Modern Retailing Challenges in India: Mall Mismanagement

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Abstract

Booming employment opportunities, rising urban disposable income and credit card ownerships, changing lifestyles and demographic profiles all are showing a favorable skew towards a rising consumerism culture, boding well for retailing growth. Consumer spending is clearly set to accelerate its pace. Retail is currently the booming sector of the Indian economy. This trend is expected to continue for at least the next two-three decades, attracting huge attention from all quarters of the economy—entrepreneurs, business heads, investors as well as real estate owners and builders. Retail sector is also expected to create huge employment as it will expand across the country at a massive scale. Slowly and steadily retail has witnessed considerable growth while a new form of organized retail sector has emerged within the retail industry. The latesh report of leading retailers in India also indicates the same with Pantaloon & Shoppers Stop achieving a sales of Rs.1,642.41 crore and Rs.343.50 crore (+24.20%) respectively in the first quarter of 2010 (Apr – June). Even the brand retailers like Titan and Provogue has achieved the sales of Rs.1,252.82 crore (+41.90%) and Rs. 103.36 crore (+41.16%) respectively in the same period is the evidence of growing retail industry in India. Retailers and real estate analysts foresee a temporary void in mall expansions beginning October 2011 up to March 2013 because developers shelved hundreds of projects when retailers withdrew lease contracts and rentals crashed due to the economic slowdown in the last two years. Out of 800 malls originally slated open in 2010, only 100 will turn operational, says a report jointly released by Shopping Centers Association of India and retail consultancies Jones Lang LaSalle Meghraj (JLLM) and Cushman & Wakefield. As a result high streets are expected to come back into favor with the inclusion of first and second floors converted to retail to meet the increased demand. But expanding on high streets may be costlier for retailers. Most retailers tend to have more stores in malls because of easier availability, better infrastructure such as air conditioning and parking facilities, and relatively lower store rentals. This could mean a slowdown in the pace of retail expansion when mall supply drops. This particular scenario of mapping the space availability and demand becomes imperative in the present scenario. This paper will attempt to highlight on retail space landscape for retailers in India. It will also highlight the scenario of emergence of malls and the importance of tier 2 & 3 cities of India. Also the paper will highlight the dominance of foreign retailer as far as Global retail industry is concerned and also the emergence of India as the most preferred choice of multi national retailers.

Key words: Retail, Retail Space, Malls

Introduction

Retail is currently one of the booming sectors of the Indian economy and this trend is expected to continue for coming next two-three decades, attracting huge attention from all quarters of the economy i.e. small and med size entrepreneurs, big corporate, investors as well as real estate owners and builders. Retail sector is also expected to create huge employment as it will expand across the country at a massive scale. The reasons for this expansion of retail is evidently related to the liberalization and opening up of the Indian economy which had immense effects on the consumer demand, tastes and preferences as well as the buying capacities of the Indians (specially the growing middle class) over the past few years. The theoretical concept of retail mix covers elements like location, merchandise assortment, pricing mix, communication mix, store design / display, nature of customer services, out of all this six aspect of retail mix, location has always been treated as the most critical retail mix element. In the emergence of modern retail various options like traditional / conventional high street to malls have provided the preferred location for retailers, especially the mall concept provides all the basic amenities like parking, cleanliness, air conditioners, escalators, food area, etc hence providing the much needed environment for both the retailers and the consumers. But the news of many malls closing down, unjustified high rentals, cannibalization of malls, etc has been a major reason for many researchers to study this pattern of this modern real estate development of mall and its impact on retail industry in general and retailers in particular. The rationale of the present study is two fold

First, to provide a macro level understanding of various classifications of various cities in India from various sources Secondly, to study the mall development scenario in the Indian context. Finally, the concluding section aims to provide policy suggestions concerning the current status of space management in Indian retail sector especially from mall perspective.

Global Scenario of Retailing

Retail has always played a major role world over in increasing productivity and employment across a wide range of consumer goods and services .The impact can be best seen in countries like U.S.A., U.K., Mexico, Thailand and more recently China & India. Economies of countries like Singapore, Malaysia, Hong Kong, Sri Lanka and Dubai are also heavily assisted & grown by the major contribution from retail sector. 20th Century second half, in both Europe and North America, has seen the emergence of the supermarket as the dominant grocery retail form. The search for convenience in food shopping and consumption, coupled to car ownership, multiple choices of different brands for the same product categories by the various family members has led to the growth of the supermarket. As incomes rose and shoppers wanted both convenience and new products supermarkets were able to expand the products & services offered. On the global retail little has remained the same over the last decade. One of the few similarities with today is that Wal-Mart was ranked the top retailer in the world then and it still holds that distinction. As per the Deloitte report on 'global powers of retailing 2110' the new trends are

- Emerging market retailers are set to take on established players – the playing field for retail is leveling off.
- Retail spending growth in markets such as the US and UK is likely to be slower over the next decade, while a larger share of the growth will take place in countries with large surpluses, especially the big emerging markets.
- Most retailers have yet to make an online push as social networking sites start to make an impact.

The global economic crises of 2008-09 impacted the consumers spending and consumers were hence forced to shift gears: they increased savings, paid down debt and started to spend less. 2010 show the recovery and the global pattern of consumer spending of the past decade will take time to return. The countries that borrowed heavily to finance excessive consumer spending may experience slower consumer spending growth as households struggle manage their money, reconcile their monetary loss of 2008-09 and accumulate wealth for future retirement and other needs. More of the economic growth was fueled by exporting to borrowing countries will no longer be able to depend on such markets. Countries like China will likely to shift away from export-oriented growth toward domestic growth due to economic growth and increase in consumerism. The global retailers and their suppliers will observe a geographical shift in consumer spending. In places like United States and United Kingdom, retail spending will be very slow, due to emergence of the value-oriented consumer, and the shift in retail format will be skewed towards discount format. On the other hand countries like China that ran large surpluses will experience faster consumer spending growth. A larger share of the growth of global retail spending will now take place in such emerging markets for coming two to three decades. The sales and profits for the Top 250 global powers of retailing reflect the impact of declining consumer confidence. Among the Top 250, 61 retailers had declining retail sales in 2008, also the net profit margin fell to 2.4% in 2008 from 3.7% in 2007. As a group, retail sales of the Top 250 global powers of retailing exceeded US$3.8 trillion. (Refer to annexure 1):

Also the Top 10 retailers managed to garner combined sales of US$1.2 trillion which is 30.2% of total Top 250 retailers. The number one retailer Wal-Mart of US sales is almost 3.5 times that of number two retailer Carrefour of France. (Refer to Annexure 2)

The dominance of U.S. share is around 33.6% of the total 250 retailers followed by Other Europe & Japan with 18.4% & 12.4% respectively. Retailers from Asia Pacific region are 5.6% and Africa / Middle East represent 2.4%.

