Indian Retail Space – A Bangalore perspective

When we talk retail in India we need to understand that there are two quite separate market segments. There is the 'new' market that is driving organised Mall space and 'big box' formats, and there is the more traditional unorganised sector where we have high street retailing from a shop front and market traders.

Over recent months we've seen a great deal of debate in regards FDI in the retail sector. Much of the angst has been centred on how this might affect the more traditional retail environment and its participants, with the thought being that FDI will push the market to the organised Mall and big box formats at the expense of the small trader.

In mature western style retail economies such as Australia you have something like 5-6 sft of Mall space per capita, which is around 20% of the total retail space index, in the US market these numbers have moved to over 20 sft/per cap, which is 50% or more of the total retail market.

But what level of supply can the Indian market absorb with its current demographic and trading patterns ?

let's look at some underlying issues and statistics behind these overseas figures. The US Mall market is a graveyard, with countless bankruptcies and huge vacancy rates. It is also a very different demographic to here. Back in the 1970's massive numbers of Americans moved out of their cities into a suburban sprawl, developers picked up large cheap land parcels, and came up with a concept of a drive/park one stop shop - it was hugely successful as it offered convenience and got consumers their product at the right price and with the convenience of one load into their car.

In the more stable, but still far from buoyant markets like Australia, there is also a very mature retail environment and much the same urban sprawl as seen in the US. In these markets the 5 sft/capita represents around 20% or less of the total retail mix.

If we adopt the commonly held view that less than 20% of the Indian population are financially able to consume, then the India mall space at best should max out at no more than one square foot of space per capita in the foreseeable future, and given some of the market specific issues here this figure might be as low as 0.5sft.

There are a host of underlying factors which will all affect the sustainability of our retailers and the Malls that house them.

What effect does the high cost of land have on retail rents in today's Indian Mall, and does it lead to the wrong product mix, and product being retailed at uncompetitive prices? What is the effect of lower car ownership numbers ? what is the real spending power of the Indian consumer ?

With the retail mix and the general mix of Mall types, what is it that the Indian consumer wants ?

Our opinion is that Indian developers are better served to look at some of the experiences of our Asian neighbours like Malaysia and Thailand. These markets have seen a wide mix of Mall types with luxury, super luxury, mid segment and discount formats all being done.

In India we currently see a proliferation of Malls targeted at the mid/high demographic segment with product that is generally not an affordable everyday purchase for the average Indian consumer.

Other than the Lux/super Lux segment (UB City etc), the Mall concept is not about 'special treat' shopping but about everyday consumption. The Malls we build have to service the markets they sit in, and provide the daily staples that people wish to purchase.

In Bangalore today we have 22 Malls providing approximately 0.6 sft/capita of Mall space. This figure is probably not too far off market needs when you look at the style of the current offering, virtually all these Malls sit in the same market segment and follow much the same tenancy and product mix patterns.

Whether you go to Mantri Mall, Forum Mall or Phoenix is really only dependant on what is closer to you geographically, they all have much the same tenancy mix and offering.

The big question is how much more Mall space can Bangalore absorb, in what categories, and how quickly ?

At present there are almost 40 new Malls being built or planned and this will add another 20 million sft of retail space to the market, and take the saturation to over 2 sft/capita.

At best case scenario this represents a probable oversupply of over 100%, and if the new products are in two narrow a format and just replicate the existing offering and each other, then the oversupply will be much higher again.

So this brings up some interesting questions in relation to our real market demand and depth, and how the Indian consumer wants to shop. We shouldn't forget that the end format and style of our retail space is driven by the consumer, and how and where they spend.

Rents are the end product of retail spending and retailer profitability. Retail success is not about footfalls but about hard spend and margin.

Coming back to the experience of some of our Asian neighbours, we can look to cities like Kuala Lumpur in Malaysia for some pointers as to how the Mall mix should match the consumer demand.

In the city centre of KL you have a great mix of retail malls with a variety of formats that provide coverage to the whole of the market – super Luxury formats such as The Pavillion sit alongside mid market Malls like Lot 10 and across the road is the hugely popular Sungei Wang Plaza for the discount market.

You have an integrated mix of destination Malls that matches market demand, and this leads to both footfall, spend and profitability – both for the retailers and Mall owners.

The primary problem we are now looking at in India is that our planned Malls are generally targeting a very narrow segment of the market and one that is fast becoming oversaturated.

The experience of the Lido Mall on MG Road in Bangalore is a classic example. Originally formatted in the standard narrow band of upper/mid market retail it floundered, too much competition and not a good enough USP to attract enough customers and spend.

The owners of the Mall quickly recognized the problem and reformatted the offering to one that better fitted the market; brands such as Big Bazaar and McDonalds replaced Marks and Spencer's and Guess.

So where is the best place for a retailer, high street or Mall ?

In the market at present you see the larger branded players happy to make their own identity on the high street. They have control of their marketing and they generally have a lower per sft rental base.

The problem for a retailer is that if they take a long term, high commitment lease in a Mall they have no guarantee that the Mall they've committed to will be able to attract the customer mix and volume they need over the length of their lease.

With some Malls such as the Bangalore Unitech Mall we have even seen the developer selling off the space to individual investors – the ultimate long term management disaster for the retailer (and as a result eventually the Mall owners).

Mall positioning can be very good for the retailer if the Mall is properly positioned and targeted and most importantly of it is properly managed by professionals who understand the underlying dynamics of retailing.

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