

Shopping Centre News

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DEVELOPING RETAIL IN INDIA

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Malls Adding a Local Flavour to the Tenant Mix

Malls creating permanent & temporary spaces to forge win-win "relationship" with local retailers



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Dear Readers,

Phew! What a month it was.

Five Mega Retail Events in a matter of 8 days. And I would like to thank every single one of you who supported us in our mammoth endeavour of making the IFF 2014, InFashion 2014, India Shoes & Accessories Forum 2014, Food & Grocery Forum India 2014 and India Food Service Forum 2014 such huge successes.

We hope that you will continue supporting us in all our initiatives. The events were all about innovation and inventiveness, and talking about the inventiveness, this issue of *Shopping Centre News* is dedicated to the initiatives taken by malls across the country to support local retailers.

The February-March cover story of *SCN* talks about the camaraderie shared by malls and local retailers. The local retailers who have the strength to expand their business should be encouraged to be present in mall as well. These local retail brands have a ready local market with a loyal customer base, which will help increase the footfall at malls. Shopping centre developers understand how crucial these brands are to create the right tenant mix, and thus need to create specific zones where they can place these local brands and also offer them services that they would require to be profitably operational in that space. Entering the malls can be a win-win situation for both the mall developer and local retailers as foraging in a mall means that a local retailer can overcome his Achilles heels of paucity of parking and unorganised business environment/practices. Local retailers can take advantage of the ready footfall that a mall commands and most importantly, it enables the retailer to be a part of the organised and legitimate retail industry thereby allowing him access to finance and scalability in the long run. Most importantly the synergic principle of sum of parts being larger than the whole will enable this partnership of local retail, modern retail and retail space to drive consumption to a new high.

Apart from this, we have a bunch of few other interesting articles. Stephen Roberts from Bentel Associates talks about the innovative design ideas for malls and how the malls of 2014 should look like. Shubhranshu Pani of JLL discussed about the dead spaces in a mall and how it should get rid of them. Anand Sundaram from PPZ gives his opinion on Retail Scape 2014 and how with the soon to clear political scenario, clearer law/ amendments, policies and governance the year ahead seems to be quite positive on the retail front. The magazine ends with a Snapshot section, which outlines that how each mall took maximum mileage of the Festive season and how they jingled their way in 2014.

We hope that you will like this issue of *SCN* and we will try and churn out more interesting and innovative articles in the next issue.

Cheers!



Amitabh Taneja

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ROUNDUP-NATIONAL

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ADDING A LOCAL FLAVOUR TO THE TENANT MIX

When the mall revolution was setting in India, the first choice for majority of the mall developers was to rope in as many international retailers as they could. The reason was that they grabbed eyeballs and gave the mall an international look and feel. Are malls still fascinated by having international names as part of their tenant mix or are they now more open and eager to have local retailers? And in turn, are local retailers willing to come out of their closet and have their presence in an air-conditioned environment or do they yet prefer stand-alone existence on high/corner streets? Let's find out more

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ADDING A LOCAL FLAVOUR TO THE TENANT MIX



MAGNATO HAAT AT MAGNETO THE MALL, RAIPUR



RANI NA HAJIRO, GUJRATI BAZAAR AT ALPHAONE MALL, AHMEDABAD

When the mall revolution was setting in India, the first choice for majority of the mall developers was to rope in as many international retailers as they could. The reason was that they grabbed eyeballs and gave the mall an international look and feel. Are malls still fascinated by having international names as part of their tenant mix or are they now more open and eager to have local retailers? And in turn, are local retailers willing to come out of their closet and have their presence in an air-conditioned environment or do they yet prefer stand-alone existence on high/corner streets? Let's find out more

BY ZAINAB MORBIWALA

Welcoming Them On-Board!

