

The Growth of Organized Retailing through Shopping Malls in India

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Abstract - The retail sector in India is witnessing a huge revamping exercise as traditional markets make way for next formats such as departmental stores, hypermarkets, supermarkets and specialty stores. Western-style malls have begun appearing in metros and second-running cities alike introducing the Indian consumer to a shopping experience like never before.

India's vast middle class and its almost untapped retail industry are key attractions for global retail giants wanting to enter newer markets. The structure of retailing is developing rapidly with shopping malls becoming increasingly common in large cities, and development plans being projected to 500 shopping malls by 2015. The industry is rated as the fifth most attractive emerging retail market, India is being seen as a potential goldmine. It has been ranked second in a global retail development index of 30 developing countries drawn up by AT Kearney. The list was developed as a response to request from retail chains facing saturated demand in most western markets.

1. AT Kearney has estimated India's total retail market at US\$ 202.6 billion which is expected to grow at a compounded 30% over the next 5 years.

2. With the organized retail segment growing at the rate of 25-30% per annum revenues from the sector are expected from the current US \$ 202.6 billion to US \$ 427 billion by 2015.

3. The share of modern retail is likely to grow from its current 4% to 15-20% over the next decade, analysts feel.

4. The world's largest retailer wall-mart has huge plans for India. It is moving senior official from its headquarters in Bentonville, Arkansas, to head its market research and business development functions pertaining to its retail plans in India.

5. New-york-based high-end fashion retailer saks fifth avenue has tied up with realty major DLF properties to set up shops in a mall in New Delhi.

6. Tommy Hilfiger, retailer of apparels, expects to open one store each in Delhi, Ahmadabad, Lucknow and Bangalore.

Keywords - Retail, Hyper Markets, Specialty Stores, Organized Retailing.

BACKGROUND

The Indian Retail sector is presently experiencing exponential growth and has been reported as one of the top five fastest growing retail destinations globally. According to industry estimates, the industry is set to grow from \$ 330 bn in 2007 to \$ 427 bn by 2015 and further to \$ 637 bn by 2020. The share of modern retail in the total retail market is expected to increase to 22% by 2015. It has been observed that with the on going retail boom, retail malls are growing at a blistering pace, mall space that was 2 million sq.ft. in 2002, was further estimated 90 million square feet by the end of 2015. The number of malls in India, which is presently 300, is expected to be 500 by 2015. It is expected that several malls will be coming up in the tier II and Tier III Cities of the country along with the metro cities.

Lately, two significant trends have been observed in the mall arena which is fast catching the imagination of mall developers, retailers & shoppers. There are a lot of malls in India that are metamorphosing into providing not just wholesome shopping experience but also accommodating offices and hotels. Simultaneously, many new malls are being developed around this concept by some of the leading mall developers of the country. They are also coming up with another idea called open mall that are supposed to provide value added 'high street' shopping experience to customers. These developments are expected to alter the shopping experience at malls and make customer visits at malls lot more pleasurable and substantial.

EVOLUTION OF SHOPPING MALLS IN INDIA

For many people, organized, retail appeared in India with the launch of the 'first malls' in 1999. The launch of 'Ansal's plaza' in Delhi and 'cross roads' in Mumbai are hailed as the spark that led to the explosion of organized retail in the country and transformed the retail landscape in India. Even highly respected news journals have reported that "only three shopping malls" existed in India at the end of 2002. However, if one were to define shopping centers or malls as enclosed shopping spaces, then Mumbai Crawford market (opened in 1869) and Kolkata's new market (1874) surely have the pride of place as the pioneering malls in India. Delhi's Connaught place (opened in 1931) should also definitely be considered, with its covered arcades. More recently, new Delhi's partially underground palika Bazaar, the mini- malls of the late 1980 on Bangalore's Brigade Road and shopping centers built by private developers in Ahmadabad and other cities have all had a role to play in the evolution of organized retail spaces in the country. So, it would be accurate to view the most recent off spring of a long lineage or organized shopping centers.

The Mall space distribution

Today in Indian economy, the retail sector is very promising particularly organized retailing, it is spreading in the entire tier - I, II, III cities of India. Every year the organized retail outlets and malls are opening up in good numbers in all the cities of India. As per the study conducted by knight & Frank India shows that by the year 2012, the total mall space available in India is approximately 75 million sq. ft. the following table shows the mall space distribution in the major cities of India.