Indian Scenario in Retailing

The Indian Retail sector has captured the world's imagination in the last half a decade being third in GRDI 2010 hence retail giants like Wal-Mart, Carrefour and Tesco have indicated their interest in India for their trying to seize this opportunity by entering into a strategic tie-ups with Indian corporate within the existing norms of FDI in Retail. India's retail growth was largely driven by increase in the disposable incomes, favorable demographics, changing lifestyle, growth of middle class and a high penetration into urban and rural markets. Indian retailers have been suffering from the effects of rapid credit crunch, high operating costs and lot customer confidence. According to a forecast by IGD (International Grocery Distribution), China is predicted to become the world's largest grocer displacing USA, and India will become the world's third largest grocery market by year 2014. Between 2010 and 2014 China's population growth rate is expected to be double that of the US. China, which was significantly less affected by recession than the US and which has a market that is growing nearly three times faster than the US as per IMF predictions on account of increased investment and consumer spending will be worth €761 billion in terms of grocery spend, outstripping the US, which is set to be worth

€745 billion in four years' time. India's grocery market is presently €279 bn and will rise to €448 bn by 2014. The BMI India Retail Report for the third-quarter of 2010, forecasts that the total retail sales will grow from US$ 353 billion in 2010 to US$ 543.2 billion by 2014. With the expanding middle and upper class consumer base, there will also be opportunities in India's tier II and III cities. The greater availability of personal credit and a growing vehicle population to improve mobility also contribute to a trend towards annual retail sales growth of 11.4 per cent. This is a consequence of India's dramatic, rapid shift from small independent retailers to large, modern outlets. China and India are predicted to account for almost 91 per cent of regional retail sales in 2010 and by 2014 their share of the regional market is expected to be more than 92 per cent. Growth in regional retail sales for 2010-2014 is estimated by BMI at 72.2 per cent, an annual average of 14 per cent. India should experience the most rapid rate of growth in the region, followed by China. For India, its forecast market share of 13.9 per cent in 2010 is expected to increase to 14.3 per cent by 2014. India's retail market is expected to be worth about US$ 410 billion, with 5 per cent of sales through organized retail, meaning that the opportunity in India remains immense. Retail should continue to grow rapidly—up to US$ 535 billion in 2013, with 10 per cent coming from organized retail, reflecting a fast-growing middle class, demanding higher quality shopping environments and stronger brands.

According to a McKinsey & Company report titled 'The Great Indian Bazaar: Organized Retail Comes of Age in India', organized retail in India is expected to increase from 5 per cent of the total market in 2008 to 14 - 18 per cent of the total retail market and reach US$ 450 billion by 2015. Furthermore, according to a report titled 'India Organized Retail Market 2010', published by Knight Frank India in May 2010 during 2010-12, around 55 million square feet (sq ft) of retail space will be ready in Mumbai, national capital region (NCR), Bengaluru, Kolkata, Chennai, Hyderabad and Pune. Besides, between 2010 and 2012, the organized retail real estate stock will grow from the existing 41 million sq ft to 95 million sq ft. (www.ibef.org)

India was relatively insulated from the events in the global economy over the last two years. India’s GDP grew by 6.1 per cent in 2008-09, as compared to 9 per cent plus growth in the previous few years. This growth was primarily led by government spending and growth in the rural areas. While the impact of the slowdown on overall GDP was limited, private consumption was impacted substantially. Private consumption growth, which was largely tracking GDP growth till before the slowdown, took a significant dip on account of poor consumer confidence. In the first few quarters of 2008-09, growth in GDP came down from 9.1 per cent to 6.1 per cent and growth in private consumption went down from 8.5 per cent to 2.9 per cent. This dip significantly impacted the consumer products and retail sectors. Organized retail, which was growing at over 30 per cent year on year in 2005-06 and 2006-07, slowed down to around 16 per cent in 2008-09. With the revival of economic growth from the second quarter of 2009-10 (GDP grew by 7.9 per cent), private consumption growth has returned (grew by 5.6 per cent), on the back on stronger consumer confidence. As a result, growth in organized retail has returned and we estimate the sector to have grown by 21 per cent in 2009-10. On the basis of various projections that India's GDP will grow at over 8 per cent in the coming years, return in consumer confidence and growth in private consumption tracking GDP growth, we expect organized retail to see 30 per cent plus growth in the coming years. This trend is already visible and is substantiated by data in Annexure 3.

Attractive countries for retail location

Emergence of Asia Pacific, Middle East and Latin America as a Preferred Retail Location

If we study the A.T. Kearney Global Retail Development Index (GRDI) 2010 dominance of Asian countries followed by MENA (Middle East and North Africa) & Latin America is clearly noticeable with almost 6, 8 & 9 countries out of Top 30 represents this regions respectively. China and India are consistently occupying the top 3 positions for last many years as a most preferred location for retailers. Retailers in developed markets are cautiously optimistic about 2010 after the extraordinary year 2009 by the collapsed of major retailers (such as Circuit City in US and Quelle in Germany). Retail executives have learned again that their core markets are not the powerful engines of growth they would like – US and European GDP growth in 2010 is expected to be around 3% and 1% respectively.

The developing countries are the only hope for further growth in the long term. China & India with expected GDP growth of 10% and 8% continue to provide the best scenario for retail development. The Middle East and Latin America countries also provide explosive growth due to urbanization and underpenetrated organized retail market. Hence this changing competitive environment highlights the need for considering different markets for entry prospects by the global retailers. The below mentioned list of 30 countries is the most preferred location for the retailers as per the GRDI 2010:

China and India from Asia-Pacific remain among the leaders in the GRDI 2010. These large, growing markets still present major retail opportunities for next decades to come. While opportunities both countries is largely skewed in largest cities, retailers are also expanding to smaller bust faster growing cities. Grocery sill accounts for almost two-thirds of total organized retail sales, but the proportion of spending on food is declining annually as consumer increase discretionary spending on clothing, transportation, appliance, communication and recreation. Hypermarkets and convenience store are the formats which are growing in both this economies and the local existing competition if very tough. The next attractive region is Middle East and North Africa (MENA) with countries like Kuwait, Saudi Arabia, UAE, Tunisia, Egypt, Morocco & South Africa providing enough opportunities for global retailers for opening their stores in these countries. The hosting of 2010 FIFA World Cup along with positive long-term economic outlook, large population and an English language base has base South Africa an attractive option for global retailers.