Be it a Flea Market at uber cool Select CityWalk mall of Delhi or concepts such as Magneto Haat and Magneto Palika Bazaar at Magneto The Mall, Raipur and AlphaOne Mall, Ahmedabad's Rani na Hajiro, which is a Gujarati Bazaar named to celebrate Ahmedabad's age old shopping culture; all these malls in their own unique way are trying to break stereotypes and emerge

as one-stop destination for "shoppertainment."

Putting things in perspective, Mehul Thakur, Director, Viva Group, shares: "Retail all over the world has been transforming from high street to malls. Even in India, this transformation will happen, albeit at a slower pace. With growth in per capita income, people are spending more and expecting more, which in turn requires retailers to move from their dominant

locations to be more closer to consumers. This has given rise to the shift of local retailers to malls where shoppers prefer to flock and shop. Local retailers need to move out from their comfort factor, and in order to stay competitive, they should take on organised retailers head on, on their home turf which is malls."

Highlighting the power of local retail brands, CV Ganesh, Vice President, Leasing and Marketing, Express Avenue, states: "Today's local brand can become tomorrow's national brand. You can never discount the power of a brand and the force behind it. As long as the retailer has a good offering and a sound business model, it definitely makes sense for him to enter the malls. It also gives him a chance to showcase and grow his business beyond his geographic boundary."

Rajendra Kalkar, Senior Centre Director, The Phoenix Mills, wonderfully puts down the need for both the malls to have local retailers and the need for local retailers to have their presence in malls by stating: "Since past few years, malls have progressed from being the proverbial Mecca of shopping to a multi-utility destination centre where one can choose from a plethora of options pertaining to activities such as shop, play, eat, and unwind. More mall developers are opening up to the idea of providing consumers with more options ranging from spas and theatres to ice skating and much more. Now you would see that most indigenous brands are seeking a place in a mall to make their presence felt among the customers by not limiting their brand presence to their region. It is a logical move for such retailers to make brand visible at shopping centres as well since nowadays the consumers also look for customized and handmade products along with other high-end brands available in the market. Malls provide the retailers a perfect mix of audience to market their products, which helps leverage the footfall of the mall."

Adding to this, Nizar Jain, Vice President, Oberoi Mall, shares: "Malls are successful if they fully reflect the needs and aspirations of the catchment area, which are met by both local and international brands. In the last decade, we have seen both international and local brands opening and shutting shops at shopping centres. Malls offer far more convenience, comfort and safety than traditional high streets, and it only makes sense for traditional high-street retailers to adopt to this model. Considering the brand universe is limited, tenant mix in most malls is more or less the same and it is these local retailers who create a local and unique flavour by offering products that otherwise national and international retailers do not provide, be it various categories such as food, accessories, gift articles and handicrafts"

How apt it is for a local retailer to move to a mall? A million dollar question that has been a topic of debate and discussion at various forums and events off late. It is interesting to note that where today malls are open and willing to have local retailers, it is the retailers who are shying away from entering the malls. On what makes it imperative for local retailers to be a part of the mall culture, Pushpa Bector, Senior Vice President and Head, Leasing and Mall Management, DLF Mall of India, says: "We feel that local retailers who have



LOCAL RETAILERS GRADUATING FROM HIGH STREETS TO MALLS



OBEROI MALL, MUMBAI



MARKETING INITIATIVES AT EXPRESS AVENUE, CHENNAI

THERE ARE NO BIG ROADBLOCKS WHEN IT COMES TO THE PERFORMANCE OF LOCAL BRANDS. BUT THERE ARE INSTANCES WHERE SOMETIMES THESE BRANDS DO NOT UNDERSTAND THE WORKING AND MARKETING ACTIVITIES THAT ARE INITIATED BY THE MALL. UNLIKE INTERNATIONAL AND ESTABLISHED BRANDS, IT TAKES A LOT OF CONVINCING TO MAKE THEM UNDERSTAND HOW MARKETING INITIATIVES HELP IN PROMOTING THEIR BRANDS AND ALSO BENEFIT THE MALL

the strength to expand their business should be encouraged to be in the mall. These local retail brands have already market for the customers with a loyal customer base, which will help increase the footfall at the mall. Mall developers understand how crucial these brands are to create a right tenant mix and thus need to create specific zones where they can place these local brands and also offer them services that they would require to be operational in that space."

