

Shopping Centre News

EXCLUSIVE

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DEVELOPING RETAIL IN INDIA

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... AN
ACTION
PLATFORM

Shopping Centre News

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Shopping centre development has come to be acknowledged as a specialised business. We can see that a majority of developers now recognise it to be so distinct from other real estate asset classes, and therefore, worthy of a scientific approach. The new breed of shopping centres are coming across as bold and confident in their take on mall design and formats, and retailers are looking for the right match for their store networks to reach out to customers in growing markets across the country.

And thus the basics of mall development and operations are largely recognised by the industry as significant for success. And so the business culture itself needs a makeover doing away with inefficiencies in the system.

An open mindset is the first step to adopting international best practices, implementing innovative solutions, and setting new benchmarks that will help to get past typical stumbling blocks such as funding, tenant mix and size of the retail area being limited by the choice of profitable retailers present in the country, data insufficiency affecting the ability to take informed business decisions and doing proper valuation of centres, etc.

The industry acknowledges the need for generating ideas, developing insights, discussing international best practices, all as part of the learning curve for ambitious businesses to stay competitive. Good to have ideas, even better if you get to share them with the best brains in the industry, and evolve them into effective business strategies.

It was in this background that the India Shopping Centre Forum 2011 set out to bridge the gap between thoughts and action as the fourth edition of the forum saw the momentum shift from debate to dialogue to delivery. And for everyone who wants to act on these progressive ideas and initiatives that the industry has on its agenda, this issue brings an exclusive recap of the treasure trove. Remember, your real challenge will be to carry these wonderful thoughts into skillful execution.

Highlighting the bigger picture beyond developer-retailer issues, ISCF was successful on its mission to initiate meaningful action among all stakeholders. With India taking confident strides towards welcoming FDI in multi-brand retail, our retail sector is poised for bigger international participation and the time is just apt now to gear up for the 2011 edition of India Retail Forum. With a refreshed agenda, relevant and pertinent topics and a bigger than before attendance, I am sure that the IRF 2011 – modeled on the theme “Shopping for Retail Success” – will greatly benefit all shopping centre professionals.

Determined to make a positive difference, we look forward to meeting again at the India Retail Forum on September 21-22.



Amitabh Taneja

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ISCF 2011...AN ACTION PLATFORM

The fourth edition of India Shopping Centre Forum (ISCF) held recently in Mumbai focused on delivering results, beyond a networking and knowledge sharing platform, such that the outcome of the key sessions can be taken forward into an actionable agenda. SCN brings you the details...

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

The “common wealth” scam in India’s shopping centre industry



In any revenue share arrangement or transaction between a shopping centre Owner and its Tenant, the Net Revenue (or turnover) accruing to the Tenant (retailer) is supposed to be shared as their “common wealth”. So, is everything really hunky-dory in this space or are mall developers / owners being taken for a ride? In other words, is this form of transaction our industry’s very own commonwealth scam?

To find out, we first need to understand how “Net Revenue” is defined. Net Revenue should be the total consideration accruing (whether received or not) to the Tenant and also all the sub-lessees, concessionaires, franchisees and sub-Tenants of the Tenant (including shop-in-

shop counters) and any third party operating from the Leased Premises from all business of whatsoever nature (in cash or on credit) conducted on or from the Leased Premises and whether by way of sale or exchange, or commission or otherwise, of goods, wares, merchandise and services (including financial services) performed, together with the amount of all orders (including but not limited to mail, internet and telephone orders) fulfilled or delivered from the Leased Premises, irrespective of where delivery is effected, and all sales completed by delivery at the Leased Premises or elsewhere, and all sales made by means of vending devices in the Premises.

