

Shopping Centre **News**

OCTOBER-NOVEMBER 2013

DEVELOPING RETAIL IN INDIA

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THE STATE OF INDIAN RETAIL REAL ESTATE

- A Prelude to the India Retail Forum 2013
- Reliance Makes it BIG at Europark
- Malls: New Hangout Joint for Kids
- Indian Retail Real Estate- A Journey Akin to a Hurdle Race

Shopping Centre News

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As we were travelling across the country in preparation for the India Retail Forum, we had a half day pre-event curtain-raiser meet at Veda, Palladium, Mumbai. It was an exceptionally insightful little chat session with some industry friends whose opinion I respect a lot, and senior members of the national and international media.

In retrospect, the first thing that remained with me from the meet was the reaffirmation of the fact that we Indians do tend to indulge in a lot of hyperbole. If things are good we say they are exceptional, and when things are down a bit its either mayday or doomsday. This was then, in context to the health of the Indian retail sector as it has changed, or seemingly, not changed so much in the recent few years as we make it out to have.

The second thing that I took back was a strong reminder of the old saying, "When the times get tough the tough get going." The discussion also focused on how downturns are also full of opportunity, and the wealth of historical examples of successful businesses being created off downturns was truly inspiring.

I do have a slightly broader take on the next subject that cropped up, which was the need for Indian retailers and shopping center developers to focus on the potential in tier 2 and tier 3 towns. I think that an organization needs to focus on every area it commits to. Excellence and success are habits and it is highly unlikely that organizations

facing tough days in metros will find sustainable long term success in tier2 or tier3 cities. Availability of relatively cheaper land in the new towns is only or perhaps, as on date, was only a very short term phenomenon, especially in a speculation driven land-market, where a single land transaction drives up land prices in whole territories overnight. For long term success, every business model will need to be based on the consumer and on consumption.

As a part of a recent vision series we had conducted a series of interviews with some leading names in the shopping centre industry. The cover story of this issue of Shopping Center News identifies the core take of these stalwarts on the State of Indian Retail Real Estate, in terms of key issues and challenges, and tries to find the fundamental strengths that will stand the industry in good stead in the long run.

Finally, coming back to the Veda meet and the India Retail Forum. If we go by the excitement and quality of insights generated at that curtain raiser, the IRF itself that opens on 24th September, and is packed day-on-day with such sessions, with speakers that are the finest minds in their subjects, and with a huge array of subjects that span the entire spectrum of retail, promises to be a real humdinger.

I look forward to welcoming the ones that can make it there. For the ones who can't, we promise an exciting next issue of Shopping Centre News, that will fill you in with all that transpired.



Amitabh Taneja

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Shopping Centre News

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INDIA
WORLD

STORE LAUNCH

Newly set-up stores in malls

SPOTLIGHT

A look at the newly launched malls in India

CENTREPOINT

Indian Retail Real Estate- A Journey Akin to a Hurdle Race

Indian retail real estate seems to have seen it all - from a boom to a burst but still this hasn't really intimidated the players operating in this field to step back and withdraw from developing new malls. Rather what has happened is that today developers are more cautious, which is proving to be a good sign for the overall growth of the industry.

IN FOCUS

Are You Mall Ready?

Traditional grocers are gearing up to modernise, and gain an edge over their competitors – a common sentiment expressed by grocers who are being impacted by the changing retail landscape – with many even looking mall-wards.

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Malls are turning out to be a new hangout joint for kids

The significance of kids' choices on shopping behaviour, especially from dual income families, is becoming crucial and gaining a lot of attention of researchers interested in retail sector. Shopping malls are coming up with the environment, which not only grabs attention of kids but also entices them for repeat visits.

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The Indian retail sector is in a dynamic state of re-invention, with the initial hit and-miss approach based on perceived absolutes and gung-ho 'make-money-and run' attitudes rapidly giving way to better planned malls, now located at places much more conducive to business, and based on viable business models.



The views expressed in the guest articles are those of the respective authors. The editor and publisher may not necessarily subscribe to the same.

