

The Success of Shopping Malls Lies in the Hands of Mall Developers : A Study

* *N. H. Mullick*

Abstract

In India, out of the 12 million sq.ft of Indian shopping centre space planned for opening in 2012, only about 60 percent was expected to be complete (JLLS) because of the huge delay in mall projects in India's biggest cities. There is a stress even in the business model as it is getting a bit expensive. Real estate prices and construction costs are rising, but the retail business is not growing enough to absorb these costs. Retail rents are down by 30 to 40 percent as compared to the peak of 2008 (CRISIL). Shopping malls, therefore, cannot mushroom without analyzing the basics like the catchment area, the spending power of the demography, and its business potential. The malls have to be situated in places where there is scope for shopping. Innovation is, therefore, necessary and the retailers must be encouraged to enhance their diversity of services, and food and entertainment options must be encouraged rather than enhancing the size of the mall/retailer engagement. Better mall management must create ambience and a hygienic and a clean environment must be created for family members to enhance the loyalty of the consumers. The present study is based on the multiple drivers of growth and the issues being faced today by these shopping malls when more are coming up, but they are not able to find the right rentals, nor the required footfalls. A total marketing effort has to be made by these upcoming mall developers to make their ventures a success.

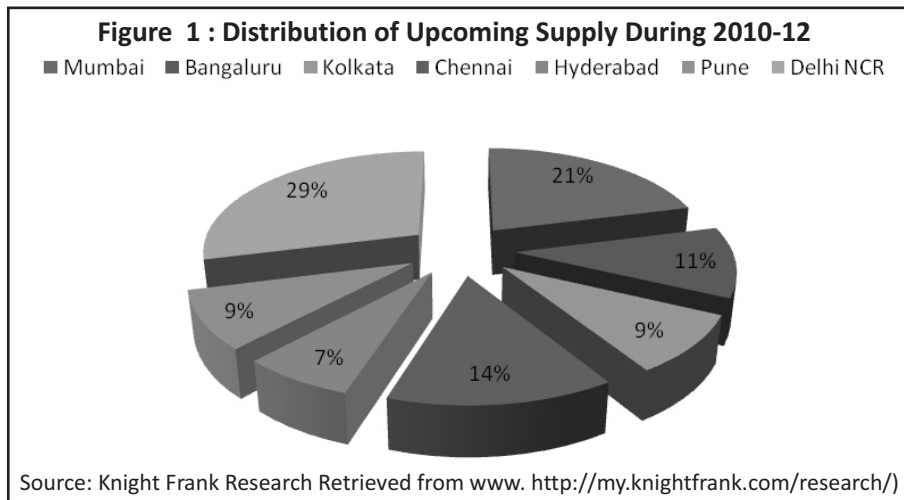
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The growth story of India is supported by strong macro-economic conditions, including a rise of 6 to 7 percent in gross domestic product (GDP), higher disposable incomes, and the rapid urbanization taking place all over the country (GRDI). The retail market itself contributes around 14 percent of India's GDP and is expected to grow around 15 to 20 percent over the next five years (GRDI). It is expected to grow from an estimated INR 23.97 trn in 2013 to INR 36.18 trn by 2017, a rise by 50.19. (BMI). Food and grocery is the largest category within the retail sector, with 60 percent share followed by the apparel and mobile segment (Deloitte, 2013). The major catalyst for this growth is the westernization of our culture. Modern retail is taking off in larger cities primarily because television shows, movies, and Internet sites are changing the shape of daily life of people by offering a glimpse into modern retail's enticements - a vast selection of products (not available at mom-and-pop stores), and ability to shop in air-conditioned comfort.

Organized retailing in India is expected to grow at a CAGR of 23 percent over the next five years from 2009-10 to 2014-15 (CRISIL, n.d.). Organized retail has been more successful in the southern and western part of India due to the differences in consumer buying behavior to cost of real estate and taxation laws. The largest form of organized retail today is shopping malls, which lend an ideal shopping experience with an amalgamation of product, service, and entertainment, all under a common roof. 82 percent of the retailers are on the verge of shutting down because of high rentals and low sales in their shops. Further complications in business are expected due to the economic slowdown as well as the consumption patterns being witnessed in the coming days.