Without mincing any words on why local retailers need to shed their inhibition and enter malls, Sanjeev Mehra, General Manager, CESC Properties (for Quest Mall), says: "I think this is a decision that the local retailers have to make. If they want to grow and expand, they must be open to being a part of a mall as no other retail space is being created in the organised space. However, the other school of thought is that when you expand, your quality drops. But then again this applies to the F&B sector, though in other spaces I think it is a must."

Challenges due to Change in Track

Sharing the challenges faced while roping in local retailers to be a part of DLF Mall of India, Bector says: "There are no big roadblocks when it comes to the performance of these brands. But there are instances where sometimes these brands do not understand the

working and marketing activities that are initiated by the mall. Unlike international and established brands, it takes a lot of convincing to make them understand how marketing initiatives help in promoting their brands and also benefit the mall. However, the second and third generation of such brands are aware of the changes happening in the retail environment and understand the nuances of marketing and have the right kind of sensibility to understand the process required to fill the gap." Thakur adds: "The major roadblock in signing local retailers is their mindset. They have grown in their owned properties and prefer to be at crowded places and paying rent prevailing in the market. Facility charges and HVAC charges are other stumbling blocks that local retailers have never experienced." Gerald Mathew, Marketing Manager, Infiniti Mall, raises a valid concern by local retailers, which poses a challenge for malls while signing them and states: "Local retailers are generally not exposed to international trends. One has to be patient to explain the advantages of signing up spaces in a mall. They are very cautious of outgoing and generally look at the downside first and avoid taking any risk."

Bringing in an interesting perspective on the challenges front on behalf of the malls, Kalkar adds: "It becomes a bit difficult to sign-up a local retailer if the brand presence isn't that strong as we need

INNOVATIVE IDEAS IN MALL DESIGN

Malls today are not just meant for shopping, rather these have become places of social interaction. Sales generated in a shopping centre depend upon the amount of time people spend there. It has therefore become all the more important for mall developers to innovatively design their property to keep the customers entertained for longer

BY STEPHEN ROBERTS



AMBIENCE MALL, VASANT KUNJ

When it comes to planning and designing of shopping malls, the first basic principle is to remember that despite the change in trends over various generations, the reasons people shop remain the same and principles of good planning must be adhered to. Over the past 50 years, we have witnessed retail evolving from shops on high streets to strip malls, enclosed centres and multi-level super shopping malls. But in spite of all these variations, few constants such as location, access, visibility, good parking, a well-planned footprint and a good tenant mix will never change and contribute to successful mall development.

Everything else you do is complementary only to these fundamental principles. Of course, there are always exceptions to the rule, but in general, if you are guided by these, you should have a successful development. So, given these so-called unchangeable principles, what innovative ideas should we expect in mall design?

Shopping centre today is what a village square used to be long ago - not only a place to shop but also a place of community, and these two have an important link. Research has shown that the amount of money spent in a mall increases with the amount of time the customer spends there. Any innovation in designing of shopping centres, therefore, will be focussed on how to keep the customer entertained for longer.

The big difference between the old village square and today's shopping mall is not the basic function of shopping but the amount of social interaction. Malls are in the leisure business as much as they are involved in retailing. Shopping is not just a matter of selling and buying, it involves emotions and interaction of people. Shopping needs to go beyond just a necessary function to become a pleasant outing. There should be some creative ideas that will contribute to making malls more socially interactive. The best place to achieve this is the food court comprising either fast foods, restaurants or both, and this is the one thing that Indian shopping centres do well. But the question is - "Can these be improved in the future?"

