



APPENDIX A

Woolworths Online Strategy





APPENDIX B

Concept Plan and Perspective





APPENDIX C

Traffic Report, traffic responses and RMS In-principle support





APPENDIX D

Land Use Trends and Study of Chatswood East Industrial Area





APPENDIX E

Economic Impact Assessment and Information





APPENDIX F

Community Survey Information, Articles in Newspapers and Letters of Support





APPENDIX G
Summary of Consistency with SEPPs and Summary Table for S117 Directions



EXECUTIVE SUMMARY

The growth in online retailing has required traditional retailing to diversify and be flexible in its approach to satisfy market demands. Customers are no longer relying on traditional “brick and mortar” outlets to undertake their shopping.

Woolworths is seeking to adapt, and is changing the nature of how it fulfils its customers requirements by moving towards a hybrid retail model which places greater emphasis on the way Woolworths distributes goods to its customers from facilities which customers may never actually visit.

To fulfil these online customer requirements, these new Woolworths facilities are taking on the form of what is commonly seen as warehousing, distribution and logistics centres which need to be positioned in more accessible locations and have purpose built forms.

The Woolworths facility in Chatswood East seeks to take on these functions. This business model will be implemented here in a two stage approach.

The first stage of this approach for Chatswood East involves a “click and collect” function where a customer places an order online and collects that order from the site at a designated collection point which is not within the trading floor. The first stage also includes an “online fulfilment” function where a customer also places an order online but chooses the home delivery of that order which is managed by staff on-site who pick and package that order. The distribution of these orders is managed by a fleet of small Woolworths trucks. Woolworths seeks to operate these functions 24 hours a day, seven days a week. These functions are therefore best suited to the industrial zone and in close proximity to the major arterial road network.

However, the first stage also seeks the ability for customers to undertake traditional face to face retailing, which is shopping within the trading floor of the facility.

The second stage of the evolution of the facility is to build in capacity at this site to support a future “dark box” which Woolworths is in the initial phase of implementing. A “dark box” involves a warehouse and distribution centre to enable foodstuffs to be processed in significant volumes and in a timely manner to meet online orders – that is online only transactions, where Woolworths staff pick the customer order and facilitate its distribution. Chatswood East would have the ability in the future to provide a “staging point” for the freight and logistics components of the selected location of the “dark box”.

Therefore, the functions at Chatswood East will include a range of options for customers, due to the growth of online retailing which requires strong freight and logistics functions but also traditional face to face retailing.

The location at Chatswood East is the most suitable location for a number of important reasons, including:

- The location of the site is on a local feeder road which allows accessibility for online click and collect users to collect an order on their return journey home from work;
- Running a 24 hour facility with multiple truck movements is inappropriate in a traditional high-street and town centre location. The proposal will have longer hours

of operation as a support function to the online retailing and “click and collect” which are more suited to industrial zoned land such as Chatswood East so as the amenity of adjoining properties can be maintained to a suitable level;

- To ensure truck distribution movements associated with the online retailing functions allow access to the arterial road network which filters movements to the local residential population in a timely manner;
- The staging point associated with the potential evolution of the site in Chatswood East as detailed above; and
- The shift in Woolworths’ business model is akin to a freight and logistics business with traditional retailing in a customer service interface, constituting a hybrid between a warehouse, a logistics distribution centre and a traditional retail facility which is appropriate in the industrial zoning of the site at Chatswood East;

Woolworths seeks the inclusion of an enabling clause in the Willoughby Local Environmental Plan 2012 (WLEP 2012) associated with subject site, on a number of grounds:

1. The business model requires access to the arterial road network in Sydney to enable the freight and logistics functions to operate at the optimal level;
2. The location for the freight and logistics component of the business model requires access to “industrial” zoned land as it is a traditional use of industrial land;
3. The business model requires a hybrid approach to enable the freight and logistics components to function smoothly with traditional retailing; and
4. Traditional planning regimes have not kept pace with new market demands associated with hi-tech businesses. The WLEP 2012 includes a number of site specific enabling clauses such as that requested by the proposal.

Woolworths have already worked with the RMS to achieve in-principal support for improvements to the local road network including the intersection of Eastern Valley Way with Smith Street.

The original Planning Proposal at Appendix 5 included resident survey feedback which demonstrates that the proposal has broad community support and is desired by the community in the proposed location.

Essentially, Woolworths business is moving towards a form which is more warehousing and distribution lead driven by the surge in online retailing which necessitates a hybrid retail function. Therefore, the site at Chatswood East requires an enabling clause to allow all of these functions to be permitted under the planning regime.

