

# Shopping Centre **News**

DECEMBER 2014 - JANUARY 2015

DEVELOPING RETAIL IN INDIA

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## UNEARTHING THE RETAIL REAL ESTATE **POTENTIAL IN TIER II & III CITIES**

- ➔ Ubiquitous Mall Culture: Evolution of Brick-and-Mortar Retailers
- ➔ How we like to shop: CBRE Asia Pacific Consumer Survey 2014
- ➔ India Welcoming International Entries
- ➔ The Big Malls in Small Cities



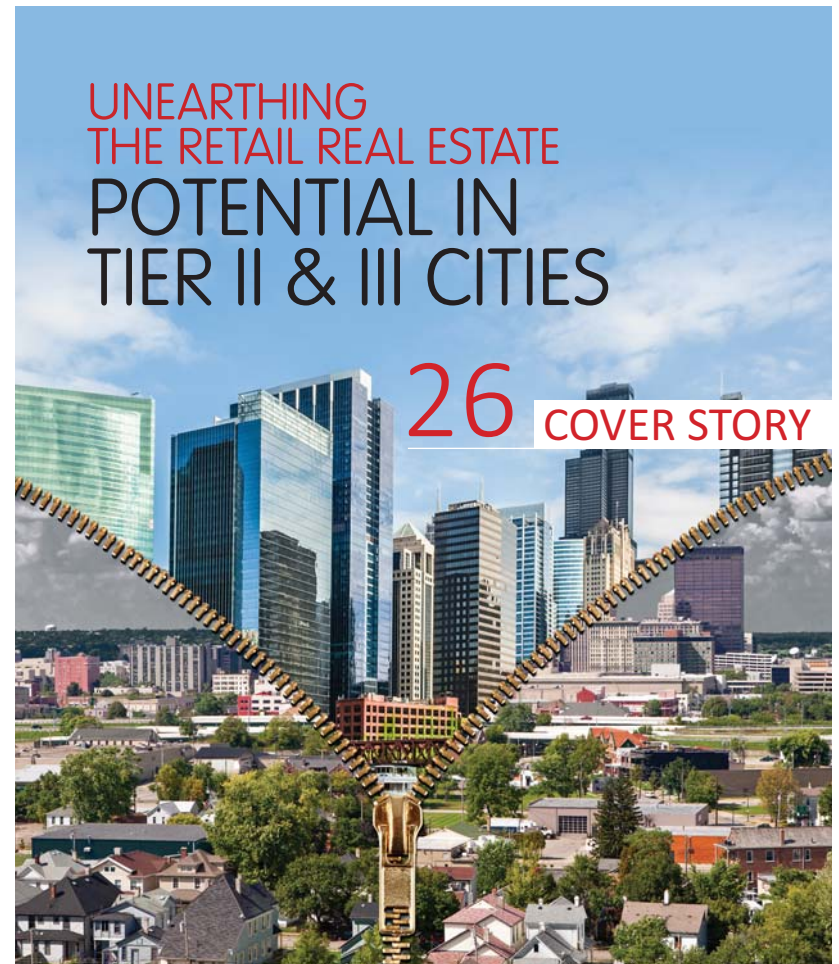


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4 | **Shopping Centre News** | DECEMBER 2014-JANUARY 2015

## CONTENTS

<b>EDITORIAL</b>	4
<b>ROUNDUP INTERNATIONAL</b>	8
As the UAE's retail market grows, a ripple effect is more than likely to cause other Gulf countries to follow suit.	
<b>ROUNDUP NATIONAL</b>	10
Mall operators are going all out to defend their ground and get a piece of the online shopping pie.	
<b>SPOTLIGHT</b>	14
A look at upcoming malls.	
<b>STORE OPENING</b>	16
A look at the newly launched stores in malls	
<b>MALL LAUNCH</b>	20
The Bokaro Mall, the first mall of Bokaro city.	
<b>SURVEY</b>	22
CBRE recently released its first-ever Asia Pacific Consumer Survey report.	
<b>FUNDAMENTALLY</b>	24
Government of India has announced REIT regulations, a move much awaited by the retail sector for many years.	
<b>EXPERT SPEAK</b>	36
The last one and half decades in India have been an exciting phase in the Indian economy from the Mall development perspective.	
<b>MARKET SCAN</b>	40
Currently, various positive macro-economic factors reflect a definite revival in the Indian economy.	
<b>TRENDS</b>	42
It has been a decade since international brands have started to rule the Indian soil.	