Are You Mall Ready?

Traditional grocers are gearing up to modernise, and gain an edge over their competitors – a common sentiment expressed by grocers who are being impacted by the changing retail landscape – with many even looking mall-wards

By Annie Johnny

while there are a few who took the plunge but have retracted.

Lure of the mall

Observes Pragya Singh, Associate Director, Retail and Consumer Products, Technopak, "In most cases, traditional grocers open stores in malls to get access to more footfalls, cater to a good catchment, and build brand image to compete with modern retailers as well as leverage existing loyalty and popularity to increase sales."

As retail in India becomes more organised, retailers are also having to deal with increasing internationalisation of products, with suppliers and manufacturers adding pressure for upgradation and modernisation of stores. For such grocers, who want to modernise and upgrade their services, a store within a mall can be the right platform to connect with customers used to a modern retail environment.

Not surprising then that many food and grocery retailers are considering opening a store in a mall which comes complete with air conditioning, clean surroundings, modern fixtures and display shelves, maintenance, round-the-clock security, car parking, and the greatest attraction of all – increased

In India, traditional and modern retail outlets will continue to co-exist. But there is a noticeable change of late as the former are beginning to upgrade. They are gradually redefining themselves by increasing floor space and introducing self-service format, and extending the range of their product offerings. In fact, this phenomenon is already visible across the country, with some independent family run stores even looking at malls for a possible shift/expansion. Some have already taken the great leap forward by opening a store in a mall, others are weighing the pros and cons of such a move,



footfalls. And with space for expansion becoming a constraint on high streets, the mall does appear an attractive option.

Delhi-based Morning Store, with a history that dates back to 1965, is one such retailer which has, over the years, imbibed modern retail practices. The store in an up-scale market has computerised billing, a software that enables owner Agosh Malik to view activities on his shop floors on his computer, while cctv cameras capture and record the day's happenings. The store stocks niche, imported products, and has expanded to include a wine section and a frozen food section in the basement. It has now grown to three stores, of which, one is located at the Living Style mall in Jasola, New Delhi, where it opened in 2009.

Says proprietor Agosh Malik on his decision to open in a mall, "Our store in Sarita Vihar was not meeting our expectations so we decided to look for another location. When we got an invitation from the Living Style mall developer, we decided to go for it, as malls present freedom from bills for air-conditioning, maintenance and generators, besides a good shopping environment."

At 2,000 sq ft, Malik's store in the mall is smaller compared to his other two in Delhi's Greater Kailash and Vasant Kunj markets, which measure between 4,000 and 6,000 sq ft. Even though the rent is very high, Malik is happy with his decision. "I do not pay any rentals for my flagship store in Greater Kailash, yet sometimes, even the cost of air-conditioning can eat up our margins. I feel relieved that I do not have to worry about any of this in my mall store," says Malik, who is satisfied with the store's performance.

When Kunaal Kumar of Modern Bazaar decided to open a store in a mall in 2009, he wanted to cash in on the growing mall culture, and leverage the brand value of his 42-year-old retail outlet in Delhi's Basant Lok, and create more visibility and interest around it. The family-owned Modern Bazaar has, over the years, become synonymous with the quality and width and



variety of its imported food items. The store also draws a loyal band of customers for its in-house bakery that offers fresh products daily, and its exclusive seafood and cold cuts' section.

While the flagship store spans two floors measuring 4,000 sq ft area, the store at Select Citywalk mall in Saket is around 1,000 sq ft. Says Kumar, "When I decided to launch a new store, I decided would be in a mall, for which I chose Select Citywalk even though several other malls were offering me a better deal, because it is the most popular in South Delhi." Kumar, along with some partners, has opened another store cum cafe called Dolce Vita in Mumbai's Phoenix Palladium mall. "Modern Bazaar is a brand now and can pull in a lot of customers," says Kumar.