1.0 BACKGROUND

Woolworths have been developing a highly confidential new strategy to match its supply chain associated with the picking and packaging of its freight and logistics to meet the growing demand of its online convenience retailing market. To this end, Woolworths seeks to implement a model to support its growing online retailing by providing approximately three (3) locations within the Sydney metropolitan region. The location at Smith Street, Chatswood East forms part of this new strategy. TPG has undertaken a number of due diligence investigations throughout the Sydney region over the last two years, in locations which have been strategically targeted by Woolworths as suitable to support their new strategy.

Within the Sydney metropolitan region, the lower North Shore and Warringah Peninsular support a population where a significant proportion of residents already have access to the internet/smart devices and often seek access to goods and services in conveniently positioned locations. Woolworths have undertaken research which conclude that shifts in lifestyle choices, longer working hours, lost time spent in increasing public and private transport congestion have resulted in many families becoming increasingly time poor.

In this regard, market feedback has demonstrated that an increasing number of households are utilising the internet to service their retailing needs, as weekend shopping is not always possible. The site's location in Chatswood East meets the demographic needs of the subregion and is an accessible location, enabling the supply chain element of freight and logistics services to access the site via an easily accessible arterial road network. The site's location will allow direct freight and logistics links to and from the Woolworths distribution centres to regions within the Sydney metropolitan region, supporting online retail orders for convenience goods. The following points form the critical elements of the process as described throughout this document:

- The growth of internet retailing, i.e., "online retailing" and how location can influence its growth;
- What Woolworths considers the best approach to support its online retailing strategy to ensure its success; and
- Access for the supply chain and its requirements.

This document has been prepared using information to demonstrate the role that land use planning frameworks have in the transition to alternate forms of retailing, including "online retailing" and that the location of these facilities are not appropriately located within traditional high-street and centres. This document also demonstrates that such facilities need to cater for face to face retailing where customers can access to collect an order and shop directly as well as packing and sending out for delivery of orders.

2.0 THE GROWTH OF INTERNET RETAILING

2.1 *The Growth of Internet Retailing or "Online Retailing" in Australia*

The Australian Productivity Commission released a report in 2011 titled "Economic Structure and Performance of the Australian Retail Industry", in which it assisted in defining "internet retailing or online retailing" in "Chapter 4 – Trends and issues related to online retailing" as follows:

Terms such as e-commerce or internet commerce have been developed to describe the process in which electronic transactions facilitate the exchange of, and payment for, goods and services between businesses, consumers, government and other public and private organisations using the internet, computer networks and portable electronic devices. The OECD definition of e-commerce further specifies that it relates to the ordering of goods and services over the internet, but the payment and ultimate delivery of the good or service can be conducted on or offline (ACMA 2010a).

Online retailing is a subset of e-commerce and refers to the purchase and sale of goods between consumers and retailers using the internet — also referred to as the business to consumer (or B2C) market. Other terms are interchanged for online retailing including e-tailing. Online retailing establishments can take the form of 'pure plays' in which businesses provide online only services in particular retail categories or as part of multi-channel establishments where online activities are combined with bricks and mortar operations. (2011, p.4)

The report also demonstrates the significant increase in levels of internet commerce investment occurring in Australia since 2003 (Productivity Commission, 2011).