According to me, this is where the social element plays a big part in recreating what I call the village square or the community meeting place. Food courts are not just about serving food, rather these are the places where people meet, which also happen to offer food. The purpose of food courts in malls is not to get people to eat and leave as these are not retailer's canteens. Food courts want people to meet friends and family, share some quality time together, compare shopping bags, and talk about the mall and its tenants. To achieve this, food courts must avoid low-quality furniture and finishes must be warm to create comfort rather than hard tiled surface that may be easy to clean but increases the noise levels.

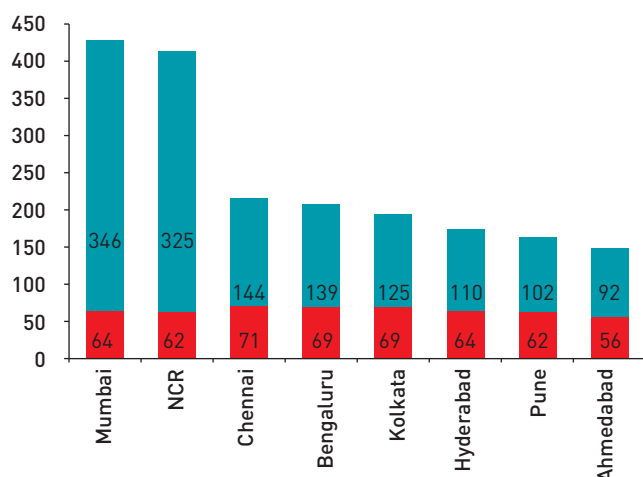


RENTAL TRENDS IN MALLS

Rentals in malls have been on the upswing over the last couple of years. The reasons for this sharp rise have been many, and not just restricted to a rise in costs. Let's take a peek into the current trends in the mall rental space and analyse the factors leading to the rise in rent costs

BY AMIT BAGARIA

AVERAGE MALL RENTALS IN JULY 2013
(in per sq.ft. of carpet area per month; Low & High)



The development cost, which includes the cost of construction, consultant costs, approval costs, and interest during the construction period, of a new mall in India, with decent level of premium finishes, has more than doubled in the last five years. From about ₹ 2,000 per sq.ft. of built-up area (excluding basements, and referred to as GFA in most countries) or ₹ 2,940 on carpet area (referred to as GLA in most countries), it has jumped to more than ₹ 4,250 per sq.ft. of built-up area and ₹ 6,250 on carpet area, respectively.

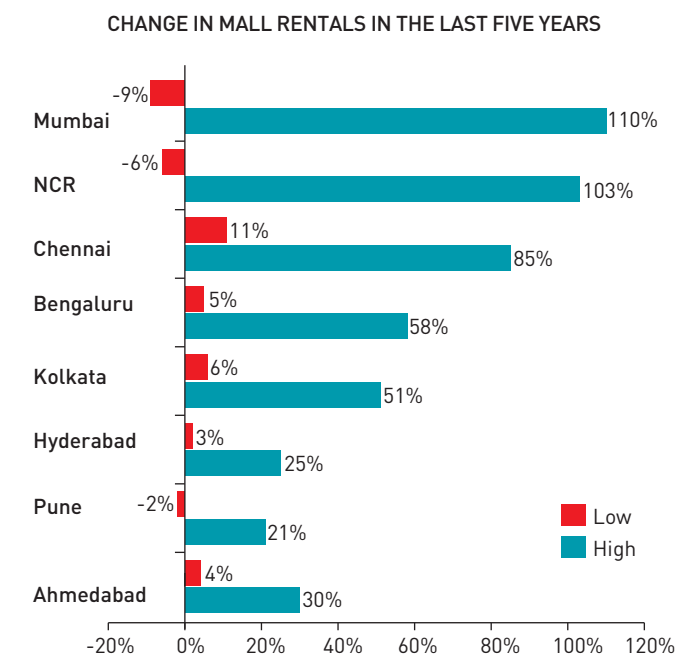
With the addition of floor area ratio (FAR) or floor space index (FSI) cost, which refers to the ratio of square footage allowed to be built above ground on every square foot of land, a new mall today, assuming it will open in the 2014 calendar year, will require a total investment of ₹ 5,500–12,000 per sq.ft. of built-up area (₹ 8,085–17,640 on carpet area). However, this does not include most of the

island city of Mumbai, where the FAR or FSI costs are much higher.

