



## Mall Management – A Growing Phenomenon in Indian Retail Industry

### EXECUTIVE SUMMARY

- The Indian retail market is expected to continue its growth trajectory into 2010.
  - Mall management has been identified as a critical factor for the success of malls and the retail industry across the world.
  - Mall management broadly includes mall positioning, zoning, tenant mix, promotions/marketing and facility/finance management.
  - Currently, the Indian retail market lacks designated mall management firms. Large real estate developers and retail chains either have their own mall management arms operating as subsidiaries or have contractual agreements with international property consultants.
  - Till recently, mall management was limited to facility management by a majority of developers in India, leading to gaps in mall management practices.
- Given the high future supply of malls and increasing competitiveness within the Indian retail market, developers must correctly address these gaps to ensure success.



## INTRODUCTION

Organised retailing in India witnessed a gross turnover of USD 320 billion<sup>1</sup> in 2006. Although this figure is low compared with other developed economies, industry experts expect the growth rate of this sector at 35%<sup>2</sup> until 2010. At present, about 100 malls are operational at a Pan-India level with a total area of 19 million sq ft. As per the current estimates, about 300<sup>3</sup> additional malls are expected to be constructed across the country by 2010.

**In the current market scenario, both consumers and retailers have limited choice in terms of mall shopping experience.**

According to the Jones Lang LaSalle *Retailer Sentiment Survey 2006*, 95% of the respondents expect their gross turnover to improve and have plans for expansion in 2007. About 70% of those who have expansion plans said they prefer malls over high streets for their expansion, indicating the rising demand for malls as the preferred destination of organised retail in India. Moreover, about 65% of those who preferred malls over high streets also said that mall management is expected to become the deciding factor for a mall's success in the future.

However, a sense of concern was expressed over the following challenges to the Indian retail market:

- lack of quality locations
- shortage of trained staff
- rising rental values
- mall management

The first three concerns can be classified as external factors, whereas mall management is internal. External factors are common to all players in the Indian retail industry, whereas mall management is

specific to individual malls. We anticipate that the success of Indian malls will not only be achieved by housing the biggest and the best mix of retailers, but also by setting up new standards and procedures in mall management that will provide a platform to differentiate its products and services from competitors.

In the current market scenario, both consumers and retailers have limited choice in terms of mall shopping experience.

As organised retail grows, we expect the market to be more competitive by providing more choices to consumers and retailers. At this point, developers will have to work harder to create a differentiation for their product. We believe consumers and retailers will be attracted to malls that are professionally managed, making effective mall management a critical factor behind the success of a mall.

This white paper focuses on the internal factor: effective mall management as a growing phenomenon in the Indian retail industry today. The prime objective of landlords as well as of investors is to attract shoppers and persuade them to purchase goods and services. This will in turn boost retailers' turnover and benefit their bottom line. Efficient mall management can help landlords achieve this goal.

## WHAT IS MALL MANAGEMENT?

Globally, mall management broadly includes:

- positioning a mall
- zoning – formulating the right tenant mix and its placement in a mall
- promotions and marketing
- facility management – infrastructure, traffic and ambience management
- finance management

<sup>1</sup>CII-A T Kearney report, 2006

<sup>2</sup>CII-A T Kearney report, 2006

<sup>3</sup>Source: Jones Lang LaSalle Meghraj, 2007

### Positioning a Mall

Positioning a mall refers to defining the category of services offered based on demographics, psychographics, income levels, competition in neighbouring areas and extensive market research of the catchment. For example, if the market research indicates that the average number of households living in a particular area belongs to the upper middle class, then a high-end retail mall would suit the location. An example of this practice can be seen in the upcoming malls, Select City Walk in Saket and DLF’s Emporio in Vasant Kunj. We believe that these retail developments are prime examples of good mall positioning. These malls have been specifically designed after an extensive market research, based on the catchment area of South Delhi. The malls provide high-end luxury products catering to the elite class (socio-economic classification A and B consumers) residing in South Delhi.

