

Searching for space

THE organised retail sector in India has undoubtedly witnessed a radical transformation over the last four-five years. Be it for branded apparel, packaged food or electronics, the Indian consumer has begun to ask for more and is correspondingly being bombarded with an increased variety of options. However, our markets are woefully disorganised. We have 12 million retail outlets but organised retail contributes only 2 per cent to overall revenues.

The success of large malls such as Crossroads in Mumbai, Spencer Plaza in Chennai and Ansal Plaza in Delhi has encouraged a number of developers to join the retail bandwagon. However, though rentals achievable are marginally higher than high-street rentals, there are a number of challenges that these developers will face.

In Mumbai, for example, malls will have to compete with thousands of local corner shops, which are paying nominal rents on account of their protected stature. The other major issue is ease of purchase. Groceries and other domestic supplies from these corner shops can be availed of telephonically in conjunction with credit periods ranging randomly from 30-45 days.

After the much hyped dotcom boom and subsequent bust, one wonders whether Internet shopping will ever compete with traditional retailing. The average Indian being cash-centric, with low credit card and Internet penetration, the 'touch' factor and the fact that domestic help is available at affordable prices are the primary reasons why dotcoms would find it hard to survive in India. It is no surprise, then, to find that they have not.

So, is there a future for malls? Yes, of course there is, on the condition that they provide the wonderful ambience associated with them



Pic: Shashi Ashiwal

internationally, as well as the right tenant-mix. It is the 'experience' factor that will ultimately differentiate a successful mall from a run-of-the-mill one. A lot of factors come together to make this experience enjoyable. These include a clean environment, a wide range of shops that complement

each other, adequate restaurant facilities and ample car parking.

The organised retail sector in India is at a nascent though dynamic stage. The challenges that the retail players face are that their selling price is pegged to the maximum retail price that they can charge.

Also, high rentals, archaic property laws, low purchasing power, conservative spending habits, shrinkage and value driven consumers waiting for discounts to buy goods, all cut into the retailers' margins. The one way that the retailers can meet these challenges is by expanding to meet

the desirable economies of scale and also be able to establish some bargaining power with the branded goods manufacturers. This expansion drive of the organised retailers will create demand for retail real estate and keep retail development ventures buoyant.

The advent of malls has brought with it the concept of an anchor, which occupies a sizeable percentage of the total usable area in a mall. The anchor is expected to attract a variety of consumers to the mall and hence is the key to increasing the foot traffic in a mall. The success of a mall could be largely dependent on the ability of the anchor to attract consumers. Due to the strategic role that an anchor plays in the success of a mall and the fact that it occupies a sizeable area in a mall, the capital/rental values paid by an anchor are at a significant discount to those paid by other occupants.

Smaller retail players, in their penchant to grow fast, have found unique and attractive ways to lease prime retail space, whereby they pay property owners a percentage of sales generated from the leased space or a minimum guaranteed amount whichever is higher. On the other hand, landlords need to charge retailers fair rentals that make their businesses financially viable so their lease agreements can be renewed at a later stage.

Unorganised retail in India, which accounts for the bulk of retail transactions, is expected to face stiff competition from the organised sector which is trying to eat into the unorganised segment's huge market share. Corner shops are improving their fit-outs, displaying and laying out goods in a more organised way, providing credit periods and home delivery and also depending on their personalised service to win the battle against the larger players. On the other hand, the organised retail sector is trying to pull in the consumers by providing a win-win solution to the consumer, i.e., a comfortable shopping environment, convenience and a larger variety of competitively priced goods sold under one roof.

The retail sector is an extremely important sector of an economy.

Retail developments on the anvil - Mumbai

Development	Location	Approx. retail space (sq ft)	Expected opening
Nirmal Lifestyle (Nirmal group)	Mulund	300,000	2002
Runwal Arcade (Runwal group)	Mulund	300,000	2002
Venus Builders	Jogeshwari	80,000	2002
Citimall (Ajmera group)	Andheri (W)	80,000	2002
Dheeraj Consultancy	Malad	75,000	2002
Crossroads (Primal group)	Nariman Point	75,000	2002
Individual	Juhu	70,000	2002
Shagun Shopping (Dynamix)	Goregaon	62,000	2002
Millennium Mall (Phoenix Mills)	Lower Parel	180,000	2002
Landmarc Citi (S. Kumar's)	Worli	200,000	2003
E-City (Essel group)	Andheri (W)	120,000	2003
Hiranandani group	Powai	100,000	2003
Mindspace (K. Raheja)	Malad	350,000	2003

* Source: Knight Frank India Research

The demand for real estate is likely to be kept buoyant by the expansion plans of various retailers.