**UNEARTHING  
THE RETAIL REAL ESTATE  
POTENTIAL IN  
TIER II & III CITIES**

**26 COVER STORY**

The hot topic playing on every conversation table is the growth potential of tier II and III cities and towns with mall culture already being tested and tried in tier-I cities and the metros.



<b>FLOORING</b>	46
When designing a shopping centre environment, it is vitally important to ensure that the finished space will create an engaging retail experience .	
<b>CONCEPT</b>	50
X5 Retail has pioneered a unique concept to bridge the gap between emerging entrepreneurs and high-end retail destinations	
<b>MANAGEMENT</b>	54
Developers whose operations had slowed down during the lull are still faced with multiple concerns.	
<b>VIEW POINT</b>	56
Standalone boutiques and kirana stores, is undergoing a steady makeover.	
<b>STRATEGY</b>	58
The mall culture continues to grow in the country, offering numerous options and possibilities.	



CBRE recently released its first-ever Asia Pacific Consumer Survey report—compiled from interviews with 11,000 consumers from 11 major countries across the region. Respondents were asked how and where they shop; how they value and perceive their shopping experience; and how they see the future of shopping in Asia Pacific. The report found that consumers in the geography have high expectations for the overall shopping experience and that tailoring venues to match consumers' preferences is vital for retail venues to be successful in the evolving shopping landscape.

BY VIVEK KAUL



### WHAT DO SHOPPERS WANT?

CBRE's report revealed that consumers in the Asia Pacific overwhelmingly prefer large shopping centers—defined as those with over 50 stores. With around 65 per cent of respondents preferring large shopping centers over smaller shopping centers and high streets, this confirms the fact that consumers in the region highly value the overall shopping experience and variety provided by large retail formats.

The findings also indicated that consumers across the geography shared very similar preferences as affordability, cleanliness and security were ranked as the most valued factors among all age groups. Aside from aesthetic reasons, an uncluttered and hygienic environment appears safer and more reassuring. Features such as bright lights, an extensive network of security cameras and well-trained security staff ensure shoppers' attention is focused on the product offering and not on their safety or wellbeing.

Signage and information counters (both human and virtual) positioned at strategic locations can aid consumers in navigating through the shopping mall, while a well-trained team of customer relations staff can further enhance the overall shopping experience. The message from consumers to shopping mall operators is clear: remove the negative distractions.

The survey, understandably, threw up disparities among respondents of different age groups, but the findings underline the importance of property management basics. By attending to these, shopping center operators will be able to help consumers focus on the main objective of visiting a retail destination—shopping.

As expected, the principal disparities among age groups relate to the social aspect of shopping malls. The younger generation (age 18–24) place greater importance on the social features of a shopping center. They regard it as a place to meet friends and expect it to include an extensive range of F&B options. In contrast, the older generation (age 55–64) values the practical aspects of a shopping center, such as parking facilities.

Landlords and retailers should also take note of the need for convenience with consumers, indicating that accessibility and parking are important—especially the requirement for free parking—due to the lack of mass transit infrastructure in many Indian markets. It is interesting to note that around 80 per cent of survey respondents preferred travel time to shopping destinations to be under 30 minutes.

Consumers in emerging retail markets reported that significant improvements had been made to shopping centers in their region over the past three years. These improvements were aimed at providing consumers with a more complete 'retailtainment' experience that has been shown to drive foot traffic and increase the overall time shoppers spend at a retail destination—this can be seen in a number of shopping centers



# UNEARTHING THE RETAIL REAL ESTATE POTENTIAL IN TIER II & III CITIES

BY ZAINAB S. KAZI





In 2002, when retail revolution in India was at its teething stage, discussions more or less centered around malls taking over high streets and organised retail formats (supermarkets and hypermarkets) taking over local kirana stores. Fast forward 2014, and the hot topic playing on every conversation table is the growth potential of tier-II and III cities and towns with mall culture already being tested and tried in tier-I cities and the metros.

**B**ig names like Phoenix and the Raheja Group may not find a mark when it comes to malls and shopping centres in tier-II and -III cities and towns but it will not be surprising to see them soon spreading their wings across these segments with business doing better than what it is for them in the metros. Reason: The ever growing aspiration levels of people in these cities and of course attractive rentals and low manpower cost. Yes, we know this is no news at all. We have been aware of the potential that tier-II and -III cities have when it comes to retail real estate. However, what remains uncertain is how successful retail entities, specifically malls and shopping centres, would be in these places.