Location

A mall's location can also determine the success rate of a grocery store located in it. As most malls are built far away from the main town, customers used to the easy access of kirana shops and stand alone retail stores near their residences, would not opt for grocery shopping at these malls. Retailers who are operating in malls also observe a difference in the frequency of the customers coming to their stores, where sales peak during the evening instead of in the morning, and weekends are their busiest days.

WHY MALLS?

- The mall is becoming a place for commerce and convenience
- Grocery stores can fill vacant spaces left by closed department stores or other large tenants
- Since a mall pulls people from a greater distance, it can be good place for food stores to locate
- Grocery stores are appealing because shoppers typically visit malls once a week, and can have a complete entertainment and shopping experience, including grocery
- It is a growth opportunity for grocers if a mall gives them exposure to geographic market segments which they cannot reach any other way
- Adding food choices in a shopping environment will help extend the time shoppers spend in a mall
- Grocers can generate more traffic, and create better sales.

Comments Kumar, "Mall visits are basically weekend trips. Unlike in the high streets, people do not make a special effort just to come to our store. A visit would be part of their larger itinerary, like clubbing entertainment with shopping for grocery. This is because entering a mall can be somewhat tedious – from queuing up in the car parking line, to walking the long distance to the entrance, to the security check, to going up the escalator."

Both Morning Store and Modern Bazaar are located in malls that are situated in high footfall areas – which is a definite advantage. While the Living Style mall is close to a bustling residential area, Select Citywalk is in a busy part of South Delhi and well connected with the Metro and other public transport services. To make it more convenient for the shoppers, the mall provides a shuttle service to the metro station.

"A retailer should definitely give importance to the location of the mall when planning to set up a store. What worked for us was that the mall is in the middle of a high-density residential area, which has a mix of both middle and upper class people. Such a mix is important, because if the area has extremes like only upper class, the store will not work," says Malik.

While the mall stores seem to be positioned for doing brisk business, both Malik and Kumar admit that high streets are still their most profitable ventures. "So far, the store at Selectcity has not been profitable. The sales from our high street stores are much higher. Even though a lot of people are roaming around in the mall, very few are actually buying. People find it more convenient to shop from the high streets, you just have to hop in, buy your stuff and hop out of the store," says Kumar. "But calculating



A Prelude to the India

Retail Forum (IRF) 2013 Experts share their mantras on the key to scripting a profitable store in Indian retail

By Zainab Morbiwala

The stage is all set to welcome India's biggest retail event to take place between September 25 – 26, 2013 at The Renaissance Hotel in Mumbai. Completing a decade of its journey is the India Retail Forum (IRF) which has earned itself the mark of being the most coveted and anticipated retail events in India. It is no secret that IRF attracts scores of people from not only Indian retail but people from across the globe who aspire to be a part of the India retail story and would not want to miss

attending the IRF to hear industry stalwarts share their experiences and expertise. As Amitabh Taneja, chief convenor, IRF well put it, "It has been 10 years of converging, discovering and innovating! At IRF, our aim is to offer a platform where peers from within the retail industry can exhibit, explore and expand their reach, knowledge, experiences and expertise."

To talk more about what can be expected from the 10th Edition of the IRF, a curtain raiser meet was held in Mumbai at Veda, Palladium. Present at the meet were three key industry personnel who shared their views on the current dynamics, their journey and peek into what the future holds for Indian retail. Where Abheek Singhi, partner and director, The Boston Consulting

Group stressed on why it wasn't right to get too disillusioned with the economic downturn; Shailesh Chaturvedi, chief executive officer, Tommy Hilfiger and chairman, Economics of Retail Business Stream at IRF pointed out that it was time that we came forward and worked towards highlighting the 'profit making' aspect of retail in India to attract investments – both monetary and manpower. Sandeep Ahuja, managing director, VLCC and chairman, Retail Execution Stream at IRF 2013 minced no words in stating that strong execution is the key to success in retail and we as retailers need to ensure that our team is well groomed and is competent enough to take care of the customers.