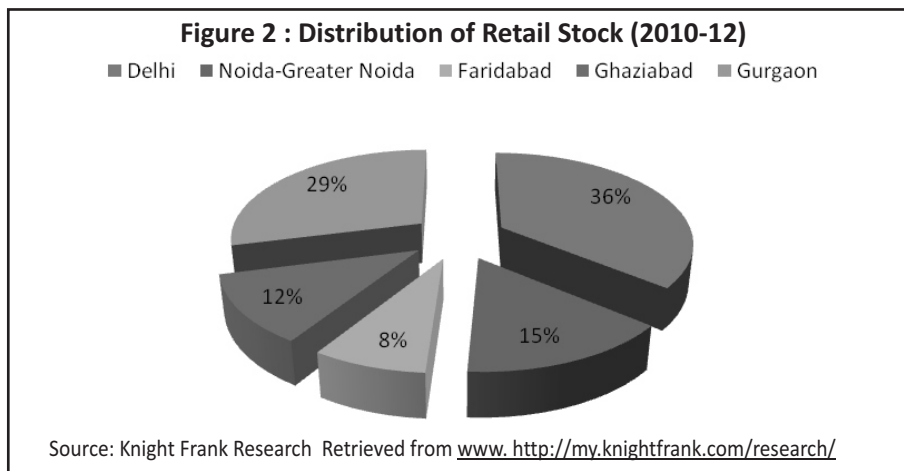
In India, the total retail space projected to be completed in 2012 was expected around 12.3 million square feet (msf) (C & W) but in actual, the total supply for the year 2012 witnessed a disappointing 3.44 million square feet (msf) mainly due to deferment of over 58 percent of the announced projects in major cities (top eight) (C&W) due to the government's announcement of FDI in both single and multi brand retail. Average mall vacancy across cities stood at 20 percent, a decline of one percent over the previous year, partly aided by the large deferment of malls. There are, at present, 1200 shopping malls in India, and this figure is expected to touch 1500 by 2015 (ASSOCHAM) on the back of major retail developments even in tier II and tier III cities in India. Around 60 % of existing malls are in the six big metro cities- Mumbai, Delhi, Chennai, Kolkata, Bengaluru, and Hyderabad. These tier I cities have stronger infrastructure, populations with higher disposable incomes, affluent urban youth populations, and land for commercial development, and are the engine of India's exploding economy. They represent only 6% of the population, but contribute 14% to India's GDP. They are the centers of business, finance, politics, and the emerging industries such as

* *Professor & Program Director (Marketing)*, Institute for International Management & Technology, 336, Udyog Vihar, Phase-IV, Gurgaon-122001, Haryana. E-mail: drnhmullick@gmail.com



IT, pharmaceuticals, textiles and automotive that has put India on the global map. As per the estimates of Knight Frank Research (KFR), the total mall space in India is estimated around 11.46 mn.sq.ft and 20.98 mn.sq.ft by 2012. NCR Delhi comprises of 29% space, followed by Mumbai (21%), Pune (9%), Kolkata (9%), Hyderabad (7%), Bengaluru (11%), and Chennai (14%) (As shown in the Figure 1).

The total cumulative mall space in Delhi-NCR is about 17.87 mn.sq.ft. (KFR) spread across Delhi, Gurgaon, Noida, Greater Noida, Ghaziabad, and Faridabad. Delhi comprises of 6.51 mn.sq.ft space (36%), Gurgaon - 5.12 mn.sq.ft (29%), Noida-Greater Noida - 2.65 mn.sq.ft (15%), Ghaziabad - 2.11 mn.sq.ft (12%), and Faridabad - 1.46 mn.sq.ft. (8%) (KFR) (As shown in the Figure 2).