Mall Space Distribution in Some Selected Cities of India By 2015

MALL SPACE DISTRIBUTION BY 2015			
Sr. No.	City	Area Sq.Ft.	% Distribution
1	Delhi	22500000	30
2	Mumbai	20250000	27
3	Hyderabad	5250000	7
4	Bangalore	3750000	5
5	Pune	3750000	5
6	Others	19500000	26
		75000000	100

Source: Knight & Frank Study

It can be understood from above table that tier - I cities in India like Delhi, Mumbai, Bangalore share major Retail space, while share of Retail space in other cities (tier II & tier III) like Indore, Jaipur, Ludhiana, Lucknow very low, even some of the tier - I cities like Chennai and Kolkata has very low retail space.

The trend against malls

There was a time when India's first mall, crossroad, Mumbai, found it difficult to manage customer traffic. In order to restrict foot falls, the mall decided to allow entry to those who had either a credit card or a mobile phone.

A lot has changed in the last 10 years; malls are now being abandoned by retailers and consumers alike. The year 2008 saw huge growth rate in mall space coming up all over the country. It was followed by a slow down and mall mania became mall trauma. The tide has truly turned for developers and retailers, who had blindly jumped into the mall business without understanding the demographics and demand. From Gurgaon to Ahmadabad, consumers are walking out of malls that don't cater to their needs.

One of the experts of this field pointed out that “the Indian retail real estate market is only a decade old and during the course it has seen the worst phase already. The conceptualization of a shopping mall is not like a residential or commercial towers hence professional assistance is essential some other attributes which has contributed in this catastrophic story are :- Multiple floors, High vacancy rates, Unviable Location, Poor Commercialization. Over 200 malls have mushroomed in the last 5 years; a majority is grappling with high vacancies and low footfalls. Some have shut up shops and others are converting them selves into commercial spaces. With the 5th highest household income among Indian cities, Ahmadabad should have been a dream destination for retailers, but the biggest retailers have burnt their fingers in this city as most malls are devoid of buyers. It isn't as though Gujratis don't spend on consumer items.

Hesitation to anchor new malls by Big retail

Malls in India face a very competitive situation with the unorganized retail sector, which is having a huge share in retailing in India, also India market is filled up with a variety consumer according to his or her profile, followed by other reasons like organized retailing & mall culture comparatively a new trend to India market, Govt. policy towards retailing, High Penetration of malls in Tier – I cities with improper planning and lower growth of malls in tier II & III cities, creates a difficulties in taking a decision by big retail to anchor a new mall. Department stores or hypermarket chains are usually the first to sign up as anchor tenants in a new mall. This helps the mall developer get other tenants on board easily as the presence of a big retailer ensure minimum footfall in the mall.

As on some day said by the future group CEO Kishore Biyani that we will not be the first to open stores in new malls” adding that new malls took a long time in getting other tenants and attracting, enough footfalls. Future group had planned to open stores along with other retailers so that it didn't have to go through a long gestation period to reach optimum sales.

Anchor tenants have traditionally been crucial to the success of malls. Large department Stores or lifestyle chains, which usually occupy a significant chunk of retail space sometimes as much as 25 % ease off pressure on mall developers. It's good or a mall to have one or more anchor tenants as shoppers are initially drawn to the anchor stores. Anchors in turn, have their, rents significantly discounted. It's easier for mall developers to convince other smaller retailers to come on board once they have signed up on anchor tenant. The economic environment has changed and retailers are not confident of developer's ability to get enough foot all. That's why no retailer would like to be the first to test the water. He would like to wait to understand the synergy with other tenants before stopping into a mall. Anchor tenants hesitation will make life difficult for mall developers as they are already facing excess retail capacity.

Increasing vacancy in malls –

City	Mall supply (in sq. ft.) Year 2009	Vacancy (%)
Ahmadabad	1,50,000	39
Bangalore	20,93,000	6
Chennai	11,50,000	1
Hyderabad	12,00,000	17
Kolkata	7,35,000	5
Mumbai	22,55,000	9
NCR	8,75,000	26
Pune	1,00,000	19

Source : Cushman & wakefield Research

According to the data of one of the leading global real estate consultants Cushman & wake field (C & W), shown in the above table that mall vacancy has risen 40% in Ahmadabad due to geographical distribution malls is poor with the western part of the city having a majority of the organized mall space. Followed NCR (26%), Pune (19%), & Hyderabad (17%) and Mumbai (9%)

Vacancy in malls becomes a crucial factor, far as the operational effectiveness & revenue of mall is concerned. There is need to plan out proper tenant mix with the right marketing strategies and the lease

arrangement, apart from the other factors like mall management services, location, etc.

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