What this means is that: (a) If one or more departments/divisions of the business carried out at/from the Leased Premises is sub-leased by the Tenant or is conducted by any person or entity other than the Tenant (including an entity in which the Tenant has an interest), then the gross revenue of such departments or divisions are to be

included in the Net Revenue and shall have the same effect as if the business of such departments had been conducted by the Tenant itself; (b) The Net Revenue should not include any amounts collected and paid out by the Tenant to any statutory authority in respect of any taxes, levies or cess, including VAT, sales tax, service tax, entertainment tax or any other similar levy of a like nature; (c) The Net Revenue should include any and all consideration received by the Tenant from any advertisement or publicity or space on hire (vide hoardings, billboards, promotional displays, events, glow signs, banners, standees or in any other manner whatsoever) of any brand or merchandise in the Leased Premises from any third party including manufacturers/wholesalers/distributors of any merchandise sold/traded by the Tenant; (d) The Net Revenue should not include discounts/rebates given to customers and sales of merchandise for which payment is received but subsequently refunded by the Tenant to the customer;

(e) Sales of gift vouchers from the Leased Premises should be excluded but gift vouchers redeemed at the Leased Premises shall be included in the Net Revenue. There are a few other considerations that need to be captured in the legal document executed between the parties and I will not get into such minor details in this article.

Let me now rephrase the above paragraph in simpler language which will be easily understood by those who may not understand such legalese. Let us assume that department store chain Northstop has taken up 100,000 square feet of space in an upcoming shopping centre (we'll call it Centramall or just refer to it as the mall) in Mumbai, being developed by Maxima Developers.

The transaction between Maxima Developers and Northstop is based on 6% revenue share or a minimum guaranteed rent (MG) of ₹55 lakhs per month, whichever is higher; and the deal has been done by leading brokerage house Medhraj & Sons.

Within this 100,000 square feet space, Northstop gives (on a sub-lease or concession) 2000 square feet to Coffeebits to put up a café, another 2000 square feet to Smartcuts for a salon, 3000 square feet to Kanishka Diamonds to set up a jewellery shop on a SIS (shop-in-shop) basis, 1000 square feet to Eye Express for an eyewear department, 1000 square feet to Deepika's Secret for a lingerie SIS and 15,000 square feet to Home City to run the home department.

So, in all, we have assumed that Northstop has sub-leased 24,000 square feet of space to the various specialist retailers / service providers named above. Northstop also keeps an additional 1000 square feet vacant to use as "space on hire" for promotions/displays, etc.

In the first year of operations of this 100,000 square feet Northstop department store in Centramall, we assume that Kanishka Diamonds does sales (net of VAT) of ₹160 lakhs per month and pays Northstop ₹4 lakhs per month by way of revenue share (RevShare) @ 2.5 per cent. Home City does net sales of ₹150 lakhs per month and pays Northstop ₹15 lakhs per month RevShare @ 10 per cent. Deepika's Secret does net sales of ₹25 lakhs per month and pays Northstop ₹5 lakhs per month RevShare @ 20 per cent. Eye Express does net sales of ₹20 lakhs per month and pays Northstop ₹3 lakhs per month RevShare @ 15 per cent. Smartcuts does net sales (net of Service tax) of ₹8 lakhs per month and pays Northstop ₹2 lakhs per month RevShare @ 25 per cent. Coffeebits also does net sales of ₹8 lakhs per month and pays Northstop ₹2 lakhs per month RevShare @ 25 per cent.

From the 75,000 square feet space managed directly by the anchor itself, Northstop does net sales of ₹11 crores per month. Out of this, ₹50 lakhs comprises redemption of merchandise against Gift Vouchers sold at another Northstop store in Delhi; and another ₹50 lakhs comprises telephone orders received at Northstop's store at Centramall,



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he retail world around us is going through a huge change, and those who adapt to this change the best and quickest, will experience the benefits. The old cliché that the customer is King/Queen has never been truer than it is now. The past three years have seen retail and retailers in particular, having to respond not only to the stress brought on by the slowdown in economies around the world but also the impact on the number of people employed. There are also other more important shifts brought about through the greater influence of technology, more specifically the internet.

Thanks to the internet the customer has never been better informed than they are today and this is likely to become even more so as time rolls on. When the computer first made its appearance it had a benefit to retailers in managing their stock and analysing what the customer wants. The customer was then able to research more on the product at home on their personal computer. Today, with the sophistication of hand held instruments, customers can still do research before embarking on a shopping trip and they can now actively check and continue the research while they are shopping. The applications available to do this are improving all the time.