To put things in perspective, here is an excerpt from one of our earlier articles: Various studies have pegged the size of middle class between 350–400 million people, out of which approximately 100 million people live in tier-II and -III cities. One should not be surprised to learn that today luxury cars sell more in small cities than in the metros. Big Bazaar's single largest bill till date comes from its store in Sangli, a little known town in Maharashtra, and not from metropolitans like Mumbai or Delhi. Many specialty and evolved categories (such as hair conditioners, air fresheners, prickly heat powder and cheese) rank on the top of the shopper list in smaller towns and cities. Even fashion products, watches, and apparels are showing signs of growth in smaller towns.

#### POINT OF VIEW

Accentuating the above claim is the fact that brands from across various categories - Dr. Batra's (healthcare) to Lenovo (IT) to Funkskool (niche stores) and practically every other brand - are looking at expanding their reach in the smaller towns and non-metros. Aptly explaining the potential non-metros and small towns have, Sharad Venkta, MD and CEO, Toonz Retail India Pvt. Ltd. shares: "Small towns have their own set of advantages. Contrary to the name, these places are high in aspirations and have more disposable money. At the same time, the avenues for spending this money are few and ultimately consumers have to travel to the

nearest big town for their shopping requirement. Our go-to-market strategy aims at reaching closer to these consumers and providing them solutions for their parenting needs. Our major stores are in non-metros." Funkskool, which has been behind the launch of LEGO in India, is eager to expand to small towns and tier-II and -III cities. Currently, the brand has five stores in cities like Indore, Amritsar, Cochin, Coimbatore and Ghaziabad and going forward the plan is to have 10 stores by the year-end. The model they follow to reach out to these places is based on the franchise route.

Before we delve into the experience malls have had in tier-II and -III cities or towns, it will be interesting to note that super specialty homeopathy chain, Dr. Batra's, too is looking actively at spreading its network in the non-metros and again, they plan to do so via the franchise mode. The company plans to have 350 clinics by 2016, from the current 145 clinics.

Keeping in mind the age-old adage 'When in Rome, do as the Romans do', the strategy of having a franchise take care of your brand is apt when expanding in non-metros and smaller cities or towns as the latter knows intricacies involved in the business and is also well aware of customer expectations. If there is enough retail real estate space provided, these places will automatically bring forth franchisees who wish to rent space for their retail business.

With presence in cities like Aurangabad, Ahmedabad, Indore, Latur, Nashik and Vadodara, apparel brand Riot too seems to be expanding its base in the smaller town and cities as aggressively it is doing in metros and tier-I cities. Animesh Maheshwari, VP, Riot, a retail venture of Suditi Industries Ltd. says: "The purchasing power in tier-II and -III markets is upbeat and relatively protected from the current anxious business environment. These semi-urban areas have steady growth phenomenon and have hardly suffered any setback due to the chaotic business competition. Unlike metros, consumers in small towns are less concerned about the global mayhem. We have received great response from these cities. The youth population is growing and there is a demand for fashion as this generation is inclined towards westernisation. Riot aims to offer a unique retail experience with latest fashion trends at reasonable costs."





# THE BIG MALLS IN SMALL CITIES

BY SUSIL DUNGARWAL

The last one and half decades in India have been an exciting phase in the Indian economy from the Mall development perspective. The country not only witnessed the birth and growth of shopping Malls, but has also eliminated the economically unviable ones. It has also bettered the existing ones, forcing the developers to rethink on their strategies for future. This has lead to clear demarcation of real estate developers who will specialise in building Malls and the others.

It is not that the smaller cities in India are not used to a Shopping Mall. As a matter of fact, Rave3, Kanpur's favourite Mall has been around even before Mumbai's Crossroads or Delhi's Ansal Plaza unlike the popular belief.

To beat its counter parts in metros, Rave3 has had a multiplex, food court, FEC and stores to complete all kind of retail therapy right from the day it began operations, where as the Crossroads and Ansal Plaza did not have all of these when it began.

With a clear definition and scope of work, the ones who stuck to building Malls have learnt to manage it better. While most of urban India has been covered with the required Mall spaces, the tier-II and tier-III cities promise a huge potential for Malls due to lack of it. Though some towns have had Malls, most of the towns are yet to witness and get used to one.

## WHY ARE THE MALL DEVELOPERS SHIFTING TO TIER-II AND TIER-III CITIES INSTEAD OF METROS?

**Saturated market:** Metros are already saturated in terms of Mall coverage. Almost every locality in big cities has their own Malls. In fact many a times, you will find 3-4 Malls next to each other in cities like Delhi, Mumbai and Bangalore. The vacancy in such Malls is also very high. A huge Mall in suburban Mumbai, which began operations a couple of years ago still has no anchor tenant!