Knowledge Sharing

Flagging off the roundtable was Singhi with his fantastic analysis of the current economic dynamics that we witnessing today and how it needs to be seen from the lenses of history and geography. He shared, "One of the brief that was given to me by the team at Images was to share my views on what really is about retailing in the downturn. On pondering further, I deliberately talked about taking inspiration from geography and history. I have to confess something - I actually do not believe that the situation is as it is being made out to be. 3-4 years ago, things weren't as good as they were made out and similarly this time, they aren't that bad as they made out to be." A bulls-eye there and a strong message too for all of

us in the retail industry, isn't it?

He further went on to explain his point saying, "Let's say for the sake of argument that we end up with a five per cent growth by the end of this year, we would still be 3-5 times higher in growth than what it is in the market of other parts of the world. The facts remains that it could be that we doing better / companies doing better absolutely but I think as we talk about inspiration from history and geography, it is important to keep in mind that what has happened over the last quarter or six months shouldn't influence what is the perspective over a longer period. If we look at the amount of wealth creation which is happening in this part of the world, the only time something similar happened was in the period of 1870 to 1920 in US n even in those periods we actually had crisis and crashes. There was a silver crisis in mid 1880 where over a 3 month period the commodity prices increased by over close to 200 per cent, the equivalent of the stock market at that point of time cracked by 70 per cent and unemployment rose by 25 per cent. So even in the best periods there are periods of volatility that would happen." This obviously does imply that it is not right to have a short

term view but it was imperative that we maintained a long term view rather than getting disillusioned and create negative sentiments within the industry.

Singhi spoke on the journey of Indian retail since the first Shoppers Stop was opened way back in 1990. He was quick to point out that the expansion has only happened in the last few years for all major companies and it is important to keep in mind that it is only in the last few years that we are witnessing an economic downturn. Elaborating on this, he shared, "Over the last few years there has been economic uncertainty but if we look more closely, the growth trajectory that has happened in the last few years is much sharper than what has happened in the previous few years. So even in the times of economic uncertainty, the growth rate of retail in India has happened anytime in the past."

Accentuating the need to cut the drama around the economic downturn and how it isn't really wise to state that we just averted the Great Depression 2, Singhi stated that looking at the Great Depression that we had in the period between 1929 – 1933; if at all any comparison needs to be made, then ideally it should be based on the learning's from it. He shared, "Taking inspiration from history, when we look at the global financial crisis, people say that we just managed to avert the Great Depression part 2. So I went to see what happened during the Great Depression - things were bad on every dimension that you could think of – GDP shrank, consumer confidence was down, financial markets fell, stock markets lost as much as 80-90 per cent of their value and if you look at industrial production, it fell and company profits fell as well. So let's look at

inspiration from the perspective of what happened in that time as there were several sectors that did well and poorly and several companies too that did well and poorly. The worse affected was retail during that period where profits fell by more than 250 per cent. The other sector that was worse hit than retail was motion pictures."

Taking cue from what happened to companies then and substantiating the same with an example of Woolworths, he shared, "When we look at companies, we see that the companies that outperformed then still exist. So there is a lesson here - companies that use the downturn well emerge strongly not only in short terms but also long term. When I looked deeply into what these companies did then we realize – cost control was one thing that emerged out strong. Second was related to the measures undertaken to protect revenues and the 3rd is – what you do to invest in the future. E.g. Woolworths went ahead with a decisive cost cutting - this was the time where they went ahead with reduction in labor cost but not through firing people but making stronger contracts. They went ahead with vendor re-negotiation and also streamlining their supplier management with a bit of portfolio re-positioning. They did not reduce their expansion. They were setting up stores at the rate of 2 -3 per months. That is one inspiration from 80 years back."

