

The harsh reality

of retailing

Tenant A. In the centre for five years. Net rent in that time has risen 55 per cent against 13.2 per cent consumer price index. Excellent operator with high standards of product and service. Despite investing \$300,000, business is now unsaleable. Pays 27 per cent of turnover in rent excluding air conditioning and electricity. To make an adequate profit, this business should be paying \$60,000 a year rent not \$156,244 as at present.

Tenant B. Uses long-term unemployed as staff on subsidy and supports business from another venture elsewhere. Rent up 68 per cent in past six years against 23 per cent CPI. Sales have risen but operating at a substantial loss. Should pay \$24,000, pays \$73,650.

Tenant C. Pays 16 per cent of turnover in rent when he should pay no more than 8-10 per cent. New fit-out and doesn't have to support the business from capital but running at a loss.

Tenant D. High turnover, low gross profit business. Still cannot pay for fit-out more than five years ago. Rent 13-15 per cent of sales, should be 5-7 per cent.

Tenant E. Competition introduced by centre manager has undermined gross margin. Rent has risen 52 per cent in past five years against 13 per cent inflation. Sales exceed those for a busy Sydney shopping centre. Owner works 100 hours a week for average \$5 an hour. Pays 20 per cent of sales in rent, should pay no more than 8-9 per cent, that is \$61,390 against a rent that should be \$27,765.

Tenant F. Pays more rent (23 per cent of turnover) than many top Sydney outlets in the same trade/type of location, three times the maximum recommended. Gross rent now \$68,830, should pay \$21,040.

Tenant G. Gross rent 49 per cent of turnover. Only survives because plant and equipment is fully owned. Business cost \$90,000 five years ago but now unsaleable because it is unprofitable. Tenant can't afford to stay or move.

Tenant H. Pays the same rent as competitor in another centre for half the floor area. After rent and franchise fees, tenant has \$13,000 to cover all other costs and his drawings. Rent is 32 per cent of sales or \$62,132 when it should be no more than \$13,700.

Tenant I. Pays 38 per cent of turnover in rent. Accountant fears demise of business. Annual occupancy cost \$108,000, should be no more than \$40,000. Tenant employs family members and has sold investment properties to stay in business.

Ex-tenant J. Bought the business for \$140,000 almost nine years ago. Employs three family members. Once owned taxi business and freehold property but now has debts of \$400,000 mortgaged over three investment properties and no taxis. Though well managed, this business failed.

Tenant L. Regarded as a model tenant. Faced 41 per cent rent rises in past five years against 13 per cent CPI. Pays 21 per cent of turnover in rent of \$50,000 when he should pay \$19,000 or 7-9 per cent.

Tenant M. Asked to pay 26 per cent rent when it should be 9 per cent of sales. If he was paying \$22,500 instead of \$63,000, the business could be profitable.

Tenant N. New to the centre. After paying 28 per cent of rent/sales, there is nothing left to meet other operating costs. Pays \$36,000 for 40 square metres when the rent should be \$10,170.

Tenant O. Has \$30,000 left after rent to pay 3/4 staff and trade is falling. Though 60 per cent of space is used for preparation and refrigeration, tenant still pays \$630 a square metre or 17 per cent of sales when he should pay 4-6 per cent to be profitable. And a tenant in a "market" location tells me she is paying 85 per cent of rent to sales ratio because trade has fallen sharply, yet the landlord won't listen. Last week trade was so poor for all traders in this location that this tenant's weekly sales only covered the rent.



It's time we met our obligations

SMH By BOB ATKINS 15/5/93

In Australia, every working day, about 100 small businesses go broke. A large percentage of those are small retail businesses, many of them operating within large or small shopping centres.

Two-thirds of the operators of these failed retail businesses readily admit that lack of business and management experience was a key factor leading to their downfall. And yet what are shopping centre owners or managers doing about it? That sad truth is - not much.

Too many have forgotten that the retailers need to make sales before they can pay the rent. And many of them need all the expert help they can get to make those sales.

I believe it is high time that the shopping centre industry accepted the responsibilities and the moral obligations which it has to small business retailers.



Bob Atkins

It is an indictment of the industry that, of the three big owner-managers which control more than 4,500 retail leases in Australia, not one has seen fit to provide any kind of retail training personnel or small retailer advisory service to its tenants - surely a small investment back to the roots of the industry which has supported them for so long.

Understanding retailing is critical for any centre manager. Yet for years this industry has wasted millions of dollars on superficial and egotistical promotional activities which contribute absolutely nothing to business welfare or viability.

I believe a significant amount of that promotional budget should be redirected to training and developing people to assist the retailer - training totally focused on retail, understanding of the retail market, understanding of consumers, and understanding of the real elements that go to make up the retail market. We must educate ourselves before we can educate our merchants.

Another problem has been the rent-free incentive, which has now blown out to ridiculous proportions. It is in no way responsive or related to the creation of retail sales, and frequently only allows a new retailer to stay in business for a few months before closing his doors forever, to the benefit of nobody.

The merchant mix is another critical factor. Many very large regional centres are losing share of the vital grocery and household item market because they have lost sight of what they are. The trend away from convenience to provide additional space for Waterford crystal or specialist sock shops is in total contradiction to market demand.

We are going through a critical period of change; the accepted rules have changed, and are continuing to change every day. Many people in this business learned their trade during the boom years. We have to accept this change, adapt to it, and respond to it a little faster than we have done over the past three or four years.

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