**Land acquisition:** Malls require big portions of land. With the land prices touching sky-high rates, the land acquisition cost becomes a big prohibitive factor for developers to consider a large Mall in metro cities. This is also making it unviable for developers because of the lower returns, comparatively.





METROS ARE ALREADY SATURATED IN TERMS OF MALL COVERAGE



1. INORBIT MUMBAI
2. FORUM VIJAYA MALL, CHENNAI
3. COSMOS MALL, BENGALURU
4. AMBIENCE MALL, DELHI
5. GVK ONE, HYDERABAD

**Better returns:** It is important to note that an average citizen in such cities want easy and organised access to retail / Shopping Malls. This attitude promises better returns to developer. If a Mall in metro gives a return of about 10-12 per cent, smaller city Mall gives 18-24 per cent. For a retail company, the overall occupancy cost is lower in smaller towns, thus increasing its profitability.

#### Higher disposable cash in smaller cities:

While an end consumer in metro earns more than his counterpart in a smaller city, he has very less disposable cash because of higher cost of living. Where as people in smaller cities have more spending capacity and it is growing, giving scope for retail spends, which in turn makes it a viable option for both Mall developer and the retail company.

**An aspirational place:** A Mall is a destination in a smaller town. It is an entertainment place and a community centre for people. Families want to go to a Mall spend some quality time because there is no other place in to go in a smaller city. In smaller town Malls have also become a place where you connect to the society socially with friends, relatives and known people.

"In India, shopping dynamics are distinctly different than in the U.S. and other western countries. For example, shopping is a family activity—nearly 70 per cent of shoppers always go to stores with the family,

and 74 per cent see shopping as the best way to spend time with the family. This Indian preference for family-oriented shopping along with pleasure and fun was found to be consistent across age groups, income segments, regions, and city sizes (Sheth & Vittal, 2007)," said Mansi Batra Patney, in her Doctoral Thesis paper to Iowa State University titled - Indian consumers and their Mall patronage: Application of cultural-self and the theory of planned behavior to patronage intentions.

#### THE PROMISING NUMBERS:

As per our estimates and finding, about 300 Malls are expected to come up in non-metro cities over the next 3-5 years. Besides the sheer number of Malls, they are also growing bigger in size. So far, Mall developers were looking at a Mall size of about 1,00,000 to 1,50,000 sq. ft. But now, they are thinking big. We find them planning a Mall of 3,00,000-5,00,000 lakh square feet, clearly indicating a bigger appetite for

retail space and other activities. Today, an average person in a tier-II or tier-III city is well travelled, has an increased exposure to all kinds of media and is aware of all kinds of brands across different segments leading to big retail spending scope.

"In 2013, the Indian retail sector was estimated at US\$ 520 billion and was among the largest employers in the country. By 2018, the Indian retail sector is likely to grow at a compound annual growth rate (CAGR) of 13 per cent to reach US\$ 950 billion. Food and grocery is the largest category within the retail sector with 60 per cent share followed by the apparel and mobile segment," said a research conducted by Indian Brand Equity Forum.

The investment for constructing a Mall in tier-II and tier-III cities could be in the range of 150-200 crores including land acquisition. The cost of construction is the same all over, be it a metro or non-metro, however Land is cheaper in the smaller cities, thereby making them more viable.

WHILE AN END CONSUMER IN METRO EARNS MORE THAN HIS COUNTERPART IN A SMALLER CITY, HE HAS VERY LESS DISPOSABLE CASH BECAUSE OF HIGHER COST OF LIVING. WHERE AS PEOPLE IN SMALLER CITIES HAVE MORE SPENDING CAPACITY AND IT IS GROWING, GIVING SCOPE FOR RETAIL SPENDS



# INDIA WELCOMING INTERNATIONAL ENTRIES

It has been a decade since international brands have started to rule the Indian soil. Presently, more than 60 per cent of renowned brands are operating here. However, tedious FDI clauses and expensive retail real estate are said to be the main thwarting elements for any international entry. Considering this aspect, is it a reality or just a perception? Leading mall developers of India try to decode the real concerns that impede the growth of international entries.

