



Rebirth of Retail Malls:

New, Improved & Revitalized

September 2018

www.anarock.com



Foreword

The Indian retail sector has metamorphosed significantly over the last few decades. Rapid urbanization and digitization, rising disposable incomes and lifestyle changes of particularly the middle-class has led to a major revolution in the retail sector, projected to grow from US \$672 billion in 2017 to US \$1.3 trillion in 2020. Evolving rapidly from usual 'kirana shops' to large multi-format stores offering global experience to the e-commerce model that is highly technology-driven, the Indian retail sector has evolved.

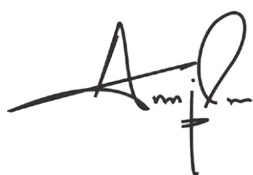
Another highlight of the growth story is that organized retail is taking centre-stage, growing annually at a CAGR of 20-25%. High focus on customer 'experience,' enhancement in business strategies and operations, and the change from unorganized to organized business have played a vital role in driving this growth. Furthermore, liberalization in FDI policies by the central government has repositioned Indian retail sector on the global map of investments, attracting large number of global retailers into the Indian diaspora, thereby propelling retail mall developers to re-strategise.

Tracing its history back to the late 90s, Indian malls are today witnessing a re-birth. The rising popularity of e-commerce business has today necessitated retail malls to reinvent themselves and cater to the new set of consumers. Mall developers must re-vamp and re-evaluate their portfolio by including factors like product, catchment and customer experience at the centre of their business strategies. Malls that were mere shopping destinations previously are now evolving into community entertainment centers, catering to the rising needs of all age groups.

As a result, the focus has completely shifted from stocking relevant tenants/products in the malls to ensuring excellent shopping experience for consumers who go back satisfied only to return soon. In retrospect, when malls came into existence in India, the urge to maintain lower vacancy levels often forced malls to have an inappropriate tenant-mix which eventually led to their failure, resulting in their closure or conversion into commercial or residential complexes.

Alternately, mall operators opted for standard model of operations with unplanned shopping stores coupled with a food court on the top floor. This model was initially successful, but the emergence of e-commerce and the rising expectations of consumers prompted these malls to witness a downward trend. The 'click of a button' concept of consumers who got their products via online portals led to a decline in the number of footfalls in malls.

However, it is important to note that the emergence of one format does not necessarily hamper the existence of the other. Current trends clearly suggest that the brick-and-mortar stores are here to stay and will co-exist with the e-commerce model rather than being killed by it. Both the models will complement each other in many ways.



ANUJ PURI
Chairman
ANAROCK Property Consultants



More so, the sentiments associated with buying physical products post the look-and-feel of it cannot be completely eradicated. Just that, virtual world will exist side by side. Thus, with the changing demands, increasing penetration of e-commerce, and continuous policy support from the government, malls will continue to co-exist in this era of digital India.



In our endeavour to capture this changing scenario of Indian malls, ANAROCK Property Consultants presents a white paper, “**Rebirth of Retail Malls: New, Improved & Revitalized**” which deep dives into the current status of retail malls in the country and highlights key ways and means on how malls can be revamped to provide a rich consumer experience. The malls have to be curated rather than stacked. In this report, we have tried to articulate actionable strategies which can be helpful for malls to survive in the future in this evolving digital era.

This white paper serves as a guide for mall developers, investors, policy makers, architects, mall designers, technology providers and others to work on re-inventing strategies to overcome the challenges and ensure mall sustainability for generations to come.



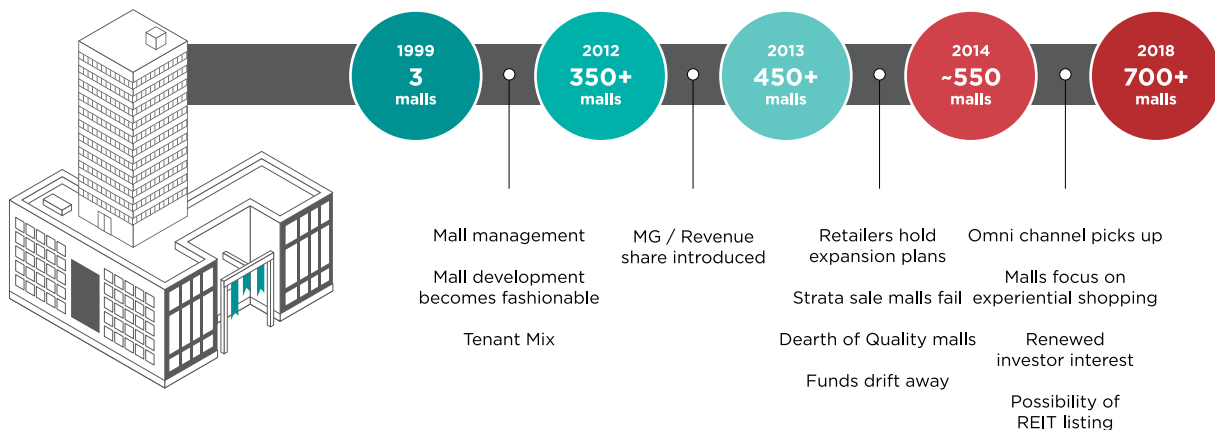
Table of contents

Retail malls; a one roof stop solution for all needs	06
History	06
Evolution of Retail Malls	08
Why did the malls fail?	09
Liberalization in reforms to aid the retail industry	10
FDI	10
REITs	11
Draft E-Commerce Policy 2018	12
Growing share of organised retail to change the face of retail industry	13
Ever Evolving - India's Organised Retail Landscape	13
Experiential shopping; the key to success for retail malls	15
Experiential Shopping - The 'Buzz' Word	15
What's on offer for Shoppers?	16
Diverse tenant mix	17
Multi-family developments	17
Co-existence of Malls and Multiplexes	18
Rising presence of Food & Beverage (F&B) outlets	19
Necessity of entertainment zones	20
Co-retailing	21
Rise of E-commerce: A blessing or a curse	23
Key trends of E-commerce industry	24
E-commerce vs Brick-and-Mortar stores: Co-existence is possible!	25
Brick-and-mortar stores move online; Omni-channel - the way forward!	26
Tier II & Tier III cities: Tremendous untapped retail potential	28
Factors aiding retail expansion in tier II & tier III cities	30
Technological enhancements	33
Data Analytics & Geo tagging	34
Customer-centric platforms	34
Omni-channel retail	35
Technology to enhance parking facilities in malls	36
Players providing parking solutions	37
Conclusion	38



Retail malls; a one roof stop solution for all needs

Figure 1: Timeline: History of the Great Indian Mall Boom



The Indian retail sector has come of age. Rapid urbanization and digitization, rising disposable incomes and lifestyle changes of particularly the middle-class is leading to a major revolution in the Indian retail sector, which is projected to grow from US \$672 billion in 2017 to US \$1.3 trillion in 2020. Currently, the retail sector accounts for over 10% of the total GDP and 8% of the overall employment generation in the country. Starting off with traditional retail formats viz. haat, weekly bazaars, kirana stores and mandis, retailing in India has evolved tremendously over the past few decades.

Today's existing organized formats include exclusive brand outlets, convenience stores, hypermarkets, supermarkets and malls, much to the delight of the discerning consumers. The retail sector offers immense growth opportunities as the country currently has only 1.3 sft. per capita retail space while the developed countries like US and Canada have 23.5 sft. and 16.8 sft. per capita retail space respectively¹.

History

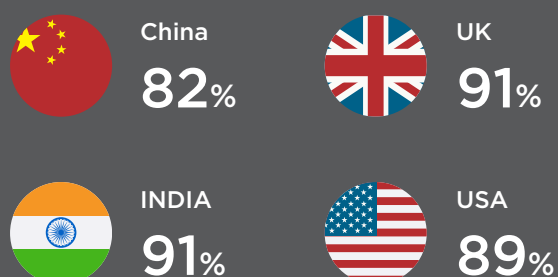
The history of organized retail in India can be traced back to the British Raj period during the 1890s when a departmental store was opened by Spencer & Co Ltd. Post-Independence, the first retail mall of India - Spencer Plaza in Chennai - opened up in 1991. However, the mall momentum began to pick up in 1999, when two more retail malls (Crossroads in Mumbai and Ansal Plaza in Delhi) became operational. From just 3 malls in the entire length and breadth of the country, the Indian retail malls have grown exponentially in both size and numbers.

Shoppers have gradually developed a penchant for shopping malls over the usual '*kirana*' stores. Despite many hiccups including the recession of 2007-2008 and the onslaught of the e-commerce businesses, malls today have become serious business and are surely here to stay. In fact, retail malls are today an integral part of life amongst the urban Indian population. Even though India started late in terms of the development of retail malls compared to other nations, they have metamorphosed shopping from a need-driven activity to a leisure time entertainment.