Considering these figures, what are the income levels and the return on investment that a developer or investor can expect? Have the rentals also kept pace with the rise in costs? Here, we will take a close look at rental trends across the malls in India.

For the purpose of this article, “luxury” retail centres, such as DLF Emporio (Delhi), Grand Hyatt Plaza (Mumbai), and UB City (Bengaluru), have been excluded. All rentals are based on carpet area for easier comparison with international norms, as Indian leasable areas (often referred to as super built-up areas) include a “loading” factor to apportion common areas.

As the chart suggests, the current average rentals in India's eight largest malls in metropolitan regions – Greater Mumbai, National Capital Region (NCR), Bengaluru, Kolkata, Greater Hyderabad, Chennai, Ahmedabad, and Pune – range from ₹ 56



sq.ft. (₹ 7,233 sq.m. per annum) to ₹ 346 per sq.ft. per month (₹ 44,692 sq.m. per annum). These are the average rentals for entire malls, and not just for vanilla stores or for any particular floor. Therefore, the low of ₹ 56 psfpm at Ahmedabad reflects the average rent for the “cheapest” mall in that city and the high of ₹ 92 psfpm reflects the average rent for the “most expensive” mall there.

If we remove NCR and Mumbai from this list, the high falls by more than half, to just ₹ 144 sq.ft. per month (₹ 18,600 sq.m. per annum).

The gap between the lows in all the eight metropolises (₹ 56 to 71 psfpm) is just 27 percent, while the gap between the highs (₹ 92 to 346 psfpm) is a whopping 276 percent. Later, we will look at whether such high disparity is justified or not, from the retailers’ point of view.

The second chart here shows how the average mall rentals in the same eight metropolises have increased or decreased in the last five years. These figures are total increase or decrease over five years, and not an annual average.

It is alarming to see that the lowest rentals in all eight markets have seen very little increase, the highest being 11 percent in Chennai – in fact, in three out of eight markets, the lowest rentals have actually decreased – and the only reason that this can be attributed to is oversupply. In the case of the highest rentals, while NCR, Greater Mumbai and Chennai have seen very good rate of increase, the situation is alarming in Pune, Hyderabad and Ahmedabad, and should serve as a strong alarm signal to any developers planning or building new malls in these markets. Even the highs in Greater Mumbai, NCR and Chennai are attributed to one mall each in these markets – High Street Phoenix and Palladium in Mumbai, Select CityWalk in Delhi, and Express Avenue in Chennai, the last being a new mall added during this five-year period.

OVER THE LAST FIVE YEARS, THE HIGHEST AVERAGE RENTAL FOR A MALL HAS INCREASED BY A WHOPPING 110 PERCENT (ALTHOUGH THIS IS JUST BECAUSE OF ONE MALL – HIGH STREET PHOENIX + PALLADIUM, MUMBAI)



GREATER MUMBAI

The average mall rentals in Greater Mumbai (which includes Navi Mumbai, Thane and Kalyan) are in the range of ₹ 64-346 psfpm (₹,267 to ₹ 44,692 psmpa). Over the last five years, the highest average rental for a mall has increased by a whopping 110 percent (although this is just because of one mall – High Street Phoenix + Palladium), while the lowest rental has declined by 9 percent.