The below mentioned window-of-opportunity analysis, which compares this year's growth opportunities from previous years shows that a country's window of opportunity opens when the government opens their doors to foreign investment, real estate is still inexpensive, modern formats are evolving, consumers are beginning to spend disposable income on branded products, and there is little competition and this window of opportunity closes when competition is fierce, consumers desire more specialized retail formats, and real estate prices are high and still going up. Hence it provides a clear indication that country like India is plotted in the maturing stage and it's a right time for Government of India to take a decision of allowing full FDI in retail. (Refer to Annexure 4)

Indian Retail Space

Retail as an industry is hugely depended on the space it gets to operate its stores. The Indian retail and real-estate sector had undergone numerous changes in the year 2008. Lower consumer spending, high real-estate cost and lack of quality real-estate development prompted Indian retailers to relook and revamp their current operations by closing stores at unprofitable locations, renegotiating rentals with developers, curb spending and reposition themselves to ride through the tough times. All this has led to a shift in the relationships between real-estate developers and retailers. Currently, the Indian retail industry is experiencing a steep learning curve as far as establishing and managing the space is concerned. The industry is witnessing expansion, consolidation, acquisition; and retailers are restructuring and re-planning toward robust & efficient business models for long-term sustainability of their business. The retail market is experiencing a reverse scenario from being a landlord / developer driven market to being retailer driven market. The current turbulence has provided the Indian retailers to do a reality check to take stock of their strategy and operations and leaves the industry in a stronger position to take advantage.

In the initial years of the current decade, the Indian economy witnessed a sub 5 per cent annual growth rate and as a result, the private consumption expenditure and retail sales clocked an annual average growth rate of only 4 per cent and 4.8 per cent respectively during 2000-01 to 2002-03. However, there was a smart pick up of the economy during 2003-04 to 2007-08 and the average annual GDP growth rate was recorded at 8.9 per cent. Once the economy attained high momentum, the Indian retail trade witnessed a robust growth of around 11 per cent during this period. The upsurge witnessed during 2003 to 2007 was contained during the last two years because of the economic meltdown. Of late, signs of economic recovery are observed which is likely to put the retail trade in India again on a reasonably high growth trajectory. (Refer to Annexure 5)

The dynamics of Organized Retail Market (ORM) and the Real Estate Retail Potential (RERP), projected until 2012, provide an insight into the oversupply or undersupply situation in the retail real estate space. The demand side is represented by ORM, the base data for which was sourced from Indicus Analytics, 2009. The forecast for ORM is driven by three factors, namely; growth in the number of households, increase in the price level of expenditure categories and growth in the share of organized retail market. Besides these primary drivers, we have also captured the impact of the incremental household income on the organized retail market. The concept of Marginal Propensity to Consume (MPC) was adopted to identify the share of incremental consumption expenditure on retail that is contributed by the income growth. While the estimate of the ORM in the Total Retail Market in India is available in the literature, the share of a particular city or a zone was estimated by Knight Frank Research. We have done this with a presumption that the penetration of organized retail will be higher in regions with a higher proportion of middle income and high income households. For the supply side, an exercise was undertaken to estimate the magnitude of retail space that can cater to our forecasted ORM. A survey was conducted to capture the Average Trading Density (ATD) of organized retail space. ATD represents the revenue per sq.ft of saleable area and is collected from matured markets and hence, represents an optimal business scenario. A natural vacancy of 5% is considered to be an acceptable vacancy rate and therefore our forecast has accommodated this vacancy. Hence, the ATD and magnitude of organized retail space were used to calculate the Real Estate Retail Potential (RERP) for each of the years until 2012. Through the dynamics of ORM and the RERP, we were able to identify the oversupply or undersupply situation in a particular zone for a period. The excess of ORM over RERP indicates an undersupply situation and the excess of RERP over ORM indicates an oversupply situation. (Refer to Annexure 6)

Rise of non-metro cities and towns

According to the Ernst and Young report on "The New Market Shehers: Tapping Potential Beyond the Metros" the trends in consumption patterns and marketing spends in small town India has been identifies. The report highlights consumption patterns of consumers across Key Urban Towns (KUTs) and Rest of Urban India (ROUI). KUTs, for instance exhibit consumption patterns that are similar to those in the metros and there is an increase in the consumption of premium brands and services in the KUTs. For the New Market Shehers report, India was divided into four geographical categories — the top six Metros (Mumbai, Delhi, Bangalore, Hyderabad, Chennai and Kolkata); the Key Urban Towns (KUTs), which are the 22 cities immediately following the metros in their market potential, e.g., Amritsar, Surat and Ludhiana; cities in the Rest Of Urban India (ROUI) and the KUTs, e.g., Kota, Jalandhar, Jabalpur and rural India.

Key findings are as follows:

- Retail presence in the KUTs and the ROUI through organized retail chains and malls has increased considerably
- Over a 2 year period, the percentage growth in the number of malls in the KUT (55%) was more than twice that of the metros (24%). Consumers in the KUTs show an increasing preference for the premium products and services of established mass brands.

- For instance, the sale of LCD TVs and wellness services is on the rise in the KUTs. Significant uptake in the leisure and lifestyle spends of consumers in the KUTs.
- Men are utilizing wellness services now more than ever before, not just in the big-metros, but also in tier II and III cities.
- Women in small towns are more willing to pay large amounts for age correction, body sculpting and removing skin imperfections etc. The share of the KUTs and the ROUI in newspaper advertising (by volume of activity) in 2009 was higher than 50% across most categories. For categories such as cellular skincare, oral hygiene, hair care and consumer durables, the advertising share is even higher than 75%. The KUTs and the ROUI comprise more than 50% of total BTL activity in the country.
- BTL activity has grown significantly in non-metros (40% in 2009 vis-a-vis 15% during 2007), as compared to the metros (60% in 2009 vis-a-vis 85% during 2007), which indicates the importance of KUTs.
- 60% of BTL activity is concentrated in the ROUI and in rural India with sectors such as telecom, consumer durables and certain categories of FMCG products.
- Mobile advertising is also catching up more effectively in the KUTs and ROUI as opposed to person-to-person marketing with more 500 million mobile users base in these regions.
- The metros and the KUTs are driving growth in later-stage consumption (higher transaction value products and discretionary goods), the ROUI are driving growth in early-stage consumption (necessities and products with lower transaction value).