¹ISCS Country Reports, ANAROCK Research

Having said that, the great Indian mall boom kick-started recently compared to other developed countries. The key aspect that makes India fare better than other nations is the huge volume of sales (91%) driven by the brick-and-mortar stores in India.

Figure 2: Sales through brick and mortar stores



Talking about the retail malls' supply-demand dynamics across top metropolitan cities in India, 2011 recorded the highest completion as well as absorption of mall spaces across the country. With respect to the quality of the operational mall stock, around 40-45% of the malls fall under the good quality requirements, 30-35% of them are in the mediocre range while the remaining in the weak category.

Owing to the death of various malls due to unplanned zoning, inappropriate tenant mix and other factors, mall developers are now looking to enhance the asset quality. As per estimates - for the next 5 years - good quality stock is going to increase by 10-15% while the mediocre quality and the weak category are likely to decline by 5-10%, respectively.

Of all the retail formats, retail malls are dotting the Indian retail landscape with massive number of malls operating and many others coming up across various top metropolitan cities of India. The predominant growth drivers contributing to the retail mall revolution include rapid urbanization (Indian urban population to rise from 33.53% in 2017² to 60% in 2050³), increasing disposable incomes and consumer expenditure (consumer expenditure to rise from US \$1,595 billion in 2016 to US \$3,600 billion by 2020⁴) along with the changing lifestyle preferences of the middle-class population.

Figure 3: Indian Retail: Supply - Demand Dynamics

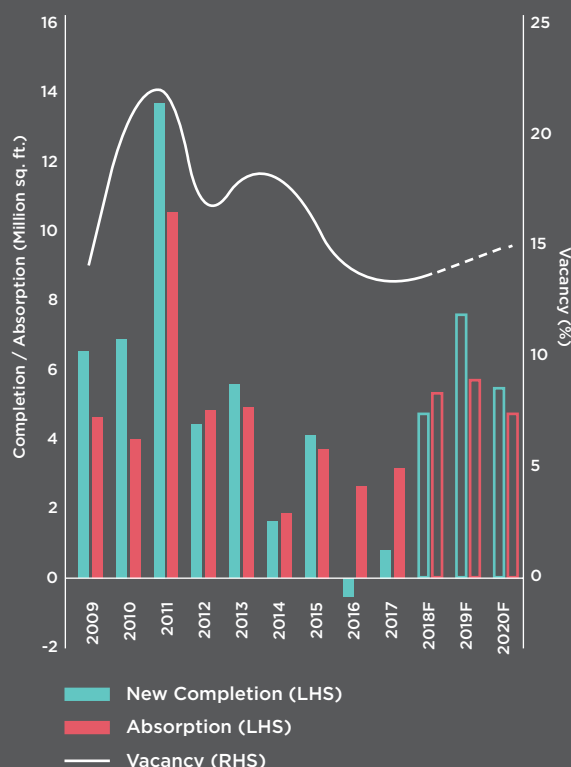


Figure 4: Current Mall Stock in India

NCR	25.5 mn sf
MUMBAI	17.4 mn sf
BENGALURU	10.3 mn sf
PUNE	6.1 mn sf
KOLKATA	5.9 mn sf
HYDERABAD	4.6 mn sf
CHENNAI	4.5 mn sf

^{2 & 3} Census, ANAROCK Research

⁴ IBEF

Evolution of Retail Malls

Retail malls are continuously innovating and evolving with the varying demographics and socio-economic composite of consumers. The pace of change is clearly visible from what constituted the mall space in the previous decades to what is currently existing. Malls in the past were just shopping hubs with a cluster of few branded stores coupled with few restaurants and cafes tucked into one corner of the mall, but now, they have turned into places where shopping is more than a mere transaction, it is accompanied by appealing shopping environment with augmented customer experience. To boost footfalls in malls, retailers are reinventing the experiential side of shopping by integrating the merchandising with mobile-friendly marketing concepts.

Thus, malls are not mere shopping destinations anymore. Today's top-performing malls are mixed-use businesses that incorporate social entertainment options, provide unique appeal along with certain depth in shopping experience and lie in prime destinations that are easily accessible by both public and private transport. Additionally, the ability to anticipate the changing consumer needs and adapt accordingly makes malls successful today. Some of the most innovative existing mall developments world-wide offer over-the-top features such as indoor ski-hills, water parks, theme parks, science centres, zoos, and shooting ranges among others.



Figure 5: Evolution of malls



Why did few malls fail?

Despite the fact that mall openings are witnessing an upward trajectory in the country, there are few malls that are facing challenges due to issues including availability and cost of real estate, spiraling construction costs, talent crunch and poor infrastructure.

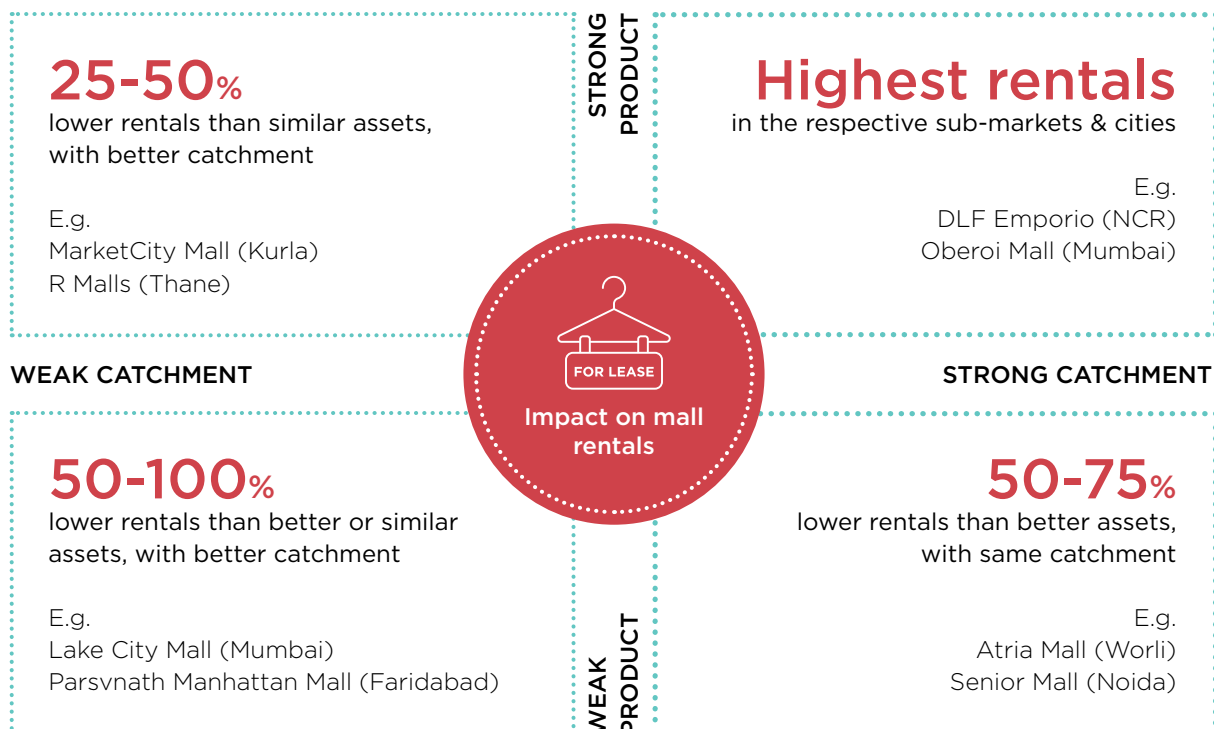
Inefficient concept planning, bad tenant mix and zoning of the malls have resulted in existence of identical shopping malls which has led to failure of many malls obtaining 100% occupancy levels, leaving the tenants and mall owners at a loss.

Apart from the above reasons, the emergence of e-commerce is giving a tough competition to the offline retail malls as the deluging online shopping websites offer hefty discounts, varied choices at the comfort of a shoppers' home.

To better understand the success factors, given below is a 4x4 matrix that depicts the impact on rentals that a product (mall) can command depending on the flavour of the catchment.



Figure 6: Impact of Product and Catchment on mall rentals



Liberalization in reforms to aid the retail industry

A spate of reformatory policies by the Central government over the last few years bode well for the overall real estate sector in the country. The structural reforms like DeMo, GST and RERA have created a positive sentiment amongst global entities, leading to their rapid expansion or establishment in India. Furthermore, liberalization in FDI policies has also repositioned Indian retail sector on the global map of investments, attracting a large number of global retailers into the Indian diaspora and further fueling growth of organized retail in the country.

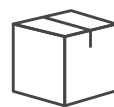
Foreign Direct Investment (FDI)

Opening up of FDI is one of the key initiatives taken by the Indian Government to create an environment conducive for foreign retailers and thereby boost the retail sector in the country. Post several years of apprehensions and resistance from local retailers, political influences and industry bodies, the opening of FDI in Single Brand Retail Trade (SBRT) in 2006 to attract foreign investments paved way for remarkable advancements in the retail industry.