Lowest project cost (land + development) (in ₹ per sq.ft. of carpet area)	8,450
Lowest total annual income (in ₹ per sq.ft.)	845
Project ROI (%)	10.0
Highest project cost (land + development) i (in ₹ per sq.ft. of carpet area)	40,000
Highest total annual income (in ₹ per sq.ft.)	4,567
Project ROI (%)	11.4
NOTE: Lowest and highest total annual income (for all markets) includes additional income equal to 10 percent of rentals, assumed towards parking, commercial signage space on hire, events and other income. This may differ from mall to mall, and may range from a low of 5 percent to a high of 15 percent.	

The above table shows that, at current development costs (including land or FAR/FSI cost), it is not viable for a developer to build a new mall in Greater Mumbai, as any real estate project should give a minimum 18 percent project ROI. While this is a general picture of the entire metro region, there may be some areas where malls may still be feasible.

Lowest average annual mall rent (in ₹ per sq.ft.)	768
Lowest estimated annual trading density (in ₹ per sq.ft.)	5,400
Rent as a percent of retailers’ gross revenue (average) (%)	14.2
Highest average annual mall rent (in ₹ per sq.ft.)	4,152
Highest estimated annual trading density (in ₹ per sq.ft.)	25,000
Rent as a percent of retailers’ gross revenue (average) (%)	16.6

The table above shows that, based on the estimated annual average “trading density” of the malls with the lowest and highest rentals, the retailers are paying quite high rents, especially in the mall with the highest rent. Typically, the average rent for all retailers in a mall should be in the range of 11–12 percent of their annual gross sales revenue.

As there isn’t much difference between the rent and TD ratios between the lowest priced and highest priced malls, it is markedly clear that the huge rental disparity in the metropolitan region is justified, although the “highest” rent could be lower by about 10–11 percent.

INDIA FASHION FORUM 2014

FORECAST, CREATE, TRANSFORM: THE BUSINESS OF FASHION

India's biggest fashion business event, India Fashion Forum (IFF) 2014, held on 17th and 18th January 2014 at the Bombay Exhibition Centre, Mumbai, showcased attitude, bustling trade, invigorating knowledge and networking like never before. The fashion retail event concurrently hosted the Mega Fashion Trinity – India Fashion Forum (IFF) 2014, InFashion 2014, and India Shoes & Accessories Forum (ISAF) 2014

BY CHHAVI GULATI AND SHRADHA SHARMA, NIFT, MUMBAI AND RAJAN VARMA

RETAIL REAL ESTATE GROWTH POWERING FASHION RETAIL: TAKING THE SYNERGY FURTHER FOR GROWTH OF FASHION SPACES

India is no more a country dominated by unorganised markets. The organised sector has grown by leaps and bounds over the last few decades, and the harbinger of this revolution is none other than the infrastructure developers.

The real estate sector has contributed a great deal in building an organised, simplified and glorious India. Not just in terms of setting up industries and positioning shops in central business districts of the state, the real estate has a lot to do with the creation and promotion of fashion. In other words, real estate is the root of a fashion tree in India in today's time.

Anuj Puri, Chairman and Country Head, JLL, modestly handled the discussion regarding the synergy between fashion retailers and real estate developers. He triggered the discussion by aiming Raza Beig, CEO, Splash and ICONIC (Landmark Group, UAE) in anticipation for an answer to the statistic data of occupancy of retail fashion in malls (65–70 percent) and thereby asked him whether this percentage is

a proof that fashion retailers in shopping centres are being cannibalised. According to Beig, a similar statistical data is prevalent in the Middle East as well. However, in Dubai and Kuwait, due to the high fashion quotient of people, retailers are motivated to perform better. In the Middle East, there is less constraint on the space and customers are highly valued.

Parag Dani, Retail Director, Levi's, took the flow of conversation to an all-new level. According to him, if the fashion retail space is broken down into space occupied by each category, the apparel category occupies 5–7 percent of the space, which is certainly not a bad number.

On being asked whether fashion is too heavy within the retail space, Munish Baldev, Head - Retail, Unitech, ascertained the fact that their motive is to get quantum of people to the shop within the mall. The rest depends on the fashion retailer.