Marketers are taking cognizance of this new urban consumer and are aggressively targeting these KUTs and ROUIs, which has resulted in a focus shift in media spends from the metros to the non-metros. This trend is likely to continue with the changing consumption pattern of consumers, fuelled by greater purchasing power. (www.ey.com)

The country’s tier 2 & 3 cities in the central and western regions are attracting foreign retailers’ attention; these locations are less affected by the financial crisis and more suitable for expansion. The research document on “The Bird of Gold: The Rise of India’s Consumer Market” (May 2007) by McKinsey Global Institute has classified cities and towns as Tier 1,2,3 &4 (Refer to Annexure 7). We also see that several Tier 3 towns have emerged as wealthy centers and, on a per-household basis, are richer even than some of the top eight mega-cities (as mentioned in the below mentioned graph). With higher per-capita spending, niche cities provide opportunities for many companies, and are becoming increasingly important in the national market. The analysis reveals that some emerging niche tier 3 cities are richer than most tier 1 and tier 2 cities. (Refer to Annexure 8)

High growth cities: Chandigarh, Jaipur, Ludhiana, Lucknow, Kochi, Surat, Vadodara
A group of tertiary cities have over the past year entered a high growth phase. These high growth cities, mainly located in northern India, are perceived by retailers as the "next retail destinations". They are on the radar for major national and international retailers, attracted by high incomes and strong brand awareness. Chandigarh, Ludhiana, Jaipur and Lucknow lead the pack, characterized by high levels of shopping mall development and significant retailer interest. Research on retailer preferences by Jones Lang LaSalle Meghraj identifies the Punjabi city of Ludhiana as the most favored tertiary city. Incomes are well above the national average and consumers have a high exposure to international brands due to the strong influence of its NRI population. Most high growth cities are located in northern India where there is strong brand awareness. The exception is Kochi in southern India, a favored destination for the IT/ITES sector. A sharp rise in mall development is expected in 2007/2008 in Kochi, with schemes by both the Kshitij Fund (a retail investment fund of the Future Group) and Lulu (a division of EMKE Group of Dubai) in the pipeline. (Refer to Annexure 9)

Case Study on Navi Mumbai

The major micro-markets that fall under the Navi Mumbai zone are Airoli, Vashi and Kharghar. There are only 6 major operational malls in this zone. Of the 6 major malls, Inorbit Mall became operational in 2009 and has a very low vacancy rate; it is purely a retail project. All the other 5 malls opened up in 2007-2008; hence all the malls in this zone are relatively new malls. There were no major operational malls that shut down in the last twelve months. Vashi is clearly the dominant micro-market in this zone, housing 5 out of the 6 major malls. With the formation of Navi Mumbai, Vashi was one of the major areas in that zone as it was seen as an entry point for commercial activity. With an increase in commercial activity, there was a subsequent increase in residential demand. And with an increase in commercial as well as residential demand in that micro-market, the retail activity was forced to gather pace. Hence, more malls are noticed in Vashi than any other micro-market in Navi Mumbai. The Navi Mumbai zone comprises of locations stretching from Airoli to Panvel. This zone has a population of 0.43 mn households, which will increase to 0.49 mn households by 2012. The organized retail space in the zone is concentrated in the Vashi micro-market and many of the malls are operating at a sub optimal level. The phenomenon of retailers shifting from existing malls to the newly opened ones is also prevalent. Similarly, another visible phenomenon is that many of the tenants have cut down on the area occupied by them. This is due to the fact that the smaller malls are not generating sufficient footfalls. (Refer to Annexure 10). The organized Retail Market (ORM) in the zone is much smaller than the Real Estate Retail Potential (RERP) that is already created, which has led to an oversupply situation in the zone. As per our forecast, the ORM will reach to Rs.9.8 bn. in 2012 but the RERP will increase much faster to Rs.27 bn during this period. This situation, which will primarily emanate from the fact that the organized retail stock will double between 2009 and 2012, will translate in to an oversupply of 1.71 mn sq.ft in 2012. As a result, the downward pressure on retail rentals in the zone is expected to continue over the next 2-3 years. (Refer to Annexure 11).

A primary study conducted on 130 respondents (selected randomly) of the visitors of malls in Navi Mumbai reveals the following:

- Majority of the visitors prefer Inorbit or Raghuleela mall and the main reason attributed in proximity to the railway station, parking ease and good mix of tenants.
- Little World mall of Kharghar has provided a new destination for residents of Kharghar to Panvel.
- Palm Beach Galleria mall is no longer preferred as a destination for shopping mainly due to the emergence of new malls coupled with location disadvantage. But it is a preferred location for watching movies due to the availability Big Cinema multiplex.
- Major problem of parking has been observed in Inorbit mall by many respondents.
- City Centre mall is still the preferred choice for many of the respondents due to variety of stores along with pricing & food options.
- Many respondents suggested of having a multiplex in Inorbit mall.

Current update:

Old malls are struggling to survive going for slashing rents or undergoing makeovers

- Palm Beach Galleria in Vashi is a reminder that all is not well with Malls & Retail. Brands such as Max, Levis, Adidas, Provogue and Odyssey have exited this mall in Navi Mumbai. Sales at the Metro Shoes store at Palm Beach Galleria have dropped 57% since the mall first opened in doors in 2007. Dwindling sales were because of reduced footfalls during the downturn and increased competition from larger malls such as Inorbit and Raghuleela that have come up in the same area Palm Beach Galleria is also in the process of reinventing itself. The mall is now open to renegotiations and is in the process of re-launching by January with new tenants and unique format stores.
- Eight malls have closed down and been converted into commercial buildings in the last two years. E.g. Wonder Mall in Thane near Mumbai is leasing area as office space after Korum and R Mall came up in competition
- Around 150 malls have been built in India in recent years and few are now falling by the wayside, unable to face competition from newer and better-designed malls that have mushroomed. Only a dozen of the 142 malls still in business are successful. Markets which have seen an explosion in the number of malls such as Ahmedabad and New Delhi were facing the heat from newly launched and better planned malls. Most anchors (tenants) in these malls are now paying rents that are cheaper by 50% to 60% compared with the 2006-07 levels.
- At Eva, a 60,000 sq. ft mall in Bangalore that launched as a woman's mall in 2005, the failure to attract customers resulted in a complete makeover.

Issue of Proper Mall Management Practices

Malls are likely to see poorer occupancy over the next year as the number of malls rises but their management remains unprofessional. Nearly 20% of total mall space under operation in India was vacant at the end of the September quarter 2010. This will rise to 26% by the end of calendar year 2011 (as per recent report by Jones Lang LaSalle).

- Only 4.5 million sq. ft, or less than half the total supply of 9.4 million sq. ft in 2010 to be occupied, raising overall vacancy at the end of this year to 21.5%. The figure will continue going up as many malls supposed to come up in 2010 will become operational in 2011.
- The National Capital Region, which includes New Delhi and its suburbs, and Mumbai, will witness the highest vacancy rate of 27-28% at the end of 2011. Barely 20 malls, or 10% of the nearly 200 malls currently operational in India, are successful. These malls, thanks to their layouts, professional management and ability to attract shoppers, are still in good demand, but most other malls are languishing.
- In a bid to cash in on the earlier retail boom, developers tried to sell mall space and move out, instead of managing and marketing the malls as is the norm in developed nations. Most malls did not succeed in India as a result due to improper mall planning and mall management practices, one of the main reason behind this is the fact that majority of malls are not owned by any single owner or entity, they are owned by dozens of shopkeepers and other investors. Malls that are owned by single entities, managed and marketed by them in a professional manner are attracting good footfalls.
- India still has a huge appetite for malls. Total mall space in the country is around 40-45 million sq. ft, or close to the mall space in a small country such as Singapore. For a retailer, it's still a challenge to find a good mall in a good location at a good price. Several retailers are looking to open more outlets inside malls. The catchment area, quality of the developer, size of the mall, infrastructure like parking area are some of the very critical which a tenant or retailer look into in any mall.
- Expectations of foreign direct investment (FDI) in multi-brand retail have also boosted the prospects of the retail industry, and in turn encouraged property developers to build malls. The commerce and industry ministry issued a white paper this year on whether India should allow FDI in multi-brand retail. The bigger challenge to address is how you operate your properties, the appropriate tenant mix, catchment analysis and mall design so as to ensure proper retail space management.