Apart from financial investments, the FDI initiatives also helped in the improvement of retail infrastructure, capability building and Supply Chain Management. Further, the abolishment of Foreign Investment Promotion Board (FIPB) in 2017 is likely to remove unnecessary layers of the clearance process. The FDI proposals would be transferred to related individual ministries to provide clearance upon consultation with the Department of Industrial Policy & Promotion (DIPP). The recent e-commerce policy draft of 2018 establishes a level playing field for the online and offline retail giants and as a result, we may witness a renewed interest in the malls.

According to the rankings by AT Kearney, India tops Global Retail Development Index 2017 with a market attractiveness of 63.4% and ranks 11th in the 2018 FDI Confidence Index. Additionally, India's position as the top 100th country amongst 190 countries as per World Bank's Ease of Doing Business Index 2018 has encouraged FDI inflows and we are likely to witness heightened investments in the future periods.

Figure 7: FDI Timeline in Indian Retail Real Estate



1997

Government allows 100% FDI in cash-and-carry wholesale trading



2006

FDI in cash-and-carry wholesale trading with 100% FDI brought under the automatic route

51% FDI in a single-brand with prior approval from DIPP



2012

100% FDI in single-brand retailing, permitting 49% investments under automatic route

51% FDI allowed in multi-brand retailing



2015

100% FDI in online retail of goods and services through automatic route and multi-brand processed food retail marketing of food products

Relaxation of sourcing norms for single brand retail trade investors

REITs

Just like mutual funds, Real Estate Investment Trusts (REITs) are investment vehicles that own, operate and manage a portfolio of income-generating properties for regular returns. As of now, properties being considered in India are largely commercial including office spaces that generate a rental income, likely to be followed by other REITable assets in India including shopping malls, hotels etc. Post its registration with SEBI, units of REITs will have to be mandatorily be listed on exchanges and traded like securities. And, like stocks, small investors can buy units of REITs from both the primary and secondary markets.

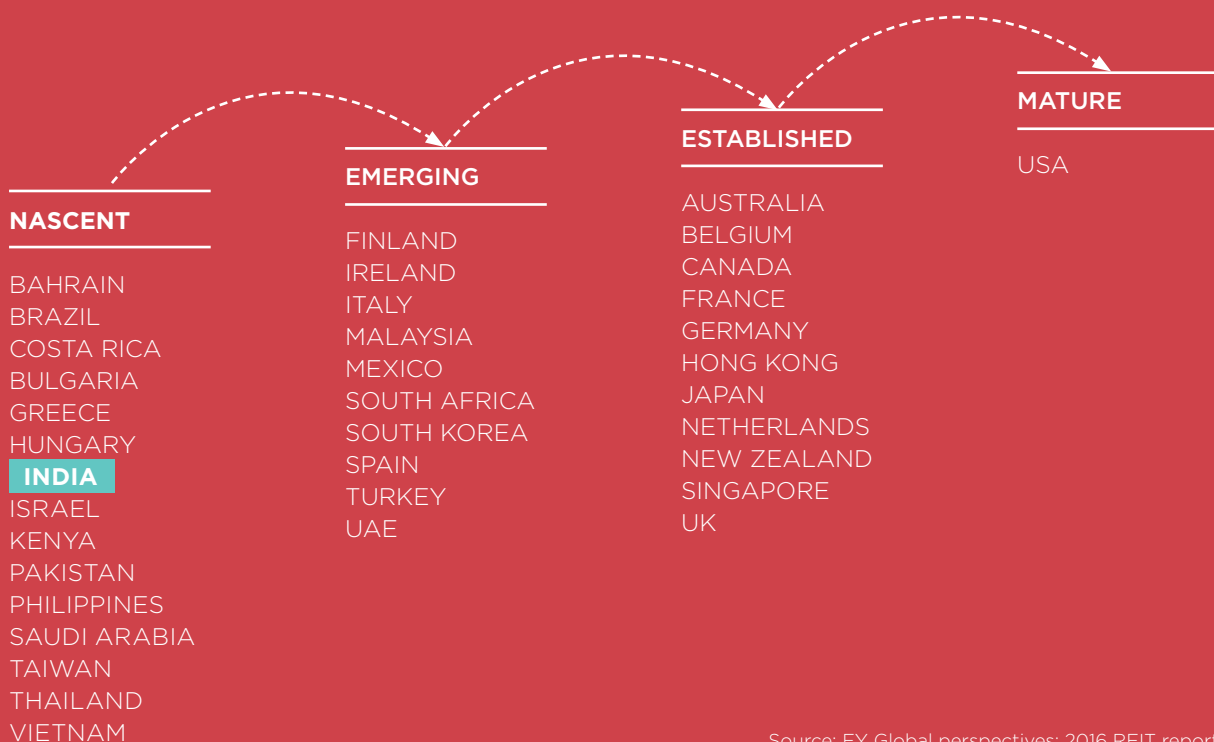
Thus, REITs not only assist in completing the real estate development cycle and provide the required liquidity to developers, but they also allow individual users to earn income via real estate ownership (of office buildings, shopping malls, apartments, warehouses and mortgages) without really purchasing any assets.

Currently, around 35+ countries have REIT or a structure similar to REIT. Globally, the returns on equity of traded REITs performed better than leading stock markets over the past 10 years. For a five-year period, average returns for REITs is 7-16% globally.

REITs have massive potential to transform the Indian real estate sector, primarily by infusing transparency and improving fund availability. Attracting both retail and institutional investors, there are many REIT-worthy properties in India. The key aspects that are currently part of international REITs and not in the Indian REITs regime are stamp duty remission and overseas property portfolio.

Retail assets, particularly malls, require huge funds infusion for around 10-year period, including construction and stabilization of the mall. Only a few developers can sustain for such a long time period. Thus, REITs will come in handy wherein developers can get out of the development with ease or by infusing funds by selling completed assets or managing to sell high stakes in the same development.

Figure 8: Stages of REIT regime maturity

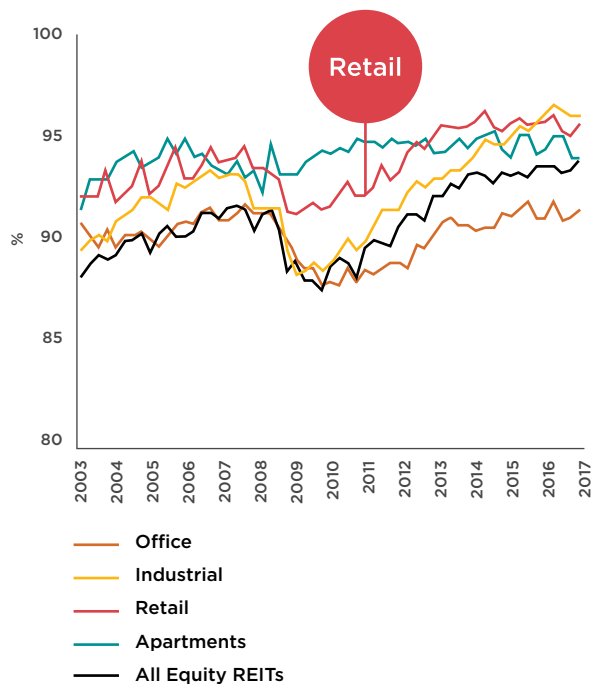


Source: EY Global perspectives: 2016 REIT report

Case study - United States:

Let's consider US REITs to evaluate its significance in the augmentation of the retail sector. According to a research study⁵, the occupancy rate of REIT-owned malls and shopping centers has surpassed occupancy of rest of the asset classes. They rose from 92% in 2010, to 95% in 2017. Not just the occupancy, the net operating income of retail REITs and the dividends paid by retail REITs between 2010-17 rose by 6.4% and 11.3% annually.

Figure 8: Occupancy rate of REIT assets



Source: S&P Global Market Intelligence, Nareit T-Tracker

Draft E-Commerce Policy 2018

In 2015, an approach was made at the Delhi high court by the two brick-and-mortar retailer bodies - Retailers Association of India (RAI) and the All India Footwear Manufacturers and Retailers Association (AIFMRA) - to address the undue advantage e-commerce companies have compared to the traditional retailers (the former provides deep discounts). The draft e-commerce policy has been recently released in August 2018 after a delay of 3 years.

The policy seeks to create a level-playing field for smaller e-commerce players and the vast physical retail market by regulating all major aspects of online retail including curbing deep discounting, registration of e-commerce portals with Central Consumer Protection Authority (CCPA), upliftment of 'Make in India' companies and product and protection of user data.

All in all, the policies have opened a plethora of opportunities for the Indian retail sector. Growing transparency, accountability and ease of doing business across sectors in India has given a major fillip in attracting capital. In fact, it has been a major pull factor for Private Equity funding in the retail sector over the last three years.