The discussion took an interesting turn when the focus turned on whether entertainment within



malls is a boon or bane. Siddharath Bindra, MD, Biba Apparels, reciprocated in a positive light. According to him, customers engage in impulse buying in the mall while entertainment is a crucial and an indispensable element of the mall concept. Beig too affirmed Bindra's thoughts by commenting that entertainment is a traffic driver in malls and it is essential to pull the customers inside the mall.

Yogeshwar Sharma, COO, Select CityWalk, also added to this agenda. According to him, multiplexes add value to the mall space. Although celebrity visits often disrupt the normalcy of operation but multiplexes are a necessity to drive the customers.

The discussion took an exciting spin when the correlation between the fashion retail brand and the retail space available for the brand landed Seema Kakkar, MD, Remanika Apparels, in an emotional upsurge. She said: "It is wrong to allocate less space to a brand in a mall. Moreover, shrinkage of the store is incorrect because the customers should not be bereft of the feel and aura of the retail store."

On the agenda whether mall owners differentiate between Indian and international brands, all the real estate developers became all the more agile and upright. Both Asheeta Chhabra, Director, Chhabra 555 Fashions, and Bindra affirmed the allegation that Indian mall owners do differentiate between Indian and international brands.

In this light, it has been observed that the Indian brands are usually pushed up to the first or the second level when the competing brand is an international one. Vishal Mirchandani, CEO, Brigade Enterprises reciprocated by saying that as completion progresses, the line of differentiation gets blurred and hence, malls tend to re-organise their layout. In addition to this, the marginal propensity of demand diminishes as the supply of merchandise increases. There is a need for more research in this domain to allocate the right amount of store size.

Beig put across some valid points stating that if a brand wants to be on the ground floor, it must offer the following: a product that people would like to buy, perfect ambience, service and sales people. For mall

developers, everything must not come down to just the rent. It should be about making people experience what they want.

When questioned over the difficulties faced by mall developers, Dheeraj Dogra, Group Chief Marketing Officer, Shristi Group, responded by saying that in today's times, retailers need to understand that mall developers are not in the business of retailing but selling their space to retail brands. Both parties should be fair and, eventually, the consumer's happiness should matter above everything else. If the consumer's satisfaction is given prime importance, everything will subsequently fall into place. It is imperative to provide the customers with exactly what they require and absolutely no impositions should be

management, but it is not always possible to provide even an extra 500 sq.ft. of space to every store. If a mall has the power to pull people regardless the size of the store, it would benefit everyone in totality.

The next aspect of discussion began with Dani, who talked about the preferred location and retail format for brand and store expansion. High street was a clear winner for expansion, according to Dani, for the high street consumer is smarter, they know what they want and they definitely spend more time in a store at a high street than in a mall.

Completely in tune with Dogra, Chhabra too believes that high streets are more profitable for expansion, as the rate of conversion for high streets (65–70 percent) is much higher than malls (35–40 percent) for Chhabra 555 Fashions.

According to Beig, it is not a very easy ride for international retailers to enter Indian markets. He feels, even though India is a huge market, it has its challenges. "The biggest is the attitude of fashion retailers. Fashion in this country is not consumer driven. Fashion retailers only think of making money. It is about lifestyle and the Indian fashion industry is yet to master that art. One person cannot bring about this change single-handedly; a collective effort is required by the industry as a whole to bring about this change."