BY SHIPRA SRIVASTAVA



India is a country with over one billion population. And such a mammoth consumption creates extraordinary opportunities for brands, not only the indigenous but international ones, in all categories. In fact, it would not be an exaggeration to say that imported brands are now passé in the Indian retail space, and the market is reckoning the importance of luxury foreign brands, which are now making their presence felt here strongly. Malls are not an exception now; instead, they are the norm as high street culture is fading away.

Despite more than 60 per cent globally active brands thriving in India, it is still largely an untapped and unorganised retail market as a large number of prominent global retailers are yet to commence operations here. As per the report generated by CBRE, brands such as Lipsy London, TM Lewin and The Limited may soon foray into the Indian market. Hence, retail destinations are also gearing up to cash-back on this opportunity, which otherwise is a challenging task for foreign brands.

Highlighting the opportunities, CV Ganesh, Vice President – Leasing and Marketing, Express Avenue shares that the country holds a considerable advantage over other emerging retail destinations due to its strong domestic consumption and low rate of market penetration by international retailers. India's new middle class is increasingly becoming brand conscious and is willing to spend on quality goods, a trend that is creating numerous business opportunities for mid-range global brands. With the political and economic sentiment improving gradually in the wake of a new central government at the helm, we believe the time is ripe for international retailers to look at India again for business expansions.





Furthermore, high acceptance of international brands by Indians is just spurring the growth of retail destinations. Highlighting more on the same, Sanjeev Mehra, VP, CESC Properties (Quest Mall) shares: "I think almost all the international brands have forayed into the Indian market in the last decade and have done extremely well. In fact, they have made their mistakes and rectified. Market learnings have been there and they have adapted extremely well to the tastes, size of stores and also induced the customers to adapt to them. So it has worked both ways. More than 80 per cent of brands have stayed, which is a good sign. My complaint is that they have not expanded fast enough to take advantage."

### A SNEAK PEAK AT INDIAN RETAIL DESTINATIONS

Retail destinations are evolving and so is the mall culture, and they have successfully accommodated premium brands like Zara, Michael Kors, Forever21, and many more along with super premium brands like Burberry, but the question is have they evolved alike to Western countries?

Sharing her thoughts on the same, Benu Sehgal, Mall Head – Mall Management, DLF Place Saket says: "I feel shopping centres in India have not evolved yet the evolution process is still awaited. As of now they are largely concentrated towards retail. To turn into a complete destination, it is required to add more elements in to it."

Striking a similar view, Harinder Dhillon, Sr. VP – Sales and Marketing, Raheja Developers says: "There is scope for enhancement in retail shopping destinations in India. Very few shopping malls have the necessary pull factor for both retailers and consumers. Strong pull can only be created by quality mall management and good tenant mix. Mall design is also important keeping the circulation, traffic movement, etc. in mind."

**RETAIL DESTINATIONS ARE EVOLVING AND SO IS THE MALL CULTURE, AND THEY HAVE SUCCESSFULLY ACCOMMODATED PREMIUM BRANDS LIKE ZARA, MICHAEL KORS, FOREVER21, AND MANY MORE ALONG WITH SUPER PREMIUM BRANDS LIKE BURBERRY, BUT THE QUESTION IS HAVE THEY EVOLVED ALIKE TO WESTERN COUNTRIES?**

Setting the context right, Prodipta Sen, Executive Director – Marketing, Corporate Affairs and Retail, Alpha G:Corp asserts: "Retail in India has undergone massive transformation in a quick period of time. The emergence of shopping centres is already beginning to define a new lifestyle for India. Expanding retail properties are testimony to the change in retailing. India's biggest USP and asset base is its youthful population, whose appetite for leisure and entertainment is galloping at 14 per cent per annum. With the rapid addition of malls with multiplexes and entertainment zones, there is a coming together of retail, cinema, leisure, F&B and gaming. There is no doubt about the huge demand for clean, contemporary shopping and entertainment complexes that have the best brands and retail formats offering exciting and rewarding shopping experiences. Both malls and shopping centres in major cities are developed and managed to offer convenience to the shoppers besides making it a memorable experience for them."

### CHALLENGES FOR INTERNATIONAL ENTRIES

For any international player to enter the Indian soil, the ordeal begins with beating the tedious clauses of FDI, and finding the space which can justify the brand. Let us throw light upon a few more challenges:

#### LACK OF RETAIL CONCEPTS

Lack of retail concepts somewhere affects the brand experience, which is highly solicited by international brands. Speaking on the same, Sehgal says that most of the malls today are largely banking upon cinema, beauty, fashion and vanilla stores. Alike to Western markets, there is no concept of snow park, water park, etc. or any other destination than the retail, excluding





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