⁵ ICSC



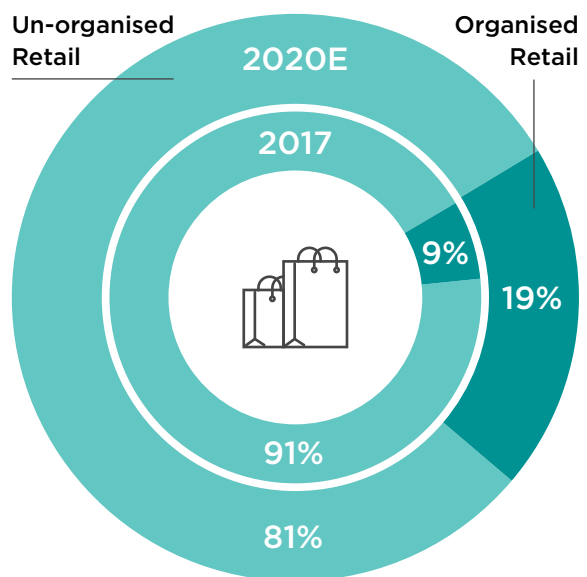
Growing share of organised retail to change the face of retail industry

Ever Evolving - India's Organised Retail Landscape

The Indian retail market is maturing at a steady pace wherein organised retail development is gaining grounds. It remains high on the radar of developers and institutional investors. Growing rapidly at a CAGR of 20-25%, organised retail is estimated to increase to 19% across the top 7 cities by 2020, from the current level of 9%. A host of factors such as high demand for customer 'experience,' penetration of big brands into smaller towns and cities, enhancement in business strategies and operations, along with the movement from unorganized to organized business have played a vital role in driving this growth.

Additionally, liberalization in FDI policies by the central government has repositioned Indian retail sector on the global map of investments, attracting a large number of global retailers into the Indian diaspora and further fueling growth of organized retail in the country. Regulatory environment post DeMo, RERA and implementation of GST have been another headwind for organized retail in India, which allowed organised players to race ahead of the unorganized sector. The gaining prominence of organized retail is also evident in the stock prices of listed retail firms, which have been major wealth generators during the last year.

Figure 9: India's Retail Landscape



20-25% CAGR
Growth of organised retail in India

Organised retail share for top 7 cities to grow to

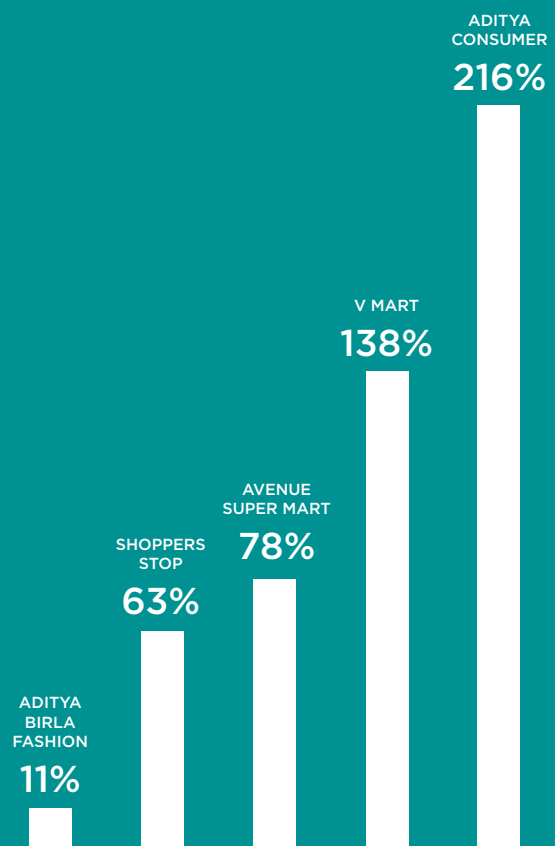
19% by 2020

According to the National Skill Development Corporation, India's retail sector will need a workforce of around 56 million – which makes it one of the highest sectors with incremental human resource requirements of 17.35 million till the year 2022. With the current 91% of India's retail market still being unorganized, it reflects that there is a huge scope of growth for the organized players in the country. The government's decision to allow 51% FDI in multi-brand retail and 100% FDI in single-brand retail under the automatic route has already attracted global retail giants such as Walmart and IKEA to make a foray into India.

Swedish giant IKEA launched its first store in Hyderabad and received an average of 28,000 daily visitors since its inauguration on 9th August 2018. The 400,000 square feet store employed 950 people directly and another 1,500 indirectly at its store here. This clearly shows that the presence of a large-scale consumer base makes India a very attractive destination for the world's leading corporates.

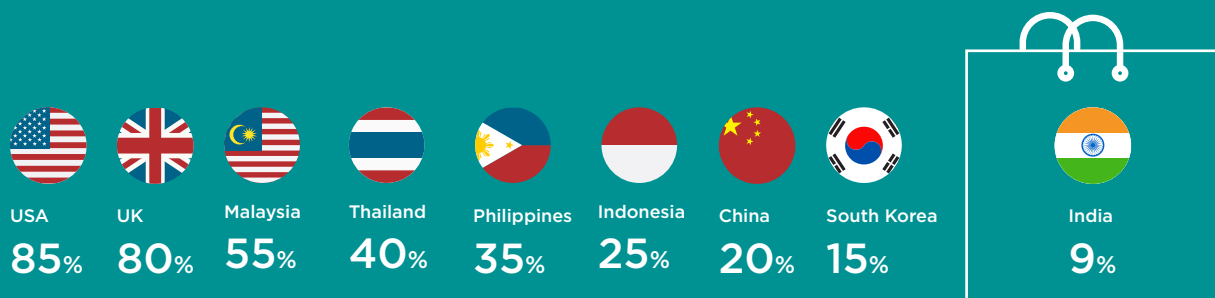
Increasing participation from foreign and private players to boost retail infrastructure indicates strong growth potential for organised retail in India. The fact that organised retail is still at a very nascent stage in comparison to the US where it is 85% of their overall retail market, India, thus, presents a huge opportunity. And, sensing immense opportunities and easy penetration into the Indian retail diaspora, overseas retailers are now expanding not just in metros but even tier II and tier III cities such as Ahmedabad, Chandigarh, Lucknow, Jaipur, to name a few.

Figure 10: India's top 5 retail stocks and their performance in the last one year



Source: NSE & Anarock Research

Figure 11: Share of organised retail to total retail (%)



Source: Industry estimates, ANAROCK Research

Experiential shopping; the key to success for retail malls

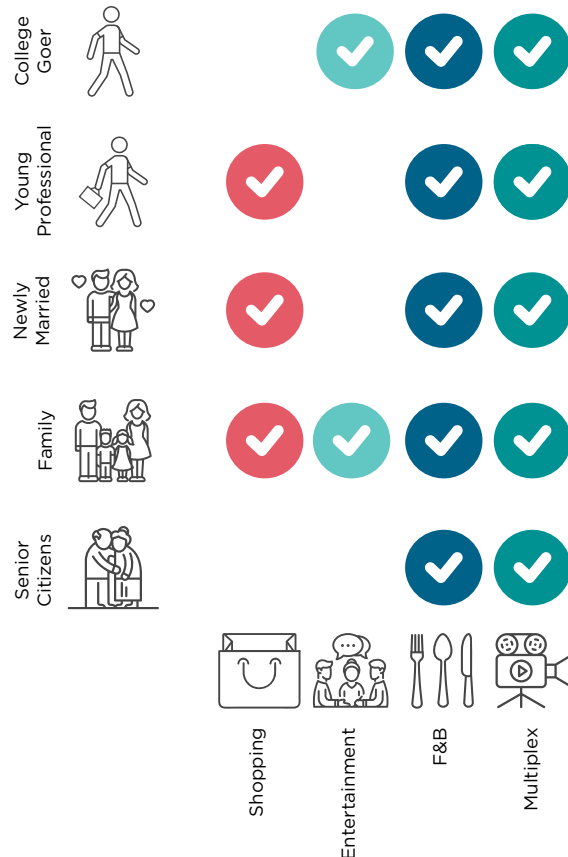
Experiential Shopping – The ‘Buzz’ Word

Experiential shopping is surely the ‘buzz’ word on the Indian retail block. Before we delve deep into ways and means adopted by mall operators to provide a holistic shopping experience to the consumers, let’s quickly look at the composition of today’s shoppers.