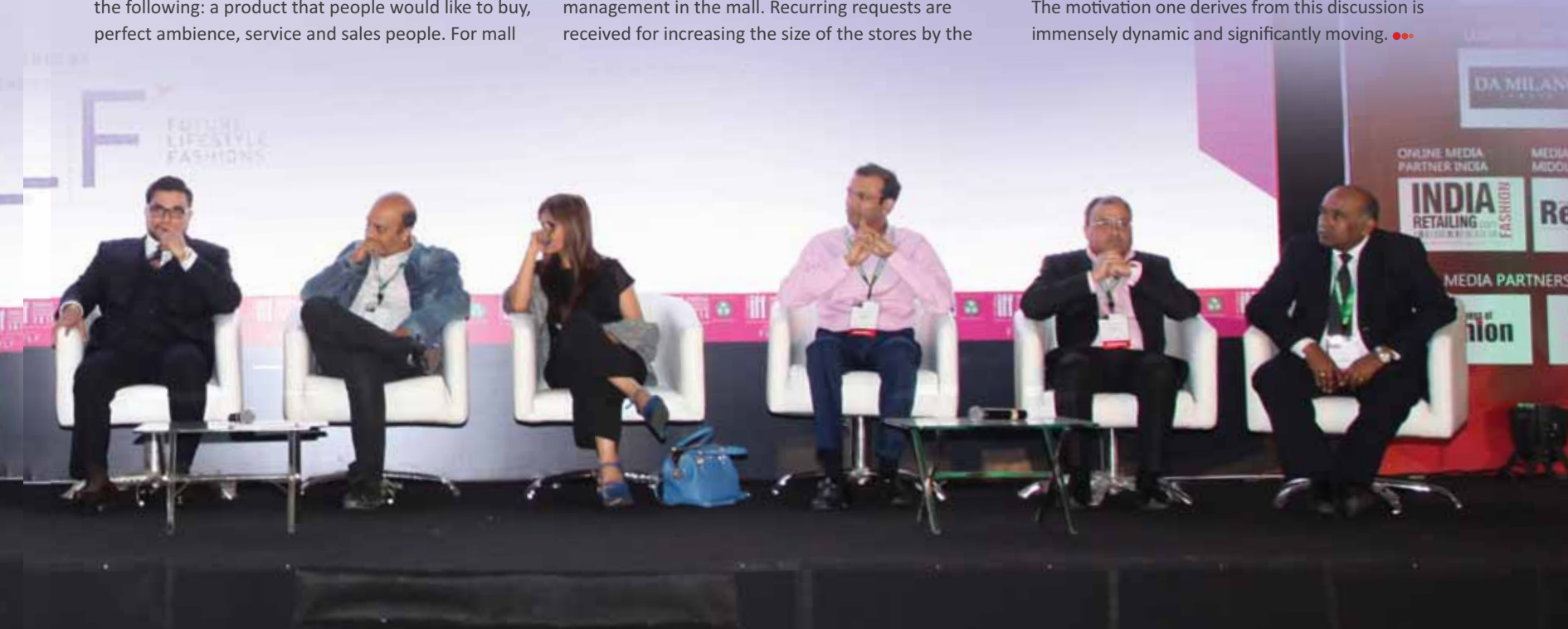
Yogeshwar Sharma was of the opinion that once FDI comes to India, creating adequate space for foreign players will be a major challenge. Allocating space to one brand would mean blocking that area for around 10–15 years. Affordable fashion has a lot of potential in India and retailing experience needs to be carefully blended and synchronised with fashion; otherwise, it will lead to the extinction of brands from the market.

It was highly interesting to know that Kakkar, even after being a part of the fashion retailing business for 20 years, considers herself growing as a retailer. She stated that it is not about the person behind the retail brand but about the customer being catered to. She concluded the discussion by voicing a beautiful quote: "A brand lives many deaths and only then it is born." The motivation one derives from this discussion is immensely dynamic and significantly moving. ●●●



made on them. It was confirmed by Dogra that in a mall in Chennai by Shristi Group, the retailers were charged the same rent irrespective of the location of the shop within the mall. Usually, international brands are placed on the ground floor not because they are considered superior to Indian brands but just because they contribute to create an element of attractiveness for the customers.

However, when Mukesh Kumar, Vice-President, Infiniti Mall, was asked the same question, he stated that for him the biggest challenge was space management in the mall. Recurring requests are received for increasing the size of the stores by the



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