Conclusion

The future of retail space management lies in collaborating efforts between retailers and developers (e.g. Phoenix tie-up with Entertainment World Developers Pvt. Ltd. and Big Apple Real Estate Pvt. Ltd., Entry of Kshitij Retail Destinations in mall management space & Provogue's tie-up with Liberty International). Providing more entertainment options or formats in the mall to make it a complete family destination, there is a rising importance of encouraging brand building activity for mall. Due to mismatch of demand and supply of mall space there is a need for right sizing the mall. As far as long term solution is concerned the government needs to address the critical issues of the purpose of opening a mall, credentials of people behind the mall development, proper analysis of demand – supply scenario before allocating the permission to open a new mall. The need to justify the occupancy charges needs to be tackled as in recent scenario a rent sharing model has been worked out by many retailers and mall owners. Indian retail and retail real-estate industries are currently going through a difficult phase due to sluggish demand from the consumers. Since these industries are in their nascent stage currently, the formats and business practices are still evolving and the standards are yet to evolve. With greater learning, increasing consolidation and entry of international players, we expect that the Indian retail real-estate space would be benchmarked against the very best in the world. In India, there is still a significant gap between the demand and supply of quality real-estate space. Therefore, projects with good mall management practices in place will command a premium in the future.

There is no shortage of customers if the developer has the right product-mix, location and track record. The malls have to go through its life cycle to be able to evolve and customize as per the domestic requirements of consumers in India.

List of Annexures:

Annexure 1: Top 25 retailers out of Top 250 global retailers 2008

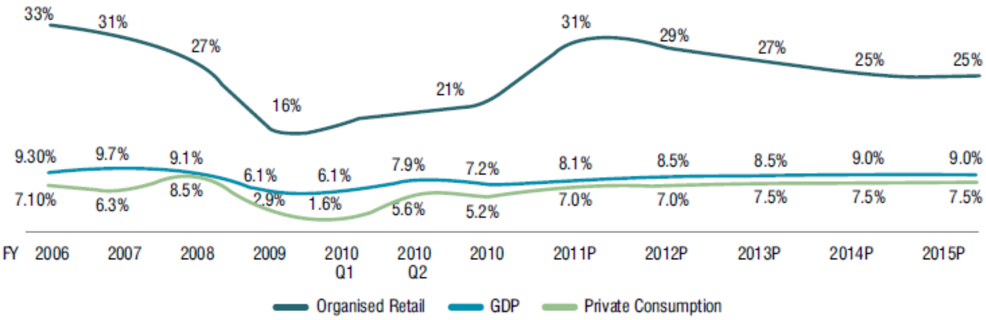
Retail sales rank (FY08)	Name of company	Country of origin	2008 group revenue* (U.S. $mil)	2008 retail sales (U.S. $mil)	2008 group net income* (U.S. $mil)	Dominant operational format	# Countries of Operation	2003-2008 Retail Sales CAGR**
1	Wal-Mart Stores, Inc.	U.S.	405,607	401,244	13,899	Hypermarket/Supercenter/Superstore	15	9.4%
2	Carrefour S.A.	France	129,809	127,958	2,264	Hypermarket/Supercenter/Superstore	36	4.3%
3	Metro AG	Germany	99,986	99,004	824	Cash & Carry/Warehouse Club	32	4.8%
4	Tesco plc	U.K.	96,210	96,210	3,836	Hypermarket/Supercenter/Superstore	13	12.0%
5	Schwarz Unternehmens Treuhand KG	Germany	79,924 e	79,924 e	n/a	Discount Store	24	12.3%
6	The Kroger Company	U.S.	76,000	76,000	1,249	Supermarket	1	7.2%
7	The Home Depot, Inc.	U.S.	71,288	71,288	2,260	Home Improvement	7	1.9%
8	Costco Wholesale Corp.	U.S.	72,483	70,977	1,283	Cash & Carry/Warehouse Club	8	11.2%
9	Aldi GmbH & Company oHG	Germany	66,063 e	66,063 e	n/a	Discount Store	18	5.1%
10	Target Corp.	U.S.	64,948	62,884	2,214	Discount Department Store	1	6.1%
11	Rewe-Zentral AG	Germany	73,273	61,549 e	n/a	Supermarket	14	4.2%
12	Walgreen Company	U.S.	59,034	59,034	2,157	Drug Store/Pharmacy	3	12.7%
13	Groupe Auchan S.A.	France	58,094	56,831	1,095	Hypermarket/Supercenter/Superstore	12	6.1%
14	Seven & I Holdings Company, Ltd.	Japan	56,330	54,113	1,010	Convenience/Forecourt Store	4	ne
15	CVS Caremark Corp.	U.S.	87,472	48,990	3,212	Drug Store/Pharmacy	1	14.1%
16	Lowe's Companies, Inc.	U.S.	48,230	48,230	2,195	Home Improvement	2	9.4%
17	Aeon Company, Ltd.	Japan	52,151	47,975	91	Hypermarket/Supercenter/Superstore	10	8.1%
18	Centres Distributeurs E. Leclerc	France	47,567 e	47,567 e	n/a	Hypermarket/Supercenter/Superstore	6	4.8%
19	Edeka Zentrale AG & Company KG	Germany	49,363 e	47,389 e	n/a	Supermarket	1	4.9%
20	Sears Holdings Corp.	U.S.	46,770	46,770	99	Department Store	5	15.0%
21	Best Buy Company, Inc.	U.S.	45,015	45,015	1,033	Electronics Specialty	14	12.9%
22	ITM Développement International (Intermarché)	France	44530 e	44530 e	n/a	Supermarket	8	-2.4%
23	Safeway, Inc.	U.S.	44,104	43,222 e	965	Supermarket	2	4.4%
24	Casino Guichard-Perrachon S.A.	France	42,233	39,697	883	Hypermarket/Supercenter/Superstore	11	3.8%
25	Koninklijke Ahold N.V.	Netherlands	37,846	37,846	1,588	Supermarket	9	-8.8%