As depicted, the composition of today’s shopper is vastly different than what it used to be a couple of decades ago. These days, consumers/shoppers are looking for great shopping experiences and not merely closing transactions pertaining to the purchased product. Meanwhile, with the maturity of e-commerce, shopping today is not merely restricted to brick-and-mortar spaces but can be done over the internet from the convenience of a home or any other location. Thus, to combat this growing trend, the future of retail malls lies in the adoption/designing of new strategies to attract footfalls of old/first-time shoppers and create an experience which in turn increases their repeat business. The era of ‘only shopping’ at a mall is more of a thing of the past now. In fact, many malls have previously failed because of their focus only on the transaction and not on the experience. In an endeavor to ensure higher occupancy, the mall operators focused less on tenant mix, positioning, etc. which impacted footfalls and sales per square feet, leading to store closures.

However, with richer experience, the mall developers/owners have realized that they must provide the customers with an ‘experience’ rather than to limit their spaces for mere shopping needs. This invariably has rapidly increased the interests of consumers to physically visit the mall which is no longer restricted as a place to shop and eat but has become a community center where people can go with their families and friends to spend some quality time. A major outcome of this new trend is that mall operators are now signing up leases with brands for anywhere between three to six years unlike earlier wherein 10 years was the general norm. A shorter lease not only maintains newness in malls - crucial to get footfalls - but also helps developers negotiate improved rates.

Figure 11: Major areas of interest for today’s shoppers



Changing focus from selling products to curating experiences - the key to increase footfalls and repeat purchases



Maturing e-commerce industry necessitating development of experiential shopping in the brick-and-mortar spaces



Malls are transitioning from mere shopping hubs to community centres where people meet, greet, eat and chill

What's on offer for Shoppers?

Today, malls focus on providing a bouquet of offerings to each consumer to keep them occupied through the day along with improving the overall shopping experience. In addition to core shopping outlets, food court, pubs, fine-dine, entertainment zones, multiplexes, and many more options are now an integral part of the mall. Possessing a wide variety of options increases the consumer stickiness in the mall, which leads to a rise in footfalls and overall trade values.

The mall owners have already started implementing new strategies to cater to a larger audience and compete with the online retail giants. Given here are the pillars of success whose adoption will surely improve the customer experience and sustainability of the malls in the years to come.

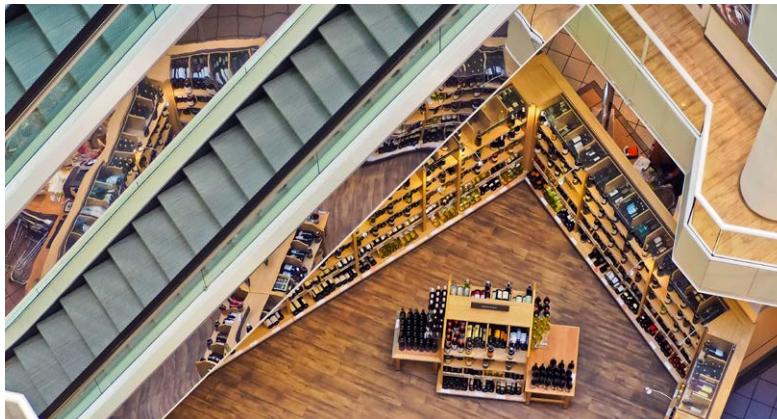
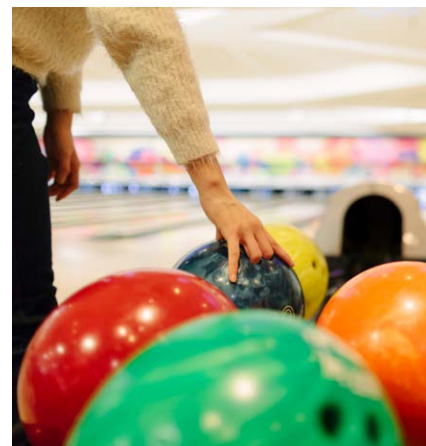
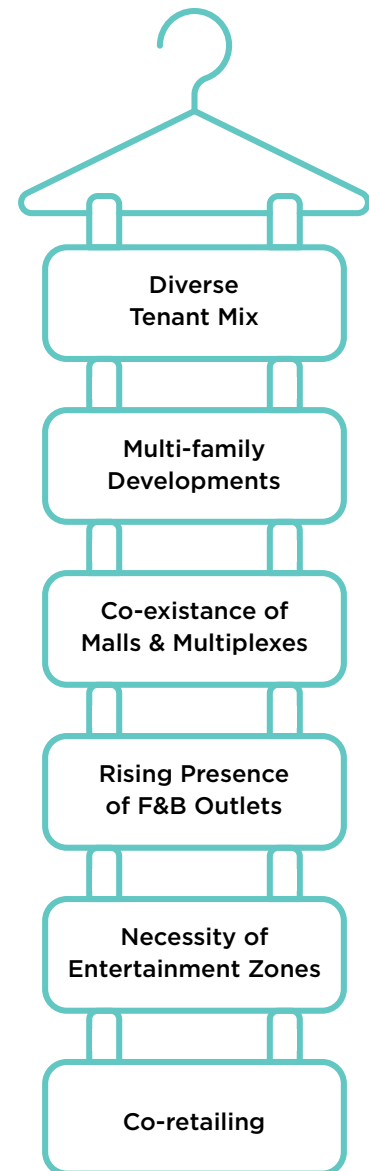


Figure 12: Six pillars of success adopted by retail malls



Diverse Tenant Mix

Mall owners are now increasingly laser-focused in ensuring a diverse tenant mix, and not merely focusing on space fill-up by just any brand. It's more about curating the malls for an enhanced shopping experience with the presence of mixed brands and positioning the mall in an appropriate manner. Apart from the mix, mall owners/managers are also focusing on the type of brands that will occupy the space inside the mall. To cater to a larger section of shoppers, the mall owners/managers are including stores ranging from clothing, accessories, footwear, home essentials, furniture, departmental stores, entertainment, F&B, etc. inside the mall.

Additionally, they are looking to cater to all segments of the society because creating a niche product that focuses towards a specific section of the society will ultimately push other section of consumers out of the mall. However, there are a few mall operators who are also looking to create a differentiated product by creating an exclusive luxury/upmarket mall that has a presence of top global brands.

In India, as the malls are currently in the rebirth stage of the lifecycle, optimizing a good tenant mix will help the owners achieve high footfalls and drive businesses.



Multi-family Developments

With rising scarcity of land for exclusive retail developments in metros & tier I cities and increasing demand for malls, developers are now looking at mixed developments for the creation of retail infrastructure combined with commercial offices or residential projects. The idea of 'Live, Work and Play' is the focus of such developments. This allows easy access to commercial and residential spaces coupled with the leisure of having a supermarket, grocery stores, restaurants, pubs, retail shops, clothing stores, cinemas etc. in nearby areas.



A recent example is the Seawoods Grand Central mall at Seawoods, Navi Mumbai which is developed above the Seawoods-Darave suburban train station. The mall allows the occupants of the commercial complex to step down post work for a relaxing dinner with colleagues or go grocery shopping before heading home.

The idea of having a mall just above the suburban local station also helps the mall save on marketing cost as daily commuters can easily reach out to the mall for their requirements without the hassle of additional commute which is a menace in metros and tier I cities. Due to additional time required to commute to-and-from the mall, along with the additional parking time, many shoppers restrict themselves to visit a mall only over the weekend which leads to a massive drop in footfalls during the weekdays.

Listed below are a few benefits attached to the multi-family developments:

Customers: Easy accessibility allows more footfalls in the mall even during the weekdays

Marketing & Brand awareness cost: Marketing and brand awareness cost decreases as the customers in the vicinity are aware and naturally step into the mall

Profits: Return on Investment (ROI) and profitability is generally higher for such projects

With limited availability of free land to support huge infrastructure that is required to meet the shopping needs of the millennials, multi-family developments are surely the future of retail malls in India.

Co-existence of Malls and Multiplexes

Multiplexes form the backbone of malls in today's era. Setting up a multiplex in a mall occupies nearly one-tenth of the total space but it acts as a key facilitator for a rise in footfalls. Setting up a standalone multiplex involves a huge cost ranging from buying land parcel to developing it as per the requirement. To save themselves from construction risks and going the asset-light way, multiplex chains such as PVR, INOX, Cinépolis and many more have joined hands with the mall developers to co-exist with the larger developments. There are different models of leasing like revenue sharing etc. on which these companies enter into an agreement but it's a win-win for both the parties.

Setting up a multiplex inside the mall is a step towards providing a holistic experience to the customer and a leap forward from the traditional model of shopping. This helps the mall owners to generate revenue during the weekdays as well as the differential pricing strategy (different rates on each day of the week) of multiplexes generates demand throughout the week. Rising disposable incomes and growing urbanization are rapidly fueling the movie culture in our society and it's now an integral part of the entertainment options. INOX Group, for instance, has nearly 128 properties with more than 500 screens in the country but only a handful of these screens are standalone in nature. Majority of its screens co-exist with a retail mall.

Major multiplex chains co-existing in India with retail malls include:

Majority screens by these top chains in the country co-exist with retail malls and the continued expansion plans by these players also indicates that this is the way forward for multiplexes.