Figure 4.1 Value of internet commerce in Australia, 2003-04 to 2009-10^a

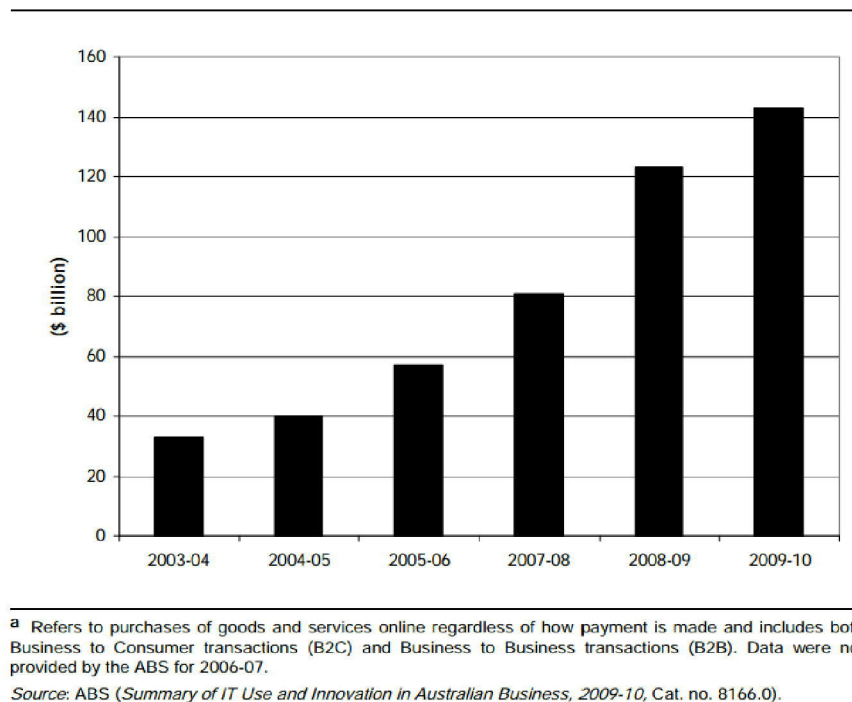


Figure 1 – Value of internet commerce in Australia, 2003-04 to 2009-10 (Productivity Commission 2011)

In addition, this report advised in Chapter 8 “Planning and zoning regulation”:

- *Land use regulation that centralises retail activity can be either competition-enhancing or competition-reducing, depending on how it is designed and implemented by the relevant planning authorities.*
- *To minimise the anti-competitive effects of zoning, policy makers need to ensure that areas where retailers locate are both sufficiently large (in terms of total retail floor*

space) and sufficiently broad (in terms of allowable uses, particularly those relating to business definitions and/or processes) to allow new and innovative firms to enter local markets and existing firms to expand.

- *A number of overseas studies have examined the impact on the retail industry of some land use regulations that restrict the establishment of new large format stores. These studies suggest that restricting the development of larger stores lowers retail productivity, reduces retail employment and raises consumer prices.*
- *Overseas evidence also suggests that some land use restrictions raise property prices in residential and commercial markets by constraining the quantity (and location) of available space. These empirical results are useful directional proxies for the impact of planning and zoning controls on domestic retail property values.*
- *In its recent benchmarking study on planning, zoning and development assessment, the Commission identified a number of leading practices to support competition. While all these leading practices should be implemented to improve the competitiveness of the retail market, two are of particular importance:*
 - *Governments should broaden and simplify business zoning to remove the need for ad hoc changes to council plans to accommodate each variation in business model.*
 - *Governments should not consider the viability of existing businesses at any stage of planning, rezoning or development assessment. Impacts of possible future retail locations on existing activity centre viability (but not specific businesses) should only be considered during strategic plan preparation or major review. (2011, p. 215)*

The Australian Bureau of Statistics (ABS) released in August 2013 details of a recent survey associated with businesses that reported receiving orders via the internet titled “8129.0 – Business Use of Information Technology, 2011-12”. This survey indicates that from the period 2009-10 to 2011-12 the growth of income for businesses in Australia providing “online retailing” has grown from approximately \$150 billion to just under \$250 billion. The information specifically states:

During 2011-12, 28% of all businesses received orders via the internet and the estimated value of income resulting from those orders was \$237 billion.

On 4 June 2013, Roy Morgan Research released a study which advised:

The number of Australians who shop online has tipped over the 50 per cent mark for the first time. (2013)

The report titled, “State of the Nation” examined the social trends of 50,000 consumers over the past decade. The report has a special focus on “online retailing” and points to a 12 per cent growth in the sector over the past year (2013). The report further found that in a three month period, some 50.3 per cent of Australians had shopped online (2013).

The report also indicated that online shopping is becoming increasingly mainstream, and acknowledges the role for traditional retailers to exist alongside online shopping with a view that the retail sector will need to adjust to the market as “retailers who play in both spaces will probably do extremely well” (2013).

Smart phone penetration is now running at about 50 per cent of Australians, and this means that people do not need to be home to order online; the emergence of smart phone price-checking and the use of smart phones to explore the availability of goods is now well-documented. The use of smart phones to make online purchases has grown 101 per cent in the past year (Roy Morgan Research, 2013).

In August 2013, NetSuite Inc. sponsored research conducted by Frost & Sullivan which had the support of the Australian Retailers Association, indicating the following:

- Although online sales have grown strongly in recent years, penetration in Australia is still only around 7 per cent of sales, which is behind comparable markets such as the UK and USA where online sales account for around 10 per cent of total retail sales.
- Many bricks and mortar retailers are currently missing out on market opportunities. Utilising a multi-channelled approach can offer many opportunities, such as lower operating costs, the ability to reach new customer segments, greater variety and choice of goods with the ability to operate with fewer geographical limitations.
- Retailers are increasingly recognising the advantages of multi-channelling and that these experiences are being increasingly demanded by customers (2013).