Multiple Drivers

- ❖ Population expected to increase from 1.28 bn in 2013 to 1.34 bn by 2017, and GDP per capita forecasted to rise 64.2 percent between 2013 and 2017 (BMI, 2013).
- ❖ Aspirational middle class with a large population of 75 million households or 300 million individuals who are interested in products which are value driven (PwCPL Report, 2013).
- ❖ Has 500 million young population under the age of 25 years (PwCPL Report, 2013).
- ❖ Rise of younger men and women in the workforce (IT/ITES and BPO industries).
- ❖ Growing number of double income households.
- ❖ Changed consumer behavior.
- ❖ Greater availability of personal credit and a growing vehicle population to improve mobility.

- ❖ Disposable income expected to increase at an average rate of 8.5 % annually till 2015.
- ❖ Total consumer spend : ₹ 20,00,000 crore (\$ 445 bn).
- ❖ Retail : Expected to be worth INR 23.97 trn in 2013 to INR 36.18 trn by 2017, a rise by 50.9 percent (BMI, 2013).
- ❖ Organized Retail : Retail growth 15 to 20 percent over the next five years. Overall retail contributes to 14 percent of India's GDP, but organized penetration remained between 5 to 6 percent with an indication of high growth due to higher disposable incomes and rapid urbanization (GRDI, 2012).
- ❖ Average salary hike of 15+ percent.
- ❖ Annual retail sales growth of 11.4 percent.
- ❖ Sales through mass grocery retail (MGR) to increase by 107.9 percent between 2013 and 2017 from US \$ 34.79 bn to reach US \$ 72.33 billion by 2017 (BMI, 2013).
- ❖ Per capita incomes rising faster in rural markets than in urban areas.
- ❖ Number of households earning more than \$ 2000 per year more in urban centers.

Objectives of the Study

The primary objectives of the study are as follows:

- 1) To find out the implications of mall development and understand the psyche of consumers in Delhi NCR.
- 2) To suggest strategies for better positioning of malls.

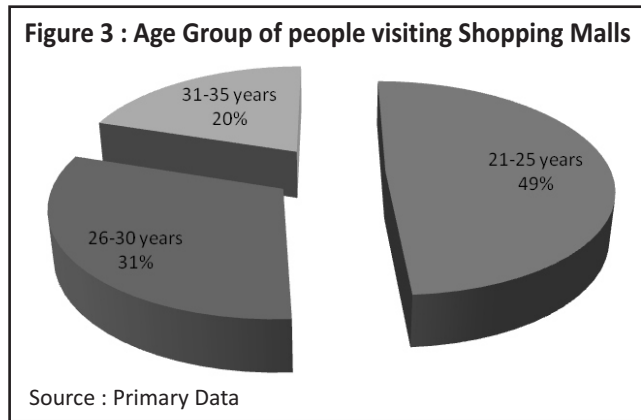
Methodology

- ❖ **Scope of the study:** The study was confined to Delhi NCR and was done in 2012.
- ❖ **Primary Data:** A profiling of 400 in - store customers and 600 household customers was done to understand the consumer behavior of consumers visiting selected malls in the Delhi NCR regions. Primary data were collected through mall interception and direct personal interviews.
- ❖ **Secondary data:** Various reports, research works, and studies were referred to for drawing various inferences.
- ❖ **Sampling:** A sample of 1000 customers (400 in- store and 600 household customers) were profiled and convenient sampling was used in the process.

Implications of Mall Development

Shopping malls are changing the face of the urban landscape. They are becoming the focal point of integrated mixed use of complexes. In most of metros, it is interfacing with the urban infrastructure like roads and metro systems. It is creating better infrastructure as well as ideal government-private sector partnerships.

- ❖ **Impact on the Consumer :** With the advent of shopping malls, metros are witnessing a complete change in the shopping habits of consumers. Grocery shopping has been transformed into a high-interest area where involvement of “men” has increased in a hypermarket-supermarket situation. Impulse buying has also increased and comprises about 40% of the shopping done in malls. The shopping trips to malls have become more leisure oriented rather than a daily “chore”. Price and quality comparisons have become more intense. Awareness and sensitivity to brands have also heightened in a mall situation. In general, the consumer has become more demanding and aware, and the expectation levels have increased consistently.
- ❖ **Socioeconomic Impact :** Growth of malls has resulted in employment creation and there is a massive requirement of trained manpower. New skill sets are ,therefore, required to efficiently run the shopping malls and there is a heavy demand of people from mall managers to visual merchandisers to run these malls. It also provides a big opportunity to the shopping mall to be the focus and platform of all community activities as well as pride of their trade areas.



