn centres for two main reasons:

- 1 Costco typically draws from across a very wide regional trade area, and it would be most unlikely for Costco to capture 25% of its sales from within a relatively small area like the City of Auburn which covers an area of approximately 33 km² (or 7% of the overall MTA of approximately 463 km²); and
- 2 Costco performs a specific regional retailing role and does not compete across the full range of goods and services that are typical of regional and sub-regional centres, and this is reflected in Costco's much smaller number of SKUs compared with major retailers in conventional centres or stand-alone retailers.

Another consideration is that the Auburn centre has very few national brand names that would be direct competitors with Costco.

4.6 Costco's Role in Auburn

Costco in Parramatta Road in Auburn would perform as a key anchor retailer in this general locality and municipal-wide. It would provide strong destination appeal which, in turn, would be expected to generate significant visitor traffic to Auburn as a whole.

With anticipated total sales of \$97.5 million pa to in its initial year of trading to both households and businesses, and allowing for an average spend of \$155/visit (based on Costco projections and existing shopping patterns elsewhere), the Costco store would attract an estimated total of some 630,000 shoppers per year.

These shoppers would add to the overall activity levels in other centres in the Auburn region, , and would be expected to generate spin-off effects for existing shops, restaurants and cafes that depend for their commercial viability on attracting increasing numbers of visitors and their spending to this general locality.

4.7 Conclusion

The retail economic impact assessment indicates that the Costco Wholesale on Parramatta Road in Auburn would be unlikely to create an adverse trading impact on other retail and associated activities in the Auburn Shopping Centre, or other centres in Auburn and in the wider MTA. This conclusion reflects the fact that Costco would serve an estimated 1.33 million people in the surrounding trade area, and this represents a large part (32%) of the metropolitan Sydney market.

Moreover, the Costco store would serve a separate and distinct retail market by comparison with existing conventional retail tenancies which occupy the surrounding centres, and which range from small supermarkets and shops to department stores, discount department stores and bulky goods retailers.

Costco's much more limited retail role is reflected in the fact that it has just 4,000 SKUs and this contrasts significantly with, say, a conventional supermarket which has some 20,000 SKUs. Thus, Costco and conventional retail facilities essentially serve separate and distinct market segments, thus minimising the likelihood of competition on a wide range of merchandise and services.

5 ECONOMIC OUTCOMES

5.1 Introduction

This section provides an overview of the positive outcomes anticipated to flow from the location of a Costco store on Parramatta Road in Auburn.

The likely outcomes are broad-ranging, and include Costco's contribution to the revitalisation of the Parramatta Road Corridor, the special appeal of this unique shopping format, the generation of high levels of visitor traffic, and contributions to employment and incomes.

In short, Costco at Auburn would be expected to generate a Net Community Benefit.

In planning terms, a net community benefit generated in a retail context refers to:

- Employment generated during construction and operation (both direct and indirect, or flow-on employment)
- Impact on shoppers' retail choice and retail competition
- Impact on overall levels of vibrancy and sustainability in the activity centre or location
- Contribution to liveability, social interaction, and other community-related goals.

In addition, non-retail factors need to be taken into account in terms of generating an overall Net Community Benefit, and these include traffic circulation, parking provision, environmental effects on-site and on adjoining activities, local character and amenity impacts, and so on. This chapter focuses on the economic effects.

5.2 Contribution to Parramatta Road Planning Objectives

As earlier described, the Parramatta Road corridor is recognised as an important location for a wide range of economic activities, especially highway-related activities, and including bulky goods retailing. Both the WCSDSS and the Auburn Employment Lands Study provide support for the corridor as a location for large format retailing, among other uses.

In this context, the establishment of Costco in this locality would provide strong support for the Parramatta Road corridor, especially as this type of use requires a large site with exposure to high levels of passing traffic.