With the aim to provide an enhanced experience to the patrons, these players have started to innovate themselves and create events outside the movie theatre as well, primarily in the common areas of the multiplexes. A recent innovation at INOX R City mall, Mumbai where they installed the 7D technology and made the common space open for public as a part of their revamping plan.

Rapid competition and technological advancements are leading the companies to adopt various techniques to lure the patrons to the multiplexes. With the rising penetration of online content streaming applications such as Netflix, Amazon Prime, Hotstar and many more, the question that arises is - Will the move of these mall owners co-existing with multiplexes continue to add footfalls?



Multiplexes occupy one-tenth of the mall space

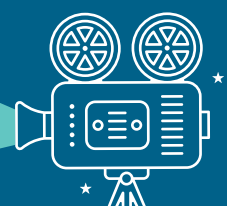
Rapid urbanization fueling the movie culture

Co-existence of malls & multiplexes creates a win-win situation for both the parties

Multiplexes looking to go the asset light way



Figure 13: Major multiplex chains co-existing with retail malls in India





Rising Presence of F&B Outlets

Increasing urbanization, rising disposable incomes, increasing trends of nuclear families and the urge to socialize is redefining the way of life in India. To ride the wave, mall owners/managers are focusing towards allocation of more space to the F&B category to reach out to the growing demand, especially from the millennials. From a traditional food court on the top floor, the recently opened malls have changed the dynamics by opening F&B outlets at the ground floor as well and ensuring some kind of food outlet's presence on each floor.

Apart from the presence of Quick Service Restaurant (QSR) in the food court, the malls have shifted focus to add casual dining, fine dining and pubs/lounges in it to cater to the young population of the country (~60% of the current population is less than the age of 35 years). With malls gaining traction from weekend outing destinations and spending leisure time with family and friends, conventional food courts offering only QSRs options did not seem to be a long-term sustainable model. Developers have realized that a retail mall is not like a residential project which once complete can be forgotten about. Continuous innovation in terms of product offerings and improvement in look and feel is the key to survive in this era. This has led to more space allocation in the mall towards F&B outlets.

For instance, Inorbit mall owned by K Raheja Corp offers coffee shops, QSR outlets, dessert outlets and casual dine outlets on the ground floor and are strategically placed near the entrance of the mall. Inorbit Mall, Navi Mumbai houses pubs, restaurants, café, desserts parlors in addition to a full-fledged food court.



Rising disposable income, increasing urbanization and the urge to socialize is leading to increased focus of mall owners to open more F&B outlets



Malls are moving away from QSR culture to **multiple dining options** to lure consumers



Only food court model not very lucrative for the future of malls



Will there be **malls in the future focused only on F&B outlets?**

Necessity of Entertainment Zones

As mentioned, malls are no longer treated as only shopping destinations. They are transforming into community centers where people of all ages come to shop, eat, play and spend some quality time with family and friends. To cater to this evolving need, the mall owners/managers started allocating more space to the entertainment zones. From a traditional zone with only arcade games and a bowling alley, malls are going the extra mile to open entertainment zones full of arcade games, bowling alleys, as well as places like snow world, 3D ice skiing and many more options. These entertainment zones keep the kids occupied whilst parents can shop at the same time.

More open spaces are being designed at the conceptual stages itself for the new upcoming malls to utilize them for live events. These entertainment zones act as a footfall driver for the F&B outlets in the malls as people tend to eat/dine at the mall post having fun at the entertainment zones. Indirectly a mall's one business is complementing another for all the businesses to grow in parallel.

For e.g. The DLF Mall at Noida hosted a live fashion show. Simultaneously, many such events happen from time to time to increase the entertainment factor and thereby footfalls. The Great Venice Mall, Greater Noida, has an aquarium inside it to attract consumers.

The focus to survive in this highly competitive market is allowing the mall developers to revisit their strategies and come up with innovative ideas/themes to keep the millennials entertained and return home with an enriched experience which creates an urge to revisit. Malls have tied up with firms like Timezone, Kidzania, Prime Time, SMAASH and many more which are providing immense entertainment options to the millennials and are indirectly driving footfalls to the malls.



Entertainment zones keep the kids occupied creating hassle free shopping experiences for the parents



Malls are designing **more open spaces for live events** to go the extra mile to attract shoppers



Malls are allocating up to

40%

of the space to Food, Entertainment & Cinema (FEC) to drive footfalls

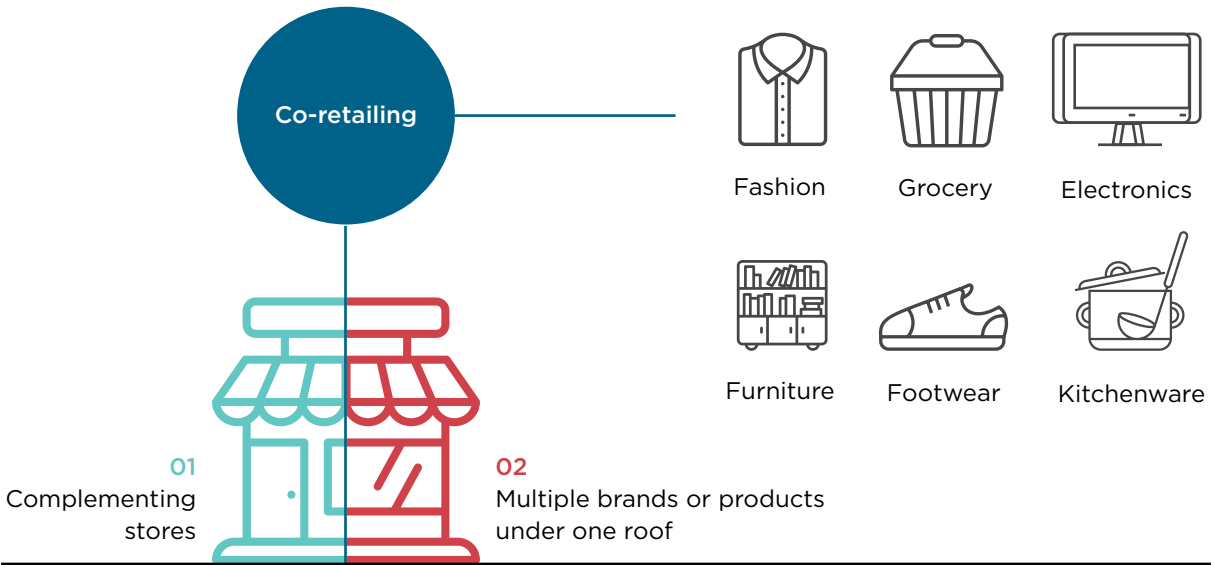


Co-retailing

Co-retailing is a new trend which is picking up pace in the retail industry. The concept is like co-working space, which is also at a niche stage right now. In co-retailing concept, two or more retailers sell their own products by sharing roofs. It can be either the same category of products or different products selling under the same roof.

Due to rising lease rentals coupled with higher operating costs, the overall investments to set-up individual stores is rising. With limited prime space in the malls and the race between retailers to catch the prime position, co-retailing concept is the most convenient and affordable solution to deal with a problem.

Figure 14: Types of Co-retailing





Co-retailing, wherein multiple retailers sell their products under the same roof, allows the buyer to compare and shop in a lesser time vis-à-vis visiting individual stores and spending more time tiring oneself. Combining the bricks and clicks under co-retailing makes up for the lost time and in a unique way creates a compelling in-store experience for the shoppers.

In India, co-retailing is done under various brands such as 'Lifestyle' and 'Central' where these stores provide one roof to multiple brands selling clothing, footwear, accessories for men, women and kids. At Central, in some stores, they even have an outlet for 'Home Town' which caters to the home furnishing requirements.

The concept of co-retailing is attached to its own benefits which include:

Rentals: Save on high rentals by roof sharing which eventually increases profitability

Complementary offerings: Cross selling to boost sales

Customer experience: Incentivizing customers by creating a different experience

Even though the concept of co-retailing entails some benefits with it. There are a few disadvantages attached to the concept as well which are:

1. Shadowing of brands
2. Reduced brand loyalty
3. Increased competition

Co-retailing in India is witnessed at multiple levels under different stores such as Croma, Big Bazaar and Fashion Bazaar operating together, Central & Me stores. Apart from these there are some stand-alone mom & pop stores operating on the same model.

At the global level, co-retailing is a prevalent concept existing at a granular level in stores like 7/11, Tesco, Walmart offering grocery stores, departmental stores and hypermarkets to cater to different needs under one roof.

While the penetration of co-retailing in India is still at a nascent stage, the future looks bright as rising costs and reducing profitability is making single operated stores unviable. Recently, Central & Me leased out a dead mall in Navi Mumbai to operate the entire mall as one store offering clothing, footwear, accessories, homeware, beauty products under one roof. Thus, with stiff competition and shrinking profitability, co-retailing is likely to grow by leaps & bounds in India in the future periods.