The ABS also completed a survey in December 2011 titled “8146.0 – Household Use of Information Technology, Australia” which indicated that 73% of households had access to “broadband” and 92% of all households had internet access. This survey also found the proportion of internet users that purchased or ordered goods or services over the internet was 68%, up from 64% in 2008-09.

It is Woolworths’ position that in order for a model of online retailing of convenience goods to be successful, several factors need to combine, with the site at Smith Street, Chatswood providing the best opportunity to support a successful model.

2.2 World’s Best Practice

As has been demonstrated by Tesco – one of the world’s leading supermarket retailers – the need for modern retailers to keep pace with the most significant growth market is imperative. To this end, Tesco developed a model now referred to as a “dark box” in 2011. The “black box” is the location where freight and logistics bring convenience goods from the distribution centre to a warehouse variant of a supermarket, so as employees can pick and package internet orders which are subsequently distributed to or collected by customers. Refer to **Appendix A**.

<http://www.retailcustomerexperience.com/article/208269/Tesco-digital-pilot-brings-online-experience-to-in-store-shopping>

2.3 Australian Examples

A well known Australian example is that of Harvey Norman. For an extended period of time, Jerry Harvey indicated to the market that the growth of online retailing was adversely impacting the ability of his business to generate profits, arguing for the Federal Government to tax all goods purchased online. At that time, Harvey Norman did not have any online presence. Approximately 4 years ago, Harvey Norman changed their approach to match their competitors such as The Good Guys by providing customers with the ability to purchase online.

Another example of a business which did not see the initial need to have a presence online was David Jones. This attitude changed at the time of the GFC and the department store retailer changed its strategy to include online retailing to complement its stores. Refer to **Appendix B**.

<http://www.smh.com.au/business/david-jones-aims-for-10-of-sales-online-20120224-1ts1o.html>

3.0 WOOLWORTHS STRATEGY

The nature of retailing, including foodstuff retailing, has rapidly changed due to the growth of online retailing. Businesses such as Woolworths recognise the need to deliver services to cater to all their customers' needs. The needs of customers over the last 5 years since the GFC have shifted significantly in all areas of retailing, including foodstuff retailing. Convenience and flexibility are the key criteria for customers, and those retailers who did not kept pace with these desires and market dynamic have declined as a result.

Retailers such as Harvey Norman who were once sceptical of online retailing have now recognised that making an online retailing component available to customers is pivotal for their survival in the marketplace. The realisation that retailers need flexibility and convenience for their customers has led to an optimised hybrid model, with a mix of online retailing and point of sale purchasing.

Woolworths have already been exploring regional locations in Sydney to implement "click and collect" online retailing along with online ordering via distribution centres so as to complement traditional retailing in stores. This proposal for Chatswood East goes one step further by seeking to blend online ordering with traditional retailing as the market in Australia for online retailing of foodstuffs is not mature enough to support a standalone, online only retail facility. There simply will not be enough orders to support an online only facility in the current Sydney market on the lower North Shore and Warringah Peninsular, but the trend is continuing to grow and therefore a retailer such as Woolworths seeks to be a market leader in this area.