5.3 New Format Retail

Importantly, Costco represents a new format in the retail sector in Australia. Costco provides a unique retail offer in terms of -

- the membership basis for people and businesses shopping at Costco;
- the limited range of merchandise (just 4,000 SKUs), but combining high quality brand names with low prices;
- the focus on savings and value for households and (mainly) small businesses;

- the corporate policy emphasising merchandise quality and customer satisfaction, with risk-free membership; and
- the opportunity each day to seek out the ‘treasure hunt’ to find attractive merchandise at the most competitive prices.

With forecast sales of \$97.5 million in its first year of trading (to both households and businesses), Costco can expect to generate some 630,000 visits to the Auburn store on an annual basis.

The uniqueness of the Costco retail format is that it is neither a conventional supermarket nor a department store or discount department store, and nor is it a bulky goods retailer or a specialty shop.

While Costco has elements of some of these stores (for example, it features large format display for merchandise), it does not fall within a definition that is recognisable in planning terms. For example, like a convenience store or general store, Costco sells food, yet neither of these retail formats can be regarded as a ‘supermarket’.

A similar definitional situation arises when considering that Costco sells, for example, television sets and home entertainment systems, yet a Costco store is by no means similar in merchandising format to, say, a Retravisson store or a JB Hi-Fi store. Of particular note is that Costco will only sell the television or home entertainment system where such merchandise can be purchased by Costco at prices that provide Costco customers with value; in contrast, Retravisson and JB Hi-Fi are recognised retailers in televisions and home entertainment systems and ancillary merchandise, and they stock many thousands of SKUs in that field compared with relatively few stocked by Costco.

Costco’s retail format has other features that are unique. Of key importance is the store’s draw on customers from within a large regional catchment, with some 80% of trade drawn from within a 30-minute drive time. In this analysis a figure of 90% has been adopted so that the impacts are identified on a conservative basis (ie, so as not to under-state potential impacts).

Another feature, noted above, is Costco’s membership basis which comprises private individuals as well as (mainly small) businesses. All of these customer types recognise the value shopping that Costco provides, even though the store has a relatively limited range of merchandise and services, namely just 4,000 SKUs compared with 20,000-plus SKUs in a supermarket and many more in a department store or a discount department store.

In essence, Costco provides its members with a wide range of high quality and branded merchandise at the lowest prices available in the market. While many retailers seek to achieve this outcome, and many are successful, the reality is that the Costco format is unique in today’s retail landscape for the reasons noted above, including membership shopping and the focus on selling only the best brands at the lowest prices.

5.4 Employment Creation

The Costco development on Parramatta Road at Auburn would be expected to generate an estimated 200 positions associated with the shopping component (and equivalent to an estimated 160 Equivalent Full-Time positions), with this figure increasing to approximately 250 positions (or 200 EFT) at maturity. Many of these jobs would be filled by people living in the general area of Auburn and surrounding suburbs, and this tendency for the take-up of jobs by people living in the general area is observed universally in the retail sector.

In addition to the 160 EFT direct jobs at Costco, a further 160 indirect or flow-on jobs would be created indirectly through the employment multiplier effect. These indirect jobs would be located in Sydney and in other parts of NSW and interstate, thus reflecting the inter-industry links that are a feature of the national economy.

In essence, the employment multiplier for the retail sector shows that for every 'direct' job created, another 'indirect' (or flow-on) job is created in the wider economy; in this case, the employment multiplier has a value of '2.0'. These employment multipliers are based on Input-Output analyses and National Accounts information published by the ABS (refer Cat.No.5210.0).

In addition to the retail component, the Costco development also includes a commercial area of approximately 1,815m² which will accommodate the Costco Wholesale Australia head office, including its management, property development and product purchasing teams. Employment at the head office is expected to be approximately 70 positions initially (mainly involving full-time employees), with this rising to 90 positions over subsequent years.

In addition to the 70 head office jobs directly generating at the Costco site, a further 100 indirect or flow-on jobs would be created indirectly through the employment multiplier effect. These indirect jobs would be located in Sydney and in other parts of NSW and interstate, thus reflecting the inter-industry links that are a feature of the national economy. The measure of indirect employment generated at the head office component of the development is based on the application of an employment multiplier for the *other business services* industry sub-sector.