Stiff competition and shrinking profitability to drive co-retailing in India



Still in a nascent stage, co-retailing possesses significant growth potential



Co-retailing is a tried & tested model in developed countries like US and can be easily replicated in India

Rise of E-commerce: A blessing or a curse?

Figure 15: Key trends

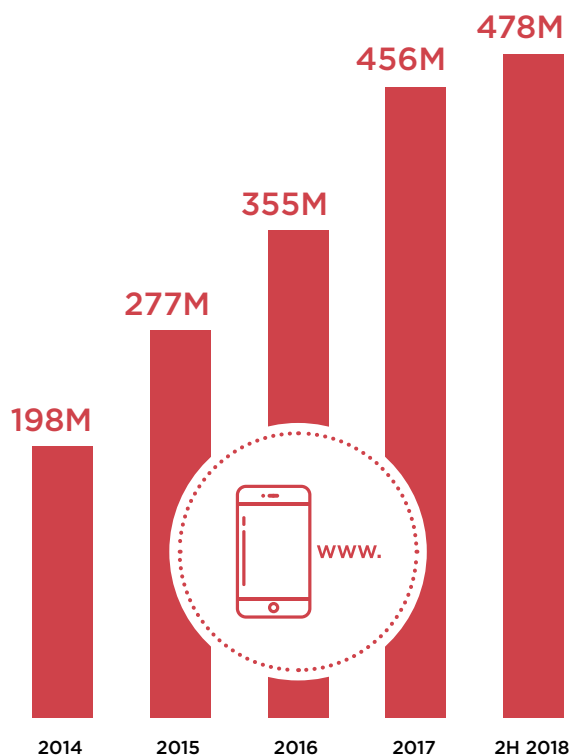


Key trends of e-commerce industry

India has seen phenomenal increase in the number of internet users during the last couple of years and is rapidly transforming into a digital nation. Availability of low priced 3G and 4G internet has significantly widened the country's internet user base. From accessing e-mails to staying connected with dear ones via social-networking platforms like WhatsApp to shopping products online – the internet has now become a basic need for the ever-growing population of India.

According to a study by the Internet and Mobile Association of India (IAMI), India's internet user base has zoomed from 355 million in 2016 to 478 million currently, making it the second largest country of internet users after China. Internet penetration in India has reached 56%, largely driven by cheap data pack options. This seems to be confirmed by US-based market research agency eMarketer, which predicts that over 1/4th of the country's population will be using smartphones by the end of 2018. The ease of shopping from the comfort of one's home and having a wide product variety to choose from has gained a phenomenal interest from the customers.

Figure 16: Internet users in India

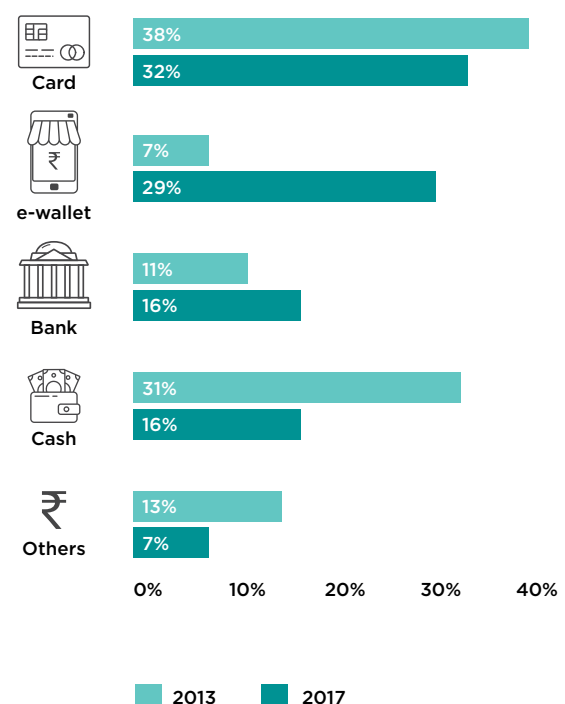


Source: Internet & Mobile Association of India (IAMI)

Despite this phenomenal increase in Internet usage, E-commerce is still at a nascent stage in India as compared to other developed economies of the world. In 2017, the sale of physical goods via digital channels in India amounted to US \$25 billion in revenues and estimated to grow up to US \$52 billion by 2022⁶.

According to global data survey, cash on delivery in total e-commerce transaction value declined from 31% in 2013 to 16% in 2017, whereas the online transactions (credit/ debit/ mobile payment) jumped from just 7% to 29% during the same period. Marketing strategies of several e-commerce portals are largely driven by heavy discounts, attractive offers along with fundamental proposition of surpassing physical boundaries to deliver varied range of products at buyer's doorstep – has helped them to grow significantly. E-commerce platforms have adopted a quantitative approach – social media. Attractive HD pictures, rich video-graphics and user-generated content are some of the tactics used by social media to influence online buying decisions.

Figure 17: E-commerce transaction value by payment tool



Source: ANAROCK Research

⁶ <https://www.statista.com>

E-commerce vs Brick-and-Mortar stores: Co-existence is possible!

As per estimates, e-commerce in India is expected to grow from US \$38.5 billion as of 2017 to US \$70 billion by 2020⁷. The advent of e-commerce has converged shopping into mobile devices in the form of websites and/or apps. At the click of a button, one can buy just anything from groceries to apparel to electronics and almost anything else. For a while, it appeared that 'couch potato shopping' was gaining prominence. And, that e-commerce will eventually disrupt the entire brick-and-mortar business. But, it is not entirely true.

While it did cause some disruption, it was not enough to have a significant and lasting impact on the conventional retail formats. Initially, the heavy discounts offered by e-commerce sites lured buyers and impacted malls that registered a slight dip in the overall footfalls and sales. But, consumers came back as they missed the holistic retail experience. More than that, they felt that malls are not mere shopping destinations but a place where they can unwind and get entertained. And, with the discount seasons becoming a vogue even across malls, shoppers are all geared up to feel the experience whether in malls or in the virtual world, as per their convenience. Thus, despite all the pressures, both e-commerce and brick-and-mortar stores will co-exist in the future.

Moreover, while e-commerce has disturbed businesses once considered as mainstream in the retail segment, certain retail businesses will continue to remain relevant in the offline world for years to come. For e.g. One can purchase apparels at a much cheaper rate through online portals but working out at a fitness center or dining at a restaurant cannot be replicated in the virtual world. The whole experience of work-out with gym buddies or having a fun meal in a good ambience cannot be replaced by ordering food at home or calling for a gym instructor.

With e-commerce spreading its wings, retail malls and shopping centers were forced to expand their presence beyond brick-and-mortar and as of today both the online and offline world continue to co-exist and are likely to do so in the future periods as well. The changing business environment, favourable policy shifts, and the entry of numerous global players indicate that a resurgence of shopping malls in India is definite.

Today, shopping malls are considered as entertainment hubs and hangout zones making customers to drive down to malls for social gatherings as one can't really celebrate any occasion online. Also, there are a few categories that e-commerce can't cater to significantly including luxury and upmarket products where look and feel is important than just the cost.

As it was, quite a few badly-conceived and executed malls did fail. That said, one lesson learnt is that there is a distinct need for developing multi-channel retailing rather than just relying on the traditional methods.

The fact that online biggies like Amazon and Alibaba Group are investing in offline stores indicates that physical retail business is not going anywhere in spite of the assault of online portals. When customers want a shopping experience, they come to the stores. Thus, the online and offline mediums have started working together in one ecosystem.



E-commerce brought the 'couch potato shopping' experience for the consumers



Experiential shopping, kept the mall business up and running

⁷ Confederation of Indian Industry (CII)

Brick-and-mortar stores move online; Omni-channel - the way forward!

As mentioned above, even though a consumer enjoys the ease of vast inventory available via online shopping, yet they prefer physical presence which not only allows the buyer to touch & feel the product but also helps them solve product-related queries with salespersons who are actively present to assist shoppers in offline shopping decisions. **Rather than setting the two channels against each other, offline retailers can offer the consumer the best of both worlds by adopting new cutting-edge technologies.** While there is so much technological progression, it is important to look at how technology is going to enhance the buying decision. The success of a retail mall is entirely dependent on aspects such as design and layout, its brand positioning, location and how well they cater to the needs of their targeted audiences.

For higher revenues and profitability, retailers should focus on balancing benefits of the consumer i.e. engaging customers via mobile, both in-store and online. Retailers, thus, must adopt **Omni-channel** retail for benefits in the long run. This is a fully-integrated approach that provides the consumer with seamless experience across both online and offline channels; in the form of an app, online, in kiosks, or in a brick-and-mortar store.

E.g. Van Heusen



As a part of their omnichannel program, the brand has launched 42-inch digital display called 'Today's Briefing' in Bengaluru which displays digital content. This comes with exclusive fitting room experience allowing customers to click 'Trial' on the iPad and have his selection appear in the desired size inside the trial room. While generating higher than average footfalls, Van Heusen maintains a consistent brand image with the ability to track data and provide even more tailored solutions.

E.g. Studio Pepperfry



Studio Pepperfry allows customers to choose a wide range of products and furniture designs at one platform that suits their individual tastes and preferences. Once the customer shortlists a particular piece of furniture, they can place the order online and ask for delivery as per convenience.

Similarly, brands such as Adidas, Zivame have embarked on the omni-channel route to provide consistent and unparalleled service across all touchpoints. Retailers are making things simple and more accessible for consumers and without confusing them too much. This is paving the way for omni-channel retail to carve a niche for itself in India and the world-over.

Furthermore, retail stores can also restraint their spaces with technological advancements by adopting **'Click-and-collect concept'** which allows the customer to browse offline and shop online, as there will be limited inventory in the store. Customers will never face out-of-stock situations, further allowing them to touch and feel a wide range of products but completing the purchase online. Operation of a retail store or mall primarily starts with a thousand square feet of retail space with inventories displayed in a fair manner on shelves along with sales staff and storeroom at the back for extra inventory. With the click-and-collect concept, retailers will use lesser space and minimal staff and, hence, reduce overall operating cost.

Implementing the omni-channel model clearly means that retailers are heavily relying on technology to map their customers' behaviour. Thus, another aspect which needs to be focused on is analyzing the data and gathering feedback. Based on customers' feedback, offline retailers should come up with an Information app which will help buyers get all the info they desire at one place.



Customer-backed data analytics app connects to social platform and acts as a center point for all the important announcements related to discounts, offers, loyalty programmes and contests. Thus, retailers have a lot to gain by joining their channel strategies.

Thus, retailing today is more than just mere brick-and-mortar, and retailers who are agile enough to adapt and revolutionize their way through changes will continue to survive in the future. Besides technological advancement and digitization, the future of retail will see diverse business ecosystems blend together not just to deliver the best to their consumers, but to gain a competitive edge over the others as well.

As a result, retailers will expand their horizon, seize more opportunities and create their own unique ecosystem that will eventually provide a more thriving shopping experience for the discerning customers.

Tier II & Tier III cities: Tremendous untapped retail potential

Tier II and tier III cities are undoubtedly the future growth engines of the country. Several factors are working in its favour including the saturation of metros due to limited space availability, mounting rental values and crippled infrastructure facilities. Simultaneously, multiple infra upgrades in smaller cities and technological enhancements are creating awareness about various brands, products, markets, etc. In fact, present-day customer in tier II and tier III cities is demanding, more aware, educated, has higher disposable income and is a globe-trotter, which necessitates a revolutionary change in the retail segment to cater to such consumer-type. This change showcases a strong momentum and potential in the market size of tier II and tier III cities. As per industry estimates, the market size of tier II and tier III cities is expected to grow from the current US \$5.7 billion to US \$80 billion by 2026. In fact, tier II and tier III cities will be the major contributors in overall organized retail, currently growing at a CAGR of 20-25%.

Due to the radical shifts in the consumption pattern of new-age consumers in smaller towns, wherein they are moving beyond shopping for necessary things to buying products that are majorly consumed in urban areas, there lies a hidden opportunity for retailers to tap into the potential of tier II and tier III cities.

As per estimates, nearly 100 million people out of the 300-400 million middle class currently reside in tier II and tier III cities itself. This indicates that a significant portion of the target segment for the retailers continues to live in the non-metro cities. As per the National Survey of Household Income and Expenditure (NSHIE), smaller cities like Surat, Kanpur, Jaipur, Lucknow, Nagpur, Bhopal and Coimbatore have high expenditure households with large sets of younger population, leading to unprecedented growth in disposable incomes since 2000.

Similarly, niche cities such as Faridabad, Amritsar, Ludhiana, Chandigarh and Jalandhar are smaller in terms of their population but have high spending proclivity - similar to that in mega cities. Thus, these cities are untapped tier II and tier III markets that have high potential. Furthermore, in cities such as Jaipur and Surat - new joiners to the list of metros - the household income is expected to cross Rs 800 billion by 2020. Add to this, 26 other cities are likely to cross the household income of Rs 400 billion by 2020. All these numbers clearly indicate the rising purchasing power and the consumption pattern in tier II and tier III cities of the country.

Figure 18: Prominent Malls in tier II & tier III cities



Ahmedabad	Ahmedabad One
Bhubaneswar	BMC Bhawani Mall Forum Mart
Chandigarh	VR Punjab Elante Mall
Coimbatore	Brookefields Mall
Jaipur	MGF Metropolitan Mall
Lucknow	Saharaganj Mall Phoenix United
Kochi	Lulu Mall Gold Souk Grande
Nagpur	Empress Mall Eternity Mall
Thiruvananthapuram	QRS Square Mall

Source: ANAROCK Research

Currently, tier II and tier III cities have limited presence of malls. The success of organized retail in tier II and tier III cities largely depends on features such as infrastructure development, support from the local government, changing product preferences leading to increased demand, seamless supply chain and logistics. As per the acceptability of products in tier II and tier III cities, retailers should customize their offerings and try to grab a pie of the market. Considering that there exists tremendous untapped potential in smaller cities, it's high time that retail malls expand rapidly in tier II and tier III cities.

Notwithstanding the growing interests of investors, tier II cities alone have reportedly received an investment of more than US \$6,000 million during the period 2006-17 while tier III cities received around US \$500 million over the same period. Meanwhile, during the same period, tier I cities collectively received investments to the tune of US \$1,300 million. This shows that the investors and mall developers are slowly realizing the potential of these smaller markets and trying to make their presence felt, but the speed of development must pick up the pace.

Flourishing tier II and tier III cities of India mainly include Ahmedabad, Bhubaneswar, Chandigarh, Coimbatore, Indore, Jaipur, Lucknow, Kochi, Nagpur, Thiruvananthapuram, Vadodara. As of 2017, these cities had a total retail stock of just 25-30 million sq. ft while the upcoming supply (up to 2021) was expected to be in the range of 8-10 million sq. ft. space.



Future growth engines of the country: Tier II & Tier III cities



Organised retail currently growing at a CAGR of 20-25%, tier II & tier III cities will be major contributors



Revolutionary change in retail segment in tier II & tier III is also due to the consumer-type who is demanding, more aware, educated, has higher disposable income and a globe-trotter



Success of organised retail in tier II & tier III cities depends on the below factors:

- Infrastructure Development
- Support from local government
- Changing product preference leading to demand



Factors aiding retail expansion in tier II & tier III cities

Major factors aiding the expansion of retail segment to tier II and tier III cities include maturing metros (which may lead to a stagnancy/fall in demand), high rentals and lower footfalls, rising aspirations for branded product purchases in non-metros (realized via the statistics of e-commerce), low cost of living coupled with high disposable income and evolving consumer behavioural pattern in smaller cities. There are plenty of retail brands with diverse product segment that have started expanding and flourishing in tier II and tier III cities. For instance, McDonald's, Dominos (second highest sales in India in Kanpur), Big Bazaar (single largest bill in India was in Sangli – a small town in Maharashtra), Walmart, H&M, Westside, Pantaloons, Reliance digital, Reliance fresh, Woodland, Arvind Mills, and many more. Likewise, other complimenting factors for the retail segment's growth in tier II and tier III cities include infrastructure development, cities being identified under the Smart City mission along with excellent domestic and international air connectivity.

As a matter of fact, due to the advent of e-commerce, residents of tier II and tier III cities are also aware of the latest trends and brands. Further, lack of physical outlets is making e-tailing business flourish big time in these towns and cities. In fact, e-commerce is rapidly growing and is expected to reach US \$70 billion by 2020 in India.

Majority of the population shopping online in India includes millennials (Gen Y) and less than 35 years of age which account for 30% of the population as of 2018. This generation possesses high purchasing power and purchase products after a thorough research backed by reviews and feedbacks.

Add to this, residents of smaller cities have a better work-life balance, possess significant leisure time, are well versed with the usage of electronic gadgets especially smart mobile phones with internet connectivity and aspire for luxury shopping. The demand-supply gap created by the absence of physical outlets in smaller towns along with the presence of potential customers is the key reason for the rapid growth of the e-commerce industry in tier II and tier III cities. As of now, nearly 50-60% sales of e-commerce companies are generated from tier II and tier III cities⁸. Thus, e-commerce giants are consistently working to expand in these cities by investing in mobile technology to ensure better consumer experience and stickiness and also improve last-mile delivery of their products.

⁸ India's growth paradigm - E&Y Report

Figure 19: Factors driving retail growth in tier II & III cities in India

Factors driving retail growth in tier II & tier III cities



Infrastructure development