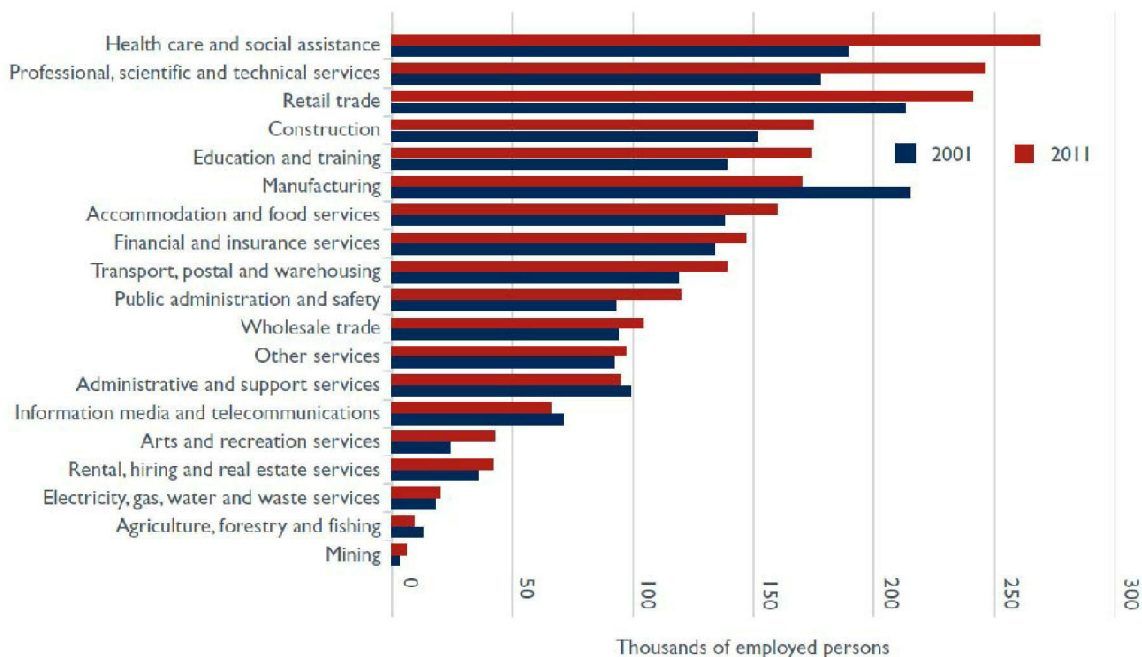
The site in Chatswood East is ideally positioned to enable this hybrid model to function efficiently and deliver foodstuffs in all its options to the lower North Shore, being a significant subregion of the wider Sydney metropolitan region. Woolworths' strategy is grounded by the knowledge that the site can perform functions associated with the transit of goods to and from the Woolworths distribution centre, and allow good access for freight vehicles given the site's proximity to good road infrastructure and the arterial road network.

4.0 FREIGHT AND LOGISTICS

Freight and logistics form an integral part of the new Woolworths business model. The volume of freight movements associated with the proposed facility at Chatswood is to be higher than those generally experienced in traditional businesses zones, and in order to support these freight movements the facility will have longer hours of operation. As such, the industrial zoning of the site is considered a more suitable location for the nature of the proposal.

The trend in industrial areas to incorporate logistics and warehousing uses is a dominant one not only in Sydney, but across Australia in a response to market dynamics and the

evolving needs of businesses in both the industrial and retail landscape. **Figure 2** below demonstrates the increases in the amount of employed persons in the Sydney metropolitan region across all sectors, and as can be seen, there has been strong growth in the transport, postal and warehousing sector, as well as the retail sector (BITRE 2012).



Note: Based on employed residents of Sydney Statistical Division (i.e. does not correspond to jobs located in the Sydney Statistical Division). Based on ANZSIC 2006 industry classification.

Source: ABS Cat. 6291.0.55.003 (August 2011 issue), based on August quarter of 2001 and 2011 data.

Figure 2 – Employed persons by industry, Sydney, 2001 and 2011 (BITRE 2012, p. 167)

The location at Smith Street, Chatswood East is zoned IN2 Light Industrial under the *Willoughby Local Environmental Plan 2012* (WLEP 2012). The objectives of this zone are to:

Zone IN2 Light Industrial

1 Objectives of zone

- To provide a wide range of light industrial, warehouse and related land uses.
- To encourage employment opportunities and to support the viability of centres.
- To minimise any adverse effect of industry on other land uses.
- To enable other land uses that provide facilities or services to meet the day to day needs of workers in the area.
- To support and protect industrial land for industrial uses.
- To identify and preserve industrial land to meet the current and future light industrial needs of Willoughby and the wider region.
- To accommodate industrial development that provides employment and a range of goods and services without adversely affecting the amenity, health or safety of residents in adjacent areas.
- To protect the viability of business zones in Willoughby by enabling development for the purposes of offices if they are used in conjunction with industrial, manufacturing, warehousing or other permitted uses on the same land.

- *To improve the environmental quality of Willoughby by ensuring that land uses conform to land, air and water quality pollution standards and environmental and hazard reduction guidelines.*
- *To accommodate uses that, because of demonstrated special building or site requirements or operational characteristics, cannot be or are inappropriate to be located in other zones.*

The freight and logistics facets which support the supply chain are compatible with the objectives of the IN2 Light Industrial zoning, and as such, the site at Smith Street, Chatswood East is considered the most suitable location for the proposal.

5.0 CONCLUSION

In conclusion, it is considered that the most suitable location given the Woolworths' desire to ensure they keep pace with changing market needs, and the desires of customers associated with online retailing, so too the location in Chatswood East has been identified as the most appropriate location, and the industrial zone is most suitable given the model now proposed.

Therefore, an amending clause is sought to be included in the *Willoughby Local Environmental Plan 2012* (WLEP 2012) so as the planning regime facilitates the business model now proposed by Woolworths to be permitted in the IN2 Light Industrial zone.