However, it has not yet received the kind of attention it deserves from the Government. According to a McKinsey report, if appropriate reforms are carried out, this sector is capable of creating eight million jobs in the next 10 years, and also provide job opportunities for people transitioning from agriculture.

On the FDI (foreign direct investment) front, although a number of retail players have been advocating FDI in the retail sector, one needs to understand that just by allowing FDI in retail, one should not expect the

investments to pour into this sector in India. The FDI policy needs to be framed in such a way that it becomes attractive to foreign players to invest in India. FDI will not only bring in the much needed capital to fuel growth but also sophisticated systems and know-how and will shorten the learning curve.

As of now, global players are entering India in a number of different ways to circumvent the fact that FDI is not allowed in the retail sector. Marks & Spencers has come to India through the licensee route. Tricon, the parent company of Pizza Hut, has appointed franchisees in India. Tricon collects a one-time fee from its franchisees on the opening of a new outlet and regular royalties as a percentage of sales. McDonald's has been present in India through a 50:50 joint venture with its Indian partners.

A number of global brands are also expected to enter the Indian market in the next couple of years and existing players are likely to aggressively expand their presence in India. Local brands too are seeking to grow and reach a level that would make their operations viable. All in all, branded players are making a push towards reaching a critical mass whereby their investments in advertising and sup-

ply chain management are feasible.

Specialty stores and restaurants have taken root in India and are all set to grow. Barista, Cafe Coffee Day and other such chains of coffee shops are expanding fast and wide. Pubs such as Geoffrey's, and specialty eateries such as Copper Chimney and Mainland China are creating a niche for themselves and are expanding their franchise.

Organised grocery retailing through mini-supermarkets is well entrenched in South India. FoodWorld, promoted by the RPG group, is the fastest growing supermarket chain in India. Other prominent players in this segment of retailing are Vitan and Nilgiris. The concept of supermarkets within recreation clubs and other special locations such as office complexes is also catching on. We believe there is enormous potential for supermarket chains to flourish as there are a large number of educated dual income couples in South Indian cities who are willing to pay a premium for hygienically packed items.

The slowdown in the technology sector has had adverse implications for the retail real estate market in the cyber cities of India. The purchasing power capacity and consumer confidence of the people in these cities has taken a severe beating. A few

Retail developments on the anvil - New Delhi

Development	Location	Approx. retail space (sq ft)	Expected opening
MGF Mall	Gurgaon	400,000	2002
DLF City Centre Mall	Gurgaon	300,000	2002
Sahara Mall	Gurgaon	230,000	2002
The Centrestage Mall	Noida	60,000	2002
DLF Mega Mall	Gurgaon	300,000	2003
Ansals Properties	Gurgaon	50,000	2003

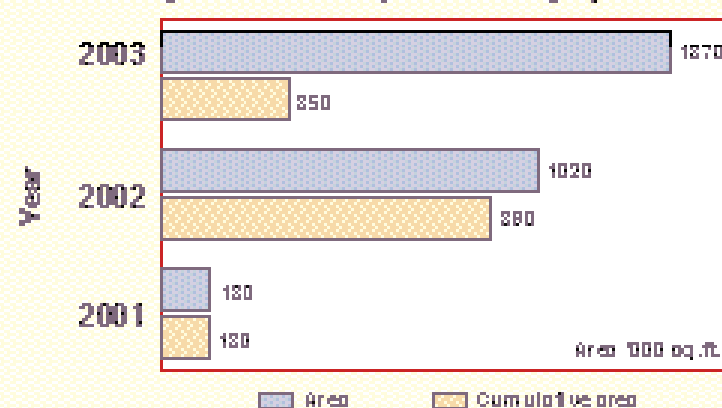
* Source: Knight Frank India Research

planned commercial and residential real estate projects have been shelved.