The challenge for retailers is how to remain relevant to the shopper if he/she can research and buy online. Is enough time and effort been spent by retailers in ensuring that their staff offering and the environment remains appealing? It is amazing how only few of the shop assistants really know their products or how to respond when they encounter a shopper who is more informed than they are. Generally, shop assistants appear to be less able to convert the customer, who comes into the shop to look at a specific product, into buying either



▲ (L-R) The buzz inside the Apple store in New York; People entering the Apple store

The art & craft of shopper engagement

The developers of malls as well as designers and merchants make thousands of decisions aimed at keeping shoppers long enough to make a sale. There is a desperate need to reintroduce the 'Experience' component to the shopping trip, says *Ian Watt*, director of Mumbai-based Pioneer Property Zone and an international consultant. He shares some of his views on the topic and some observations of what is happening elsewhere in the world...

that product or another associated product thereby increasing the sale from just the one item to more than that. In fact, there are many stories of how shoppers come into a store

to look at the merchandise, perhaps even try it on, and then go straight out and buy things on the internet. The difficulty is that if the staff is not trained to meet these new

challenges your customer could stop coming altogether.

There is a desperate need to reintroduce the 'Experience' component to the shopping trip.



Modern retail has largely succeeded in making the whole experience pretty efficient and even bordering on sterile when compared to some of the old markets. The tenant mix has to some degree become more of an exercise in meeting the growth in the mall owner's revenue stream rather than focusing on the customer experience. There has been much talk about how little time people have to shop and how things need to be improved so that the customer can get in and out as quickly as possible rather than have them dwell, relax and enjoy themselves. We have slowly taken the fun out of shopping and turned it into a rather functional experience like brushing your teeth in the morning – it just has to be done. The reality is that when the customers dwell a little longer and take more time to look, see and experience what you have, the more likely they are to spend. Even when things are tight economically, a greater effort should be made to keep the shoppers interest longer so that they rather spend their money where they feel their needs are best appreciated and where they feel good about themselves and their purchase and



Ian Watt
director, Pioneer Property Zone

not that this is a grudge buy – I have to have it so I put up with bad service, experience or poor product!

It is interesting to see how Apple has changed the experience for the shopper when you walk into one of their corporate stores. One would think that given their products and marketing they would really not need to have a whole lot of "Bricks and Mortar" stores and could easily meet their customers on the internet, yet they are on a vigorous roll out of stores in shopping centres and high street locations. When you walk into one of their stores you are immediately struck by how they have become social meeting places for Apple users. You do not just go there to buy, but you go there to be with like minded people, to share experiences, get some updated info



▲ Ikea Mall in Moscow. The mall has an ice rink and has been very successful in integrating several activities around this feature. Shows retail on the first floor above the ice rink and food court. The photo was taken from the multiplex which is two levels above this.



▲ Promotional area at Westfield Shepherds Bush London being used for an ice skating rink over the Christmas period

ISCF 2011

An action platform

From Debate to Discussion to Delivery

The fourth edition of India Shopping Centre Forum (ISCF) held recently in Mumbai focused on delivering results. Going beyond a networking and knowledge sharing platform, the outcome of the key sessions will be taken forward into an actionable agenda. SCN brings you the details...

Going far beyond just a platform for those who build, manage and operate shopping centres to meet and exchange ideas, which is an essential part of ISCF, the latest edition themed 'Shopping Centres: The need to cover more ground' stressed on the need to recognise the vital role that the shopping centre industry plays in the economic growth and the social development of the country. This role needs to be highlighted to the outside world for this industry to

get its rightful place as a result of that, urged Jayant Kochar, Group Director & CEO, IMAGES Group in his inaugural address.