Positioning also refers to the location of the shopping mall. A good location defined in terms of factors

like ease of access via roads, good visibility, etc. is considered as one of the prime prerequisites for a mall. Although other activities such as trade/tenant mix can be revisited or redefined, the location remains fixed, making it an imperative factor for a mall.

### Zoning – Formulating the Right Tenant Mix and Its Placement in a Mall

Tenant mix refers to the combination of retail shops occupying space in a mall. A right tenant mix would form an assemblage that produces optimum sales, rents, service to the community and financiability of the shopping mall venture.<sup>4</sup>

Zoning refers to the division of mall space into zones for the placement of various retailers. A mall is dependent on the success of its tenants, which translates to the financial feasibility of the tenant in the mall. Generally, there are two types of consumers visiting malls – focused and impulse buyers. The time spent by focused buyers in malls is relatively

### Forum Mall

The Forum Mall is designed in a ‘dog bone’ fashion, an anchor tenant at each end and vanilla retailers in the middle. Landmark and Westside are the anchor tenants of this mall, and the food court is positioned on the top floor to attract consumers vertically up.

Forum Mall was built in 2003 and was the first mall in Bangalore City. Since then, six new malls have been constructed in the city and yet the Forum Mall continues to command the highest foot traffic, continuing to be one of the most successful malls in the city in terms of annual revenues. It is also widely believed that one of the driving factors behind the success of this mall is its zoning and superior tenant mix compared to competition.



<sup>4</sup>Kaylin So (1973) ‘In depth analysis necessary for mall game’, Mall World, August 1973

lower compared with impulse buyers who also enjoy window shopping. There is little that retailers can do to attract focused buyers as they usually know what they require and from where. However, right tenant mix and optimum retailer placement after a diligent zoning exercise can help retailers attract both types of consumers, especially the impulse buyers.

Formulating the right tenant mix based on zoning not only helps attract and retain shoppers by offering them multiple choices and satisfying multiple needs, but also facilitates the smooth movement of shoppers within the mall, avoiding clusters and bottlenecks. This helps influence shoppers' mall preference and frequency of visits. It also helps in building a distinct image in the minds of shoppers, which is critical considering the robust upcoming supply of malls.

The selection of the right anchor tenant plays a crucial role in establishing a good tenant mix. The anchor tenant is defined as the largest occupier in a mall in terms of square feet. Vanilla retailers<sup>5</sup> cluster around the anchor and feed off the shopping traffic it generates. The successful execution of the zoning exercise for a mall is carried forward through lease management on an ongoing basis. Forging good leases with retailers is an essential part of ensuring the

presence of the right retailers in a mall. The Forum Mall in Koramangalam, Bangalore is an example of a successful mall led by good zoning and tenant-mix mall management practices.

### Promotions and Marketing

Promotional activities and events in a mall form an integral part of mall management. Activities like food festivals, handicraft exhibitions and celebrity visits increase foot traffic and in turn sales volumes. Organising cultural events has time and again proved vital in attracting consumers to a mall. Such activities may also act as a differentiator for a mall. Developers can work on drafting marketing strategies for individual malls to meet the needs of the local consumer base and the challenges of local, and in some cases, regional competitors.

Ansal Plaza, the first mall in Delhi, is an example of a successful mall led by good promotions and marketing mall management practices.

### Facility Management

Facility management refers to the integration of people, place, process and technology in a building.

## Ansal Plaza

Regular promotional activities at Ansal Plaza, including cultural events have ensured a steady foot traffic in the mall since its inception in 1999. The mall also has an amphitheatre dedicated to these promotional activities. This has been one of the driving factors behind the success of the mall, despite having a less optimal mall design and tenant mix compared with some recent malls in the NCR.



<sup>5</sup>Vanilla retailers refer to single-brand shops.