Consumer Psyche

A consumer profiling was done of 1000 customers (400 in- store mall customers and six hundred household consumers) in 2012 in selected malls around Delhi NCR, from which after consequent discussions, the following interesting facts emerged (as shown in the Figure 3):

❖ Half of the people visiting shopping malls possessed credit cards, besides owning gadgets like ACs, PCs etc. The following were the age profile of the interviewed respondents (as shown in the Figure 3) :

21- 25 years - 49 %

26- 30 years - 31 %

31- 35 years - 20 % and balance comprising of assorted group.

Among the customers visiting the shopping malls in Delhi - NCR, 35% of the respondents were found to be self employed/ professionals followed by 34% homemakers (categorized into traditional and evolved housewives) and 31% were salaried executives. These three formed the major share of the target customers (as shown in the Figure 4). It was also observed that 65% of the respondents were found to shop randomly, i.e. without any prior decision to shop (as shown in the Figure 4).



The Concerns

- ❖ Is there a demand for the large number of malls coming up in every metro?
- ❖ What will sustain the “huge growth of malls”?
- ❖ Will malls survive, or are they just a passing phenomenon?
- ❖ Will the traditional Indian consumer shy away from malls?
- ❖ Will they consider them “expensive and wasteful” ?
- ❖ Will the prohibitive cost of real estate make the economies out of reach for the “average retailer”?

- ❖ Will the current “shortage” of quality retailers create huge vacancies?
- ❖ Will the government regulations make the performance of malls uneconomic?

But if we look at the condition of urban India, which in itself has a hot and humid climate with temperature extremes in North India, and a poor infrastructure with respect to roads and parking in most street retail nodes like Linking Road, Colaba, South Extension, M.G.Road, etc., we can very well say that urban India is potentially suited for mall development, but will the traditional consumer shy away from these expensive malls? This remains to be seen.

Profile of the Indian Consumers

- ❖ They are no longer traditional.
- ❖ They are between 15-40 years of age.
- ❖ They are educated, articulate, and work for MNCs.
- ❖ They have no “hangover” from the socialist era.
- ❖ They dress well and use the latest mobile phone.
- ❖ They keep in touch with their friends on “SMS” and use the internet at home and at office.
- ❖ They hang out with friends, watch movies and eat out several times a week.
- ❖ They aspire for an “international” experience.
- ❖ They recognize brands and aspire for a better life.
- ❖ They are careful with their money and are quite “value conscious”.
- ❖ They would like their children to compete with the best and do better than them.

Issues Today

If we look around and do a research on the growth of shopping malls, we visualize that a number of shopping malls are coming up in Delhi- NCR and other metropolitan cities, that has resulted in huge competition between them to attract footfalls.

- ❖ Too many undifferentiated malls are often clustered together as locations are not based on any consumer understanding e.g. Gurgaon malls.
- ❖ Many are in fact not “malls”, but enclosed street shopping. There is no concept or theme in the malls, and they are architecturally- bland and uninteresting. No master planning has been done and malls have a poor project management.
- ❖ Inadequate vertical transportation, poor access, and either non-existent or inadequate parking.
- ❖ Developers have lost control and are involved in selling of shops, and not leasing them.
- ❖ There is no merchandise mix or tenant strategy adopted by the malls.
- ❖ The tenants are repeated and undifferentiated in the malls.
- ❖ There is an overemphasis on anchor stores.
- ❖ The rent strategies are not creative. They are in fact rising, but there is a reduction in the actual purchasers as compared to footfalls. Marketing is non-existent.
- ❖ There are more browsers and fewer shoppers in the mall.