Coming closer in terms of time and geography, he shared an example from Europe, "Looking at Europe in last few years; there is a food retailer called Mercadona. If you look at food and grocery space, it is one of the few retailers in Europe who has grown significantly in the last five years at the rate of 12 per cent. They were aggressive with their private labels and this helped them outperform their competitors in a much better way. They have discovered that the strongest marketing proposition is what you and I tell each other - so they have invested more in proximity marketing – word of mouth marketing which is cheaper and stronger in building relationships. They have developed

"OVER THE LAST FEW YEARS THERE HAS BEEN ECONOMIC UNCERTAINTY BUT THE GROWTH TRAJECTORY THAT HAS HAPPENED IN THIS TIME IS MUCH SHARPER THAN WHAT HAS HAPPENED IN PREVIOUS YEARS." ABHEEK SINGHI, PARTNER AND DIRECTOR, THE BOSTON CONSULTING GROUP



The State of Indian Retail Real Estate

By Manisha Bapna

In the last decade, more than US\$ 1 tn of retail real estate has been traded around the world. In India, too, there has been encouraging growth in the retail real estate sector. After the transition in the shopping culture of consumers, the growth of malls, which was initially seen only in the metros, has now permeated Tier-II cities and is gradually moving to Tier-III towns.

Until very recently, the retail value chain too was dominated by middlemen and intermediaries. With a strong surge in urbanisation and in organised retail, the leakages have been brought to minimal levels with benefits being passed on to the consumers. Steady evolution of retail has been witnessing apt support from newer government policies. However, the sheer quantum of retailers is low in India and only a select few have the capacity or the inclination to expand geographically. To the few retailers who can, mall developers in India have been committing time lines they cannot realistically adhere to, and this has led to a slowdown in the expansion plans of retailers. Fund flows remain an issue, as most projects are not tied up with funding bodies in a structured manner. Mall launches are also plagued with licensing issues and government clearances. With these thoughts, *Shopping Centre News* team spoke to a number of industry experts to understand the state of retail real estate development in India.

Retail real estate depends on retail, which depends on consumption, and which in turn depends on fiscal management. India's retail story has been one of the most spectacular marvels of the new millennium, given the present challenges of recession, infrastructural constraints, and unfriendly policies. The sweeping changes in India's socio-economic framework have also led to the emergence of a buoyant retail sector, which thrives on the progressive young consumer.

According to the findings of 'Malls of India' research by *Images Group*, the journey which began with just 2 malls in 1999 has been rapid and eventful beyond the year 2005 in which the number rose from 50 to 250 by 2010, till the stage when today we have 470 operational malls in India, with another 250 slated to come up by 2016.

Speaking from the standpoint of an industry stakeholder, the magnitude of growth has been satisfactory but quality malls are still needed in the right places. International brands would want an address that matches their reputation and as they grow their customer base in India, they would want to evolve organically from shop-in-shops to own independent showrooms. The shopping centre stocks can have a consistent growth of 12–15 per cent until 2020, if more retail brands decide to set shop in India considering the new FDI initiatives.

With FDI, the retail realty activity would be on the upsurge and services will become more streamlined, resulting in enhanced demand for professionals and specialists not just linearly but exponentially. "With the Indian



The Indian retail sector is in a dynamic state of re-invention, with the initial hit-and-miss approach based on perceived absolutes and gung-ho 'make-money-and-run' attitudes rapidly giving way to better planned malls, now located at places much more conducive to business, and based on viable business models.

government liberalising the Foreign Direct Investment (FDI) regime, the property market has emerged as one of the most appealing investment destinations for both domestic and foreign investors. The high growth of Indian real estate and boom is primarily due to mall culture, multiplexes, and hypermarkets. The retail real estate is expanding to remote towns and big construction companies have been showing keen interest in developing shopping malls, skyscrapers and new infrastructure in these cities," says Kishore Bhatija,

MD & CEO, Inorbit. "In the short run, FDI has the potential to add 3–4 million new jobs. Another 4–6 million jobs could be created in logistics, contract labour, house-keeping, and security. It would help develop logistics, cold chains, and warehouses. Government revenues could get an additional US\$ 24–30 billion through various taxes. For consumers, it would mean savings of 5–10 per cent," feels Paresh Mishra, Director – Operations, Western Region, Virtuous Retail.