It also means optimal utilisation of resources to meet organisational needs. It broadly includes infrastructure, ambience and traffic management.

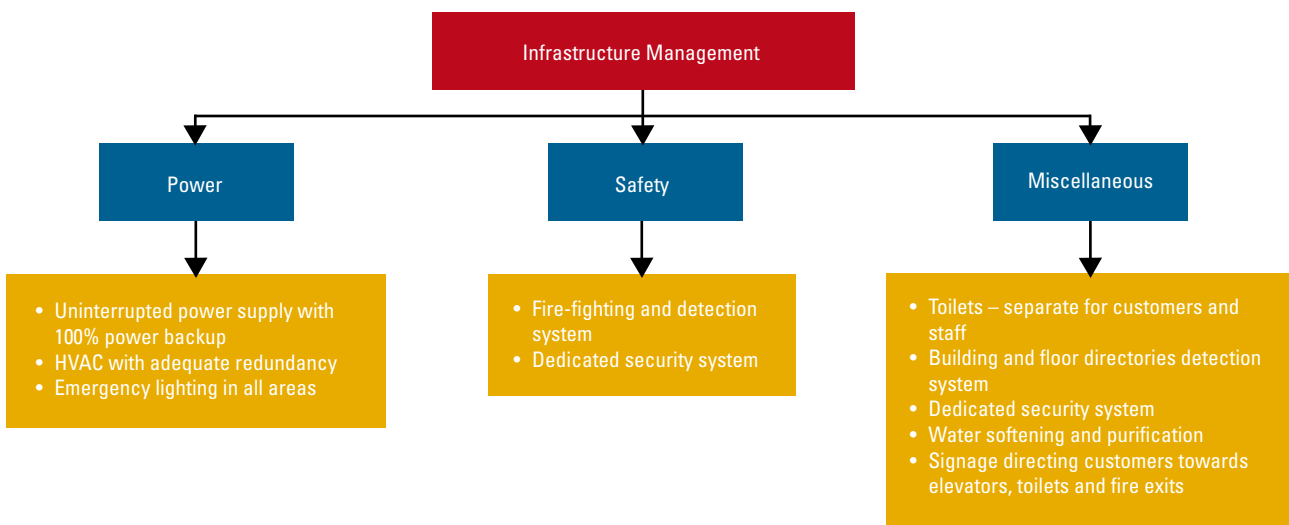
**a. Infrastructure Management** – Infrastructure management refers to the management of facilities provided to the tenants within the mall. This includes provision of adequate power supply, safety issues in case of emergency and miscellaneous issues related to signage, water supply, sanitation, etc. as shown in Figure 1. These form an integral part of mall management as they are the basic amenities that any tenant would look for in a mall. Infrastructure management also includes risk management issues such as essential safety measure asset liability and environmental audits as well as emergency and evacuation training.

**b. Ambience Management** – The overall shopping experience provided for consumers becomes an important factor for the success of any mall. Ambience management includes management of parks, fountains and overall look of the mall. A mall is not just a place for shopping but is also a place where people spend their leisure time. In favourable, lush green landscaping with seating facilities and the presence of food and beverage inside or outside the mall can increase foot traffic.

**c. Traffic Management** – Traffic management includes managing foot traffic into the mall and parking facilities. Foot traffic management involves crowd management inside the operational area of a mall. The flow of people is related to the design of the mall and the spatial distribution of its tenants. For example, a star-shaped mall tends to have a problem of crowding in the centre of the mall, as everyone has to pass through the centre while moving from one side to the other. Circular malls, on the other hand, would not have this problem. They tend to have better pedestrian flow and less congestion. Managing parking facilities includes provision of ample parking and manoeuvring of cars in the parking lot.

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**Figure 1: Infrastructure Management**



Inorbit Mall in Malad, Mumbai is an example of a successful mall led by good facility management practices.