Annexure 2: Economic concentration of top 10 retailers, 2008

Top 250 Rank	Name of Company	Country of Origin	2008 Retail Sales (US$mil)	2008 Retail Sales Growth
1	Wal-Mart	US	401,244	7.1%
2	Carrefour	France	127,958	5.9%
3	Metro	Germany	99,004	5.3%
4	Tesco	U.K.	96,210	14.9%
5	Schwarz	Germany	79,924	12.6%
6	Kroger	US	76,000	8.2%
7	Home Depot	US	71,288	-7.8%
8	Costco	US	70,977	12.5%
9	Aldi	Germany	66,063	7.1%
10	Target	US	62,884	2.3%
Top 10*			$1,151,552	6.9%
Top 250*			$3,818,830	6.3%
Top 10 Share of Total			30.2%	

*Sales-weighted, currency-adjusted composite growth rate
Source: Published company data and Planet Retail

Annexure 3: Impact of Slowdown on Consumer Confidence, Private Consumption & Organized Retail



Source: Ministry of Finance, Technopak Analysis and Estimates Real Growth Rates

Annexure 4: Global Retail Development Index 2010

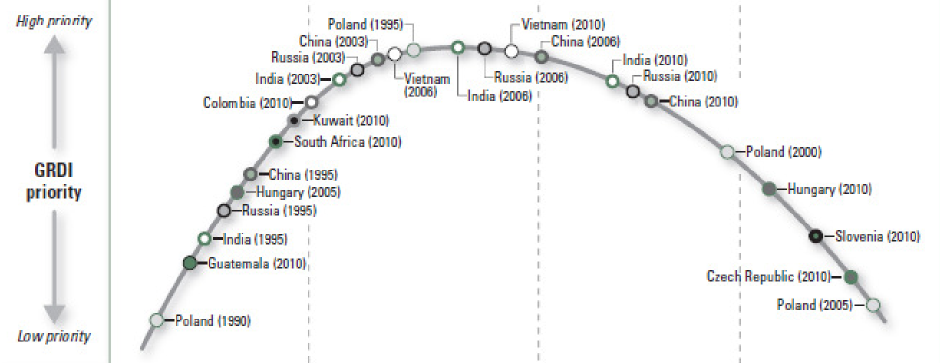
2010 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2009
1	China	Asia	50.6	85.8	32.9	86.6	64.0	+2
2	Kuwait	MENA	75.4	94.3	56.2	24.5	62.6	N/A
3	India	Asia	35.4	51.3	62.2	97.8	61.7	−2
4	Saudi Arabia	MENA	65.3	86.5	50.7	31.0	58.4	+1
5	Brazil	Latin America	73.5	74.3	46.6	36.9	57.8	+3
6	Chile	Latin America	71.8	92.3	27.5	38.3	57.5	+1
7	United Arab Emirates	MENA	79.1	100.0	18.8	32.0	57.5	−3
8	Uruguay	Latin America	67.7	74.3	58.6	23.1	55.9	N/A
9	Peru	Latin America	43.4	54.6	72.2	49.2	54.9	+9
10	Russia	Eastern Europe	63.5	55.1	32.0	61.8	53.1	−8
11	Tunisia	MENA	45.3	77.1	61.3	26.3	52.5	+3
12	Albania	Eastern Europe	30.4	30.2	82.2	61.7	51.1	N/A
13	Egypt	MENA	30.9	45.5	85.7	41.6	50.9	+2
14	Vietnam	Asia	12.3	49.4	50.2	89.1	50.2	−8
15	Morocco	MENA	31.8	60.6	56.0	46.9	48.8	+4
16	Indonesia	Asia	40.9	46.6	59.9	47.5	48.7	+6
17	Malaysia	Asia	54.9	67.5	15.6	48.9	46.7	−7
18	Turkey	MENA	64.6	52.5	40.5	28.9	46.6	+2
19	Bulgaria	Eastern Europe	49.7	60.8	18.8	56.7	46.5	+2
20	Macedonia	Eastern Europe	41.7	28.0	60.8	52.2	45.6	N/A
21	Algeria	MENA	26.1	21.3	96.0	38.2	45.4	−10
22	Philippines	Asia	35.6	35.6	72.7	37.0	45.2	+3
23	Dominican Republic	Latin America	41.2	27.4	69.8	35.4	43.5	N/A
24	South Africa	Sub-Saharan Africa	52.4	73.0	25.2	16.0	41.7	N/A
25	Mexico	Latin America	64.3	69.6	11.1	20.9	41.5	−13
26	Colombia	Latin America	45.0	44.0	48.8	21.9	40.0	+2
27	El Salvador	Latin America	43.8	43.1	55.3	15.9	39.5	+2
28	Romania	Eastern Europe	46.0	61.8	0.0	49.4	39.3	−5
29	Bosnia and Herzegovina	Eastern Europe	27.3	30.2	21.4	77.4	39.1	N/A
30	Guatemala	Latin America	29.3	30.5	70.4	11.9	35.5	N/A

Key: *On the radar screen*; *To consider*; *Lower priority*

Legend: *0 = low attractiveness, 100 = high attractiveness*; *0 = high risk, 100 = low risk*; *0 = saturated, 100 = not saturated*; *0 = no time pressure, 100 = urgency to enter*

Notes: MENA = Middle East and North Africa; Scores are rounded

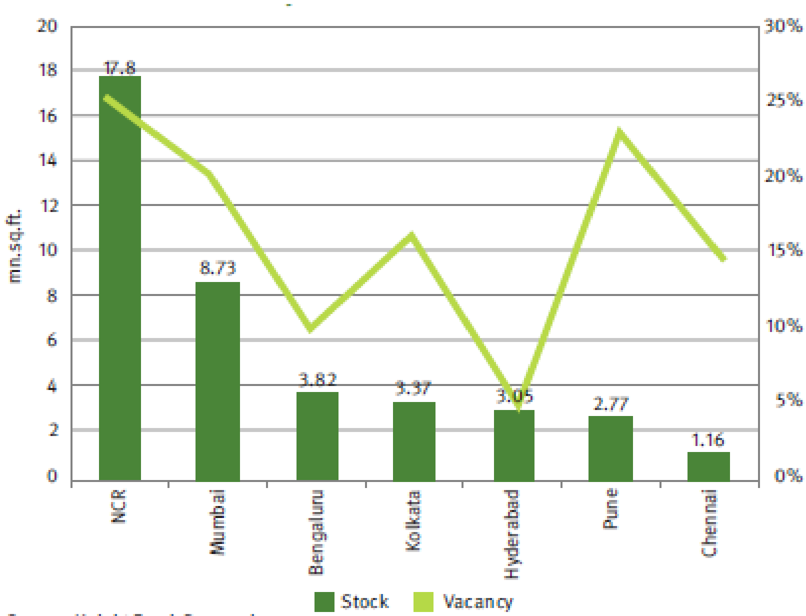
Annexure 4: GRDI Window of Opportunity Analysis