The Costco development would also involve an estimated investment of some \$58 million in construction cost (and this excludes land value and fit-out). With a construction cost of this order, using the ABS 'Other Construction' category an estimated \$450,000 construction cost will create 1 EFT position. The Costco development is therefore estimated to create 130 direct construction-related jobs during the 12-month construction period. The employment multiplier also applies in this instance (where the multiplier is equivalent to 2.6; ie, an additional 1.6 indirect jobs are created for every 1 direct job), with the result that a further 210 or so indirect or flow-on jobs would be generated during the construction phase. These indirect jobs would also be distributed across the national economy, reflecting inter-industry links.

5.5 Trading Impacts

Analysis presented in this report shows that the Costco development would not be expected to have an adverse trading impact on existing retail facilities or shopping centres in Auburn or other parts of the MTA.

The lack of trading impact arising from Costco operations is due to a number of reasons as earlier noted, and this is principally because Costco - as a destination retailer - typically draws its custom from a very extensive regional catchment, and thus the store achieves only a very small share of all available retail spending by MTA residents. The analysis in this report shows that Costco would attract just 0.4% of the available spending of MTA residents, and its trading impact would be equivalent to a reduction of just 1.2% of sales captured by existing centres and freestanding retailers in the MTA. Costco sales captured from retailers located in the City of Auburn would be equivalent to just 1.5% of total sales at these centres in Auburn in 2011.

Moreover, in the period 2011 to 2016, the available retail spending of MTA residents is forecast to increase from \$15,900 million to \$17,750 million, representing an increase of +\$1,850 million pa over the period; during this time, Costco's sales to households in the MTA would be expected to increase from \$61.4 million to \$90.4 million, or an increase of +\$29 million pa. Thus, other retailers would be able to capture the balance of \$15,839 million pa. All figures quoted in constant 2008/9 prices. These figures are summarised in Table 5.1.

Another consideration is that the limited offer at a Costco store (4,000 SKUs) means that Costco cannot and does not compete on a daily basis for household or business spending that is otherwise directed to supermarkets, department stores, discount department stores, specialty shops and other retail formats.

Table 5.1: Trends in Available Retail Spending and Costco Sales, 2011 to 2016

	2011	2016
Total Available Spending of MTA Residents	\$15,900 m	\$17,750 m
Increase in Available Spending	-	+\$1,850 m
Estimated Turnover and Market Share at Costco		
Costco Total Sales	\$97.5 m	\$143.5 m
Sales to Households at 70% (balance of sales are to business)	\$68.3 m	\$100.5 m
Sales to MTA Households (90% of Household Sales)	\$61.4 m	\$90.4 m
Increase in Costco Sales to MTA Households	-	+\$29 m
Costco Share of MTA Retail Spending	0.4%	0.5%

Source: Essential Economics and Costco

Note: all values in constant 2008/9 prices

5.6 Conclusion

The introduction of Costco on Parramatta Road in Auburn would generate considerable benefits for the precinct and for Auburn and the wider community. Costco would -

- Meet planning objectives which emphasise the introduction of an anchor tenant and bulky goods type retailing in appropriate parts of the Parramatta Road corridor;
- Introduce a new format for retailing and attract 630,000 shoppers annually among households and (mainly small) businesses;
- Involve \$55.4 million in investment (excluding land and fit-out) and create some 130 construction jobs over a 12-month construction phase, plus a further 210 indirect or flow-on jobs elsewhere in the economy over that 12-month period due to the employment multiplier;
- Create 160 EFT jobs in store operation and management, plus a further 160 EFT elsewhere in the local and national economies due to the employment multiplier (or flow-on) effect;
- Create 70 positions in the head office component, plus a further 100 indirect jobs as a result of the employment multiplier;
- Provide shoppers with retail choice, competitive prices, and personal interest in their shopping trip; and
- Provide small businesses with the opportunity to purchase low cost, high quality merchandise for their own use or for re-sale (and sales to business would represent approximately 30% of all sales at Costco).

Significantly, Costco would play an important role as a retail anchor in Auburn, and would generate flow-on benefits for the wider area.