### Finance Management

Professional financial management of a mall as a business venture is a must. Mall management also covers financial management, which involves monitoring and controlling of various issues such as:

- cash receipts and collection of income including rentals, service charges, car park receipts, electricity and other utility income
- developing accounting systems to track the ageing of debts, payment delay patterns, bad debts and payment of all invoices and expenses
- developing standard financial templates so that a detailed annual property budget is prepared
- at times, organising resources to deliver an efficient and effective annual external audit

## INDIAN SCENARIO FOR MALL MANAGEMENT

The partial foreign direct investment (FDI) relaxation in 2006 allowed 51% ownership in joint ventures by single-brand companies in the retail market. This triggered high international single-brand retailer interest in the Indian retail market. Additionally, large Indian conglomerates such as Reliance Industries and Aditya Birla Group are commencing their foray into retailing across the country. This prompts the Indian retail industry to undoubtedly move on a high growth curve. However, at this juncture, retailing is still faced with one major challenge: systematic mall management.

Currently, there are very few designated mall management companies in India. However, big retail chains such as Future Group and some large developers have set up their own mall management divisions that operate as their subsidiary companies. Some developers such as DLF have also recently entered into contractual arrangements with

### Inorbit Mall

Inorbit Mall in Mumbai by K Raheja Corp is a good example of facility management in a mall. It has two anchor stores placed at the two corners of the mall. There are three entry points, one each from



the two anchor stores and another entry directly to the mall atrium. With three entry points, traffic management within the mall is better organised. The mall also provides ample parking space and superior infrastructure management. The Inorbit Mall commands higher rental values of INR 175 per sq ft per month compared with other malls in the north-western suburbs of Mumbai with average rental values of INR 135 per sq ft per month in 4Q06, indicating it's success story. The low vacancy rates at Inorbit Mall are about 2% compared with an average of 10–15% in other north-western suburban malls during the same period. This indicates the popularity of this mall over its competitors.

## Transforming a Retail Centre into a Brand through Professional Mall Management Southgate Mall in Sydney Australia – A Case Study

The Southgate Mall is an excellent example of how professional mall management can transform, refurbish and reposition a retail centre into a popular and profitable venture.

The Southgate Mall was built in 1983 and is located in the Sutherland Shire close to south of Sydney CBD, Australia. This retail property has a total built-up area of 250,000 sq ft. It comprises 58 specialty stores and is anchored by major local department store such as Coles Supermarket, Kmart and Woolworths. During 1999–2000, Southgate embarked on a bold refurbishment and repositioning programme worth AUD 13 million, aimed at increasing mall traffic, sales and rental value. The refurbishment programme, led by a professional mall management company, was a complete makeover of the premises. The mall management firm advised and implemented the change in management including repositioning of tenants, addition of a food court, correction of poor sight lines and access, addition of fresh supermarket, new shop fit-outs for all tenants, refurbishment of common areas and ceilings and reevaluation and redirection of the marketing function.

In 2006, an additional 20,000 sq ft of retail space was added to the shopping centre. The mall management firm provided the leasing support to place tenants in the mall. This led to an additional income of AUD 620,000 per annum for the property and potential additional sales of AUD 20 million. The mall management firm also initiated a strategic marketing plan aimed at further strengthening the Southgate brand and reinforcing the mall's retail mix, with strong emphasis on fresh food offer. As part of the plan, it launched Freshworld, which helped increase customer traffic per week by 11.4% compared with the same week a year ago and by 17.7% on the previous week. The increase in foot traffic due to the addition of this store exceeded all expectations, with significant



growth being experienced across individual specialty stores. The total centre average unit spend rose 5.4% and reported a moving annual turnover (MAT) increase of 2.8%. In conjunction with this development, the mall management firm implemented a sustainability initiative to reduce water consumption across the property. After adopting this measure, savings of AUD 12,000 per annum was generated, reducing overall property outgoings.