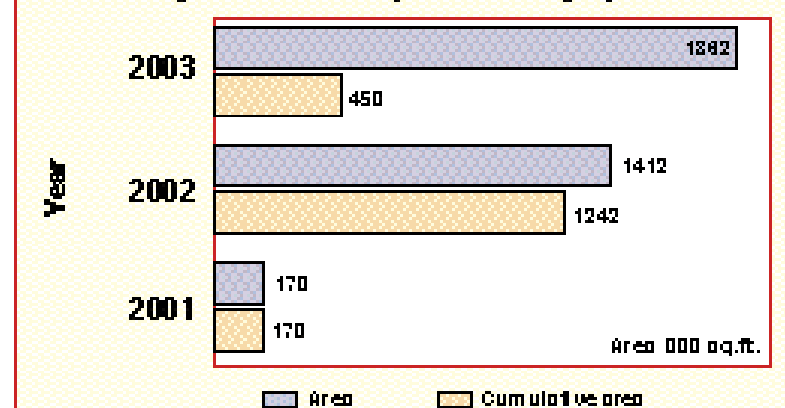
The larger organised retail players such as the department store operators have witnessed a dip in sales in the last six months due to the slowdown in the economy. The consumer sentiment has also suffered a major setback after the terrorist attacks in the US. The offtake of luxury goods has been poor and it does not seem likely to improve in the near future. Traditional retailers selling low priced goods are doing marginally

A great deal of retail space across the country will be ready for occupation by next year.

Total organised retail space coming up in Delhi



Total organised retail space coming up in Mumbai



Retail developments on the anvil - BANGALORE

Development	Location	Approx. retail space (sq ft)	Expected opening
Embassy Heights	Magrath Road	160,000	2002
Belview Towers	Hosur Road	65,000	2002
Janardhana Towers	Koramangla	60,000	2002
Salapura Centre	Koramangla	30,000	2002
Shoba Alexander	Commissariat Road	25,000	2002
Prestige Mall	Koramangla	300,000	2003
Purva Mall	Church Street	42,000	2003
Brigade Building	Cambridge Road	28,000	2003

* Source: Knight Frank India Research

better than their counterparts. There is a distinct change in shopping habits with people seeking maximum value and waiting for discounts to make their purchases. These discounts are hurting the margins of the organised retailers. Against this background, a huge amount of organised retail space is expected to be available in India for occupation by 2003.

Retail developments on the anvil - PUNE

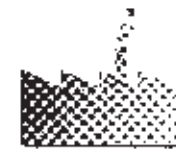
Development	Location	Approx. retail space (sq ft)	Expected opening
Sai Constructions Ltd	Behind Pune station	130,000	2002
Kolte Patil	Dhole Patil Road	50,000	2002
Vascon Engineers Ltd	Near Poona Club	90,000	2003
Godrej Castlemaine	Bund Garden Road	50,000	2003
Godrej Eternia 'C'	Shivajinagar	30,000	2003

* Source: Knight Frank India Research

Retailing in a number of cities in India, till date, has been location specific. People shop in the retail pockets of the area where they reside. According to us, this is unlikely to change, even with malls springing up and providing a comfortable shopping environment to the consumer. However, there is a noticeable change in that the shops in the retail pockets are improving their facade and offering a better shopping environment so as to not to lose their clientele to the swanky malls. We believe that the success of a mall will depend on it being surrounded by a primary and secondary catchment area with good potential. As of now, expecting people to travel to reach destinations for shopping and entertainment seems a little far-fetched what with the infrastructure not being up to the mark.

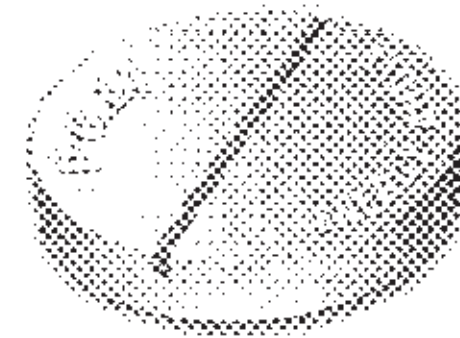
The shape of organised retailing in India has undergone a sea change over the last few years and a more radical change is expected in the near future. Retailers are making a push to get to the developments, which have the first entrant advantage in a location, and are trying to get the best rental deals for longer time periods. They understand that location and viable lease rentals are two very important ingredients for their success. On the other hand, developers are rushing in to make sure that they are among the first entrants in a catchment area with good retail potential as that strategy has spelt success in the past. Also, they are keen to have the right tenant mix in their developments in order to attract repeat visits by clients. **It is clear that the one winner in this retail rush is going to be the consumer.** ■

(This article has been contributed by Knight Frank India Research, Mumbai.)



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