	Opening	Peaking	Maturing	Closing
Definition	Middle class is growing; consumers are willing to explore organized formats; government is relaxing restrictions	Consumers seek organized formats and greater exposure to global brands; retail shopping districts are being developed; real estate is affordable and available	Consumer spending has expanded significantly; desirable real estate is more difficult to secure; local competition has become more sophisticated	Consumers are accustomed to modern retail; discretionary spending is higher; competition is fierce both from local and foreign retailers; real estate is expensive and not readily available
Method of entry	Minority investment in local retailer	Organic, such as through directly operated stores	Typically organic, but focused on tier 2 and 3 cities	Acquisitions
Labor strategy	Identify local skilled labor for management positions	Hire and train local talent and balance the expatriate mix	Change balance from expatriate to local staff	Use mostly local staff

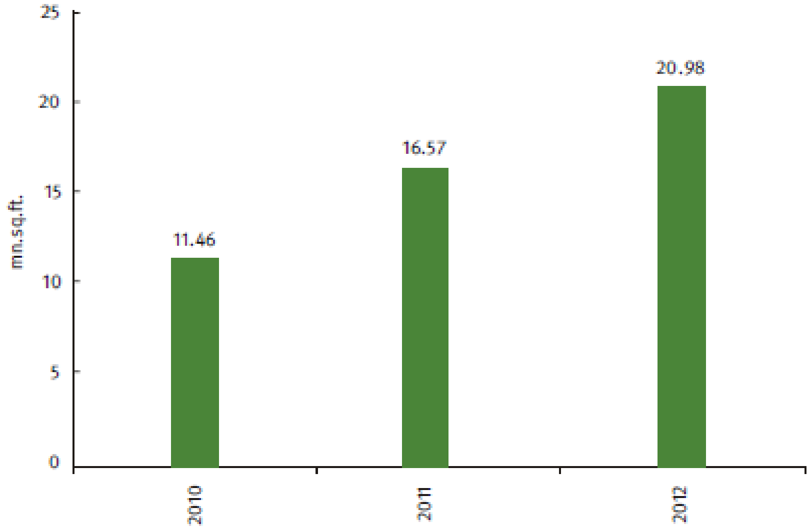
Source: A.T. Kearney analysis