According to Dheeraj Dogra, Group Chief Mktg. Officer, Shristi



Indian retail real estate has witnessed encouraging growth

“Foreign investors find investing in real estate in India a risky business on account of lack of transparency in land ownership, planning issues, financial dealings and valuation practices. Brand and reputation risk in the hands of ‘wrong’ Indian franchisees and partners is also a serious concern. Political and bureaucratic interferences are rampant, which eventually discourage investors. Another deterrent is the cost of borrowing in India, which is too high.”



– Dheeraj Dogra, Group Chief Mktg. Officer, Shristi Infrastructure

Infrastructure, “Foreign investors find investing in real estate in India a risky business on account of lack of transparency in land ownership, planning issues, financial dealings and valuation practices. Brand and reputation risk in the hands of ‘wrong’ Indian franchisees and partners is also a serious concern. Political and bureaucratic interferences are rampant, which eventually discourage investors. Another deterrent is the cost of borrowing in India, which is too high.”

The Indian retail real estate has had a mixed and uneven growth profile. There has been a spurt in growth of malls in Tier-II and -III cities. Cities which otherwise had

been major traditional markets have now been exposed to retail and cash-and-carry formats. Regions like Kerala are largely untapped till date. While prominent cities have an over-supply situation, some are comfortable like Kolkata, while others are yet to notch up a decent supply. Also, if we are talking about shopping malls as the sacrosanct offering, we are yet to see niche segments being occupied generally. Unlike cities of the West, which are quite spread out and decentralised, Indian cities have far greater population densities and are much more city-centre oriented. The cost of land in good residential neighbourhoods is extremely expensive, which acts as a deterrent

to mall development. In Tier-II and -III cities, self-service shop models might not work, as consumers there need more interaction on the shop floor. There is enough potential growth in the luxury sector in Tier-I cities.

“Since shopping malls are social spaces, the government should make available the land at viable rates and the infrastructure or transportation should be developed to suit the mall visitors. Single-window clearance must be made for the approval. Direct and indirect tax structure must be rationalised and simplified. The interest rates should also be moderated considering the long-term payback nature of the industry,” says

Harshvardhan Neotia, Chairman, Ambuja Neotia Group.

The main problem lies with the design of the malls, which is more architect-oriented than retail-oriented. Services and their implementation are often compromised. Basically, the malls need to be retail friendly. While planning and designing malls, one should keep in mind the need to be flexible and have dynamic parameters tweaked from time to time. But, according to Pranay Sinha, MD, Starcentres, “I don’t think there will be a game-changing impact on space take-up or occupancy levels at mainstream or premium malls, at least not for a while. The key challenge for these

(M)ALL management

The Era for Specialists

There are around 1,000 of malls in India, out of which 20 percent are successful. Considering it one can imagine the amount of bad investment lying in the Indian retail real estate industry. It is believed that the secret of success is known to the person who has failed the most. Unfortunately, nothing is more inaccurate than this in the shopping centre world.

By Anand Sundaram

The shopping centre industry is full of case studies of mall companies that continually churn up one successful mall after another, and on the other hand

a plethora of companies whose malls- well just never launched. They just opened, stayed for a while and died a quiet death. The reason in hindsight, as always is apparent. Most large developers knew the power of a specialist and created specialist teams that have constantly grown and evolved to try and ensure that their assets deliver what is desired to their consumers and their retailers.

The Wonder Years

I call the early shopping centre years of the Indian retail real estate as the wonder years. It was a beautiful uncomplicated business to be in. In the days of yore, one could build a reasonable structure, retailers would take up stores and shoppers would come in. But then came the era of the informed Indian shopper. He was visiting places, malls and came back with tales of

experiences he has never imagined. Unlike Darwin's evolution theory which took hundreds of years, this evolution was complete in less than half a decade. Retailers quickly realised this and so they evolved too. Suddenly, mall science came into the picture. There was a great need for much more focused design of the building, store demarcations were altered and suited to the emerging retailer needs. There



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