"It's not just a discussion platform where people get together to learn more and share more, it really is a platform for action. We are determined that whatever is discussed here must

Delivering the first key note address on the topic: Key ingredients for building a successful mall, Raj Singh Gehlot, chairman, Ambience Group said, "Mall development in India is currently in its initial stages. This is because we developers, have taken mall development as a real estate project only, whereas, mall development



translate into some result. It's not enough to have a good discussion and go back and continue business as usual. It's important that we must carry this forward," stated Kochar, as he reaffirmed the ISCF mission to carry forward the outcomes of the each of the key sessions to be shared directly/indirectly with the press, with development authorities in states across the country, and with the government at the central level to make things actually move in the right direction.

is not a real estate business. It's a service industry and it needs to be seen from that angle."

He said that in the Indian context, at least, shopping malls are the future that will demonstrate and depict the growth of the civilisation. Summarising the key ingredients of a mall's success, he noted, "This sector is at an inflexion point where growth of organised retailing and growth in consumption by Indian population is going to take a higher growth trajectory. Organised retail is at an all-time high in India. The

malls in India today are reflections of lifestyles of catchments. Shopping centres, today, are more than just shopping avenues." He stressed on the need to develop destinations that will attract one and all.

"We have entered a new economic era, which is called 'Experience Economy', where the highest value offering are experiences. The progression of economic value starts with raw commodities that are transformed into goods, which are then wrapped in services and finally





▲ Jayant Kochar, group director & CEO, IMAGES Group

transformed into experiences. These levels increase the total value to the customer and accordingly the total price that the customer is willing to pay. Goods and services are no longer enough."

The success of a mall is defined by high value of occupancy by both consumer and retail tenants, which can be achieved by bearing in mind some of the key factors as explained by Gehlot:

Single ownership of a mall – Single ownership ensures direction. Retailers should patronise only those malls that have single ownership.

Location and Accessibility – Ease of accessibility, efficient

arterial thoroughfare, customer traffic patterns, population and community attitude

Design and layout – wide walkways, well-lighted atriums, natural lighting, visual continuity. It's important to create a sense of openness about the mall, thus, it must not be too filled up so as to cramp the space. We should provide the consumer as much open space as possible for ease of movement. People must be able to enjoy the experience of retail destinations within the country than feeling inferior to places abroad in any sense.

Parking – car borne traffic, need for enough parking and good management, special needs of pregnant women, physically challenged and those of senior citizens.

There should be ample car parking space, with a ratio of about 10-15 car parks per shop of 1000-2000 sq ft. Otherwise you are going to kill your mall. There should be automated system, manual system, is not going to pay you. The deployed man-power is not up to the mark in terms of quality or efficiency.

Positioning – Mall positioning needs to be well thought out and cannot be ignored. If you want to mix everything, it's going to create a mess.

While one should look at servicing every, client but it's important to ascertain which particular customer segment are we going to target.

Balanced tenant mix – Maintain a delicate balance between diversified product, service offering and revenue imperatives of the leasing business. The allocation of spaces should be carved out in such a manner that visibility is maintained and tenant requirements are taken care of. But everybody should not insist upon getting the front spaces. It's not just the individual store locations that will matter, but it's the mall in totality that will create the experience.



▲ Raj Singh Gehlot, chairman, Ambience Group

Maintenance & Management – Management can make or break the mall. Centres need to be properly managed, else overtime they deteriorate. Cleanliness and security aspects need attention.

Promotional activities – special events, festivals, parades, and businesses such as theatres provide entertainment and have a positive impact on the surrounding business community. Participation of retailers is also required.

Differentiation is important – recognising the role of women and children in making purchase decision. Reasonable spaces should be allocated to kid's activities as they are important in deciding upon the family's choice of shopping destination. Time spent by the consumer is key – the more time they spend, the more purchase will be happening.

Adaptation to change – Flexibility for the needs of tomorrow is important, being sensitive to the emerging social and psychological trends. We have made mistakes in the past and we should be ready to rectify them. It's important to listen to retailers' requirement and go the extra mile to incorporate their valuable suggestions in making the mall more suitable for business in



IMAGES SHOPPING CENTRE AWARDS 2011

Celebrating excellence and innovation in the business of retail real estate in India, ISCA 2011 honoured leaders and achievers across the country, in recognition of their exemplary contribution to setting new benchmarks and taking the industry to greater heights of success.





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