After these successful implementations, the mall management firm extended its services to advice on the master planning of the mall. Further acting on the mall management firm's advice, the adjoining building of about 19,500 sq ft was acquired, with the objective of further expanding Southgate's retail mix and enhancing the mall's food court.

Since the completion of the original development, Southgate has witnessed high levels of occupancy, ensuring continued growth in income revenue. This portrays how a professional mall management company can deliver continued growth and performance through quality management services.

international property consultancy firms to manage their malls. Historically, developers were managing their malls in-house, which is expected to change going forward.

Earlier in the decade, mall developers were more inclined towards exiting the project early by selling retail mall units to investors at the pre-completion and post-completion stages and booked profits. As the ownership of individual retail spaces were with different entities, there was no central authority managing the malls. There was no control over the various facets of mall management mentioned earlier in the paper. Even though there have been some examples of professionally managed malls in recent years, organised retail in Indian malls have a long way to go to achieve optimum mall management.

The current Indian scenario is plagued by various issues, some of which are discussed below.

### Issues Related to Mall Management in the Indian Retail Market

**a. Lack of Feasibility/Market Research** Prior to the Development of a Mall – In the past, some malls were constructed without carrying out a rigorous due diligence exercise on their feasibility. The market scene is gradually changing wherein more and more developers are approaching property consultancy firms to conduct feasibility and positioning studies for their projects.

**b. Zoning** – Landlords/developers tend to lease out retail space on a first-come-first-served basis. This creates a sub-optimal tenant mix like a food and beverage outlet next to a designer apparel shop instead of an accessories or a footwear shop.

**c. Design Issues** – At present, most of the popular malls have long queues and congestion outside their main entry points during weekends and festive seasons. Having only one entry and exit points also leads to overcrowding. Similarly, the visibility of retail units from all vantage points is poor in many malls.

**d. Few Promotional Activities** – There are very few promotional activities organised in the majority of malls at present. Developers perceive that these events only help increase foot traffic and not revenues.

**e. Facility Management** – Good infrastructure/facility management of common areas becomes a problem in malls where retail outlets are sold as strata title.

**f. Parking** – Many malls in India do not have adequate parking. Since most malls are being built in the city, developers typically provide basement parking facilities. However, these parking spaces are inefficient due to low ceiling heights, bad lighting and single entry and exit points.



## THE WAY AHEAD

Until very recently, mall management was synonymous with facility management in the mind of most Indian developers. The realisation that they are different and that professional mall management will affect the long-term viability and success of a mall is sinking in gradually and is being accepted across developers, landlords and retailers. The shortcomings pertaining to issues of mall management in India have been discussed in the previous section. To overcome these shortcomings, developers must conduct professional mall management practices starting from rigorous feasibility exercise or market research to facilities, ambience and finance management of a mall.

**In India, retail is an emerging market having immense potential in terms of opportunities.**

In most of the developed markets, mall management is an established independent service line. The retail sector in these developed economies is mature in terms of end-consumer demand, number of retailers and experienced developers. In India, retail is an

emerging market having immense potential in terms of opportunities.

A common practice in developed markets such as the United States and Europe is the use of the revenue share model in determining rent. Under this arrangement, the tenant will either pay a fixed monthly base rent as minimum guarantee and/or a 'percentage of sales' rent, whichever is higher. This is beneficial for both landlords and retailers as landlords are encouraged to organise promotional activities that would increase retailers' revenues because they may have a percentage share in it. The model works successfully in bullish and bearish market conditions. When the market is weak, retailers are protected from rising rental costs. This unique approach is being adopted by Select City Walk, Delhi. The use of the revenue share model is expected to gain momentum in the future as more and more Indian developers become corporatised.

To ensure that a mall attracts retailers and consumers, professional mall management is a necessity. The mall market is an extremely competitive one, having a high degree of internal and external competition, the latter being from established high-street locations across all cities. To lure retailers and consumers to its mall, a developer has to ensure that their property follows the best practices in the market especially in terms of mall management.



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