Mall Development Strategies

In these complex situations, the mall owners and developers need to understand the economics of retail and build their proformas and feasibilities based on these numbers. Markets need to be analyzed further as each city/locality is different, and therefore, they must create the right product tailored for the market based on the existing conditions. A clear target consumer profile must, therefore, emerge as the size and positioning of the mall is critical for its success. The size must emerge from an interaction between research & design as the master planning and design both are very critical. Maximizing FAR is very good for the developer, but not at the cost of making the project unviable. International experience in circulation and design needs to be incorporated, and the positioning needs to reflect the need of the trade area and not that of the developer. The mantras of success must, therefore, be:

Differentiation of the Mall

- ❖ Have a vision for your brand.
- ❖ Relate it to the market you are operating in.
- ❖ Whether you are building a “Dominant regional mall” or a “Neighborhood Centre”?
- ❖ Whether you are you a “fashion” mall or more of a “family” mall?
- ❖ What is the existing competition in the market offering?
- ❖ Is there an emphasis on food, entertainment, and coffee shops?
- ❖ An option likely must be to look at the specialization.

Enhancing Competitive Advantage

- ❖ Location and size must be decided solely on the ownership of the land.
- ❖ The concept of architecture and design must work with the environment around the mall.
- ❖ The mall must be themed and relate to the desired positioning.
- ❖ Destinations must be created in the consumer's mind and must dominate in its categories e.g. entertainment, hypermarkets, home etc.
- ❖ Unparalleled access and parking are a must.
- ❖ Customer service orientation should be clear.
- ❖ Better facility management should be in place, and it must be manned by specialists in their area.

Better Mall Management

- ❖ Creating the right structure and also invest more in management.
- ❖ Hire experienced professionals from the hospitality business, and FMCG companies.
- ❖ Outsource activities which are appropriate for its functioning like- cleaning, security etc.
- ❖ Create a nice environment and also build a stylish management office.
- ❖ Have your own management team which you feel may succeed in the competitive market environment.

Conclusion

The success of organized retailing in India mainly depends on delivery of services through quality improvements (Parikh, 2006). A mall developer, therefore, to succeed must understand the trends of the market and create benchmarks for the future. They must select an appropriate location and build a sustainable product, and also maintain the right tenant mix to integrate with the community and also enhance its footfalls. Not only this, they must also keep the costs and rents competitive, so that it is feasible and productive for their tenants to thrive and earn profits in the future.

The future, therefore, lies in the hands of mall developers because they have to behave not as builders for short-term profits, but they must aim and target on a long-term basis. Actually, the business of a mall developer starts when the shopping mall commences its business. His task does not end by only creating the right tenant-mix, but he has to build the facility management with utmost care as per the needs and requirement of its customers falling in the trade area. The mall management and staff have to be hired and trained for providing better services. More impetus has to be given to marketing as well as enhancing the public relations of the mall. Below the line advertising concepts have to be followed vigorously, and events planned to enhance the footfalls resulting in more profits for the tenants. The developers have to always gauge the cost and profit factor for their tenants by judging the conversion ratio of the consumers visiting their malls and making it a memorable experience for them, so that they come back again and again for shopping in the same mall.

If the mall developers become more pragmatic, then it is a surety that the future of shopping malls is bright and with the success in metros, it will successfully penetrate into tier-I and tier-II cities of the country. Brands, therefore, will proliferate too, and foreign brands will follow due to the change in the economic scenario where disposable incomes are also rising, and will continue to rise in the future. The consumers day by day are getting “younger”. Corporates are

entering the mall business and retail is expected to thrive more in the future due to the change in the buying habits of the consumers. However, if this is not done professionally, then there will be an emergence of undifferentiated malls like the one we are witnessing today in Gurgaon and other parts of Delhi- NCR region, where many malls have been built, but they are not having enough footfalls to sustain the costs involved in the functioning of the mall. The success, therefore, lies in the hands of the mall developers.

Managerial Implications and Scope for Future Research

The study gives an insight to the mall developers to understand the customers in the trade area and provide them better products and facilities based on their likings. This study has been done in Delhi NCR, but future research must also be done in other metro towns to have a wide understanding of the market and its customers to develop congruence in the strategies to be adopted universally based on the consumer behavior as well as the perceptions of the trade area.

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