Annexure 5: Retail Stock and Vacancy



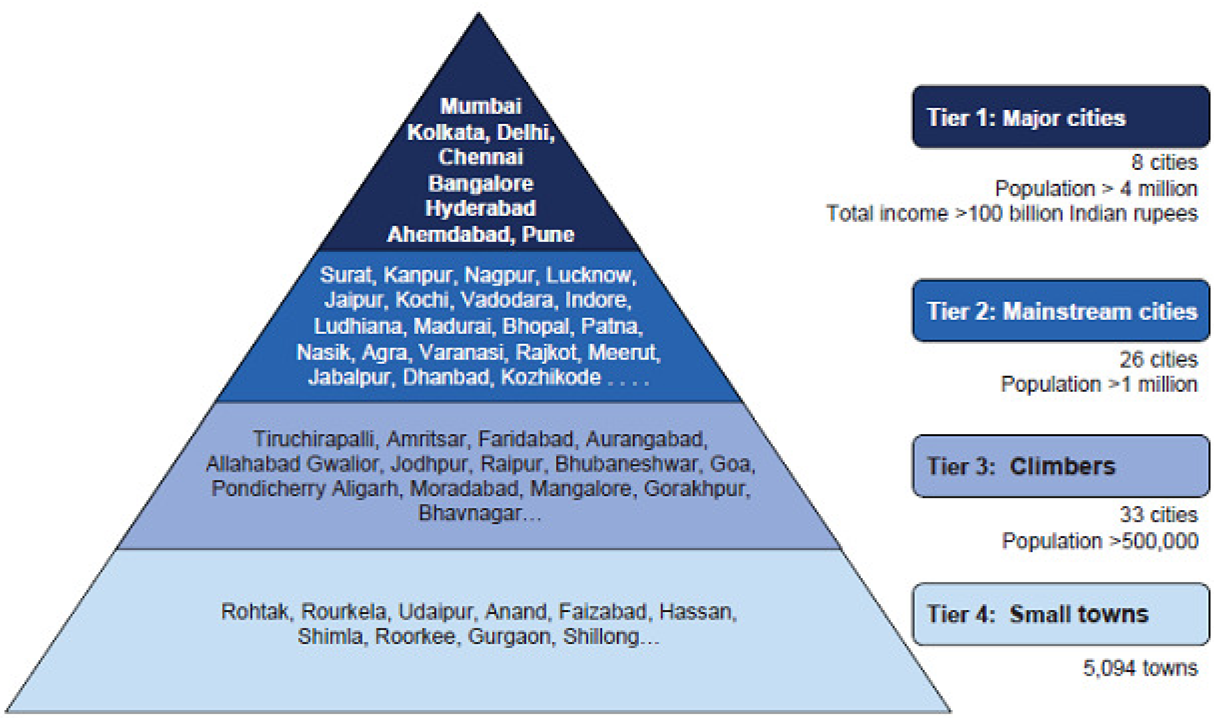
Source: Knight Frank Research

Annexure 6: Estimated Oversupply Situation in 7 Major Cities



Source: Knight Frank Research

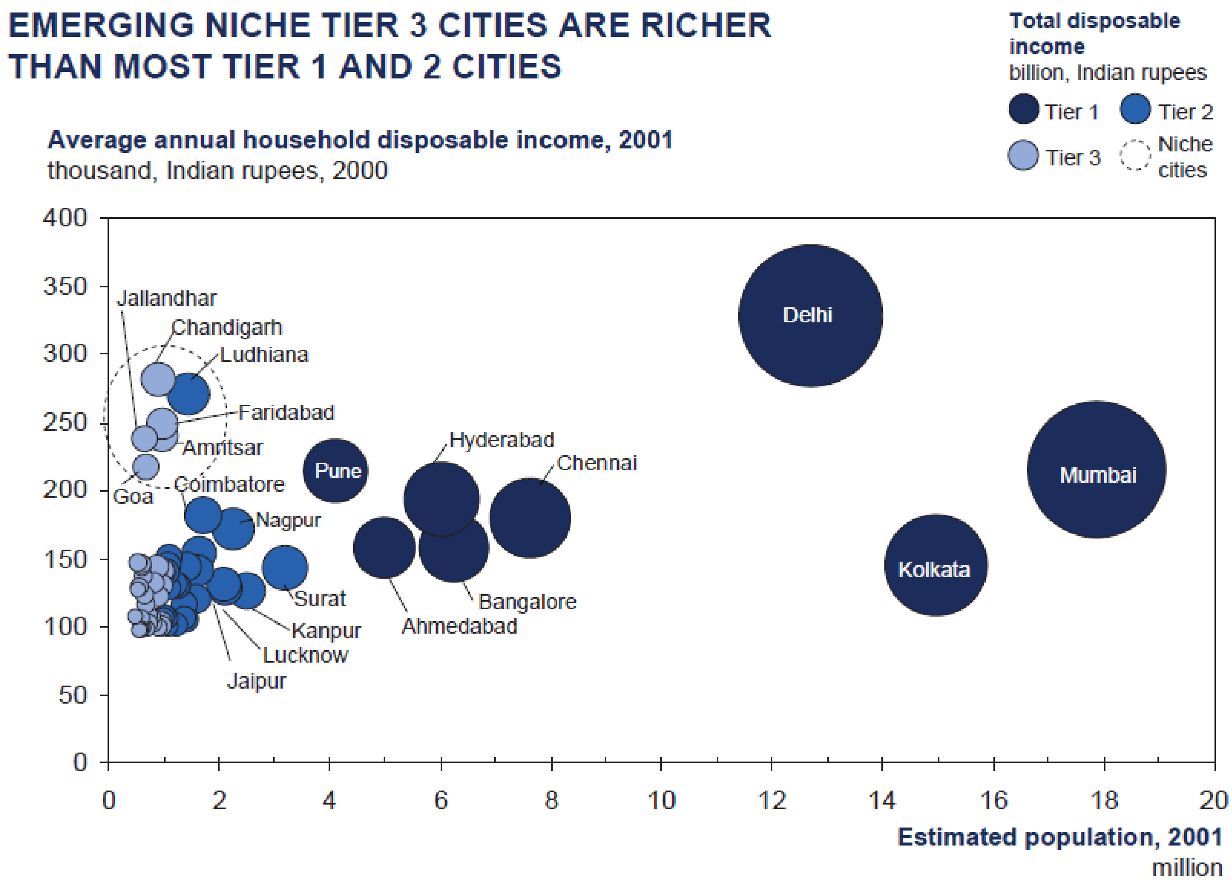
Annexure 7: Classification of Towns



* Population for each city estimated using the average urban household size (from MGI model) and the estimated number of households in each city from NCAER (in the year 2001).

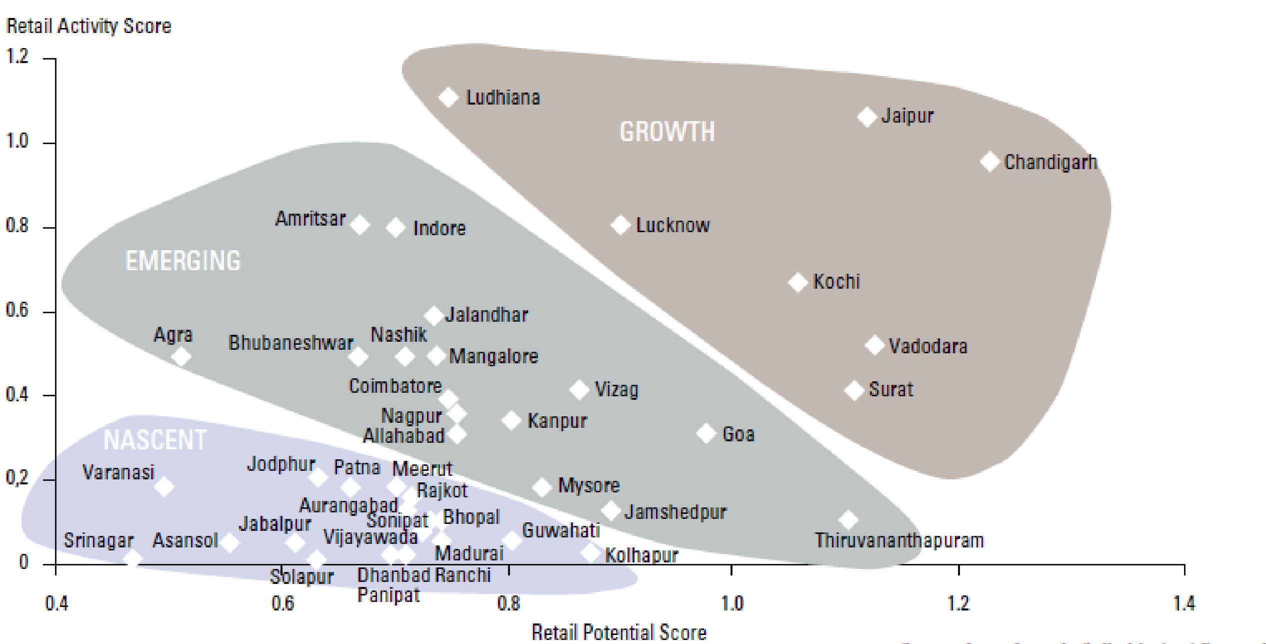
Source: *The Great Indian Middle Class,* NCAER; MGI India Consumer Demand Model (v1.0); MGI analysis

Annexure 8: Emergence of Niche Tier3 cities



Source: *The Great Indian Middle Class*, NCAER; MGI India Consumer Demand Model, v1.0; MGI analysis

Annexure 9: Indian Tertiary Cities – Retail Activity v Potential

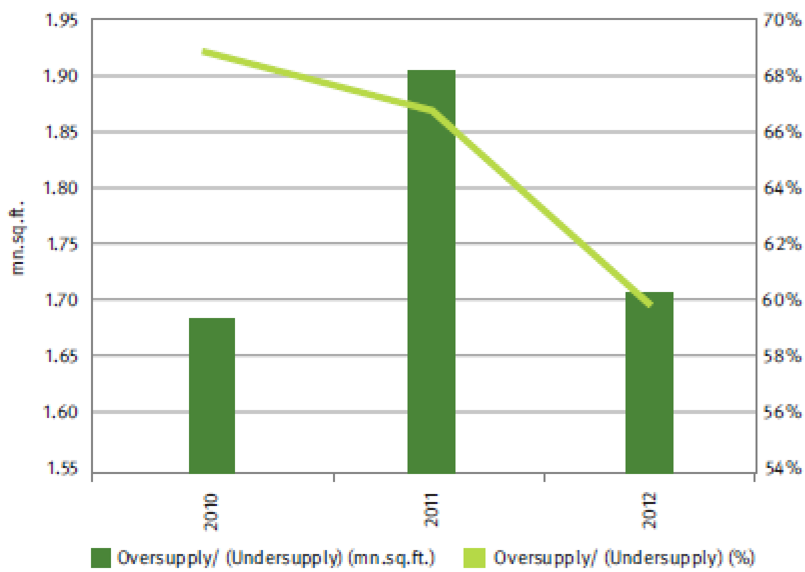


Source: Jones Lang LaSalle Meghraj Research

Annexure 10: Navi Mumbai: ORM vs RERP

Source: Knight Frank Research

Annexure 11: Retail Real Estate Scenario of Navi Mumbai



Source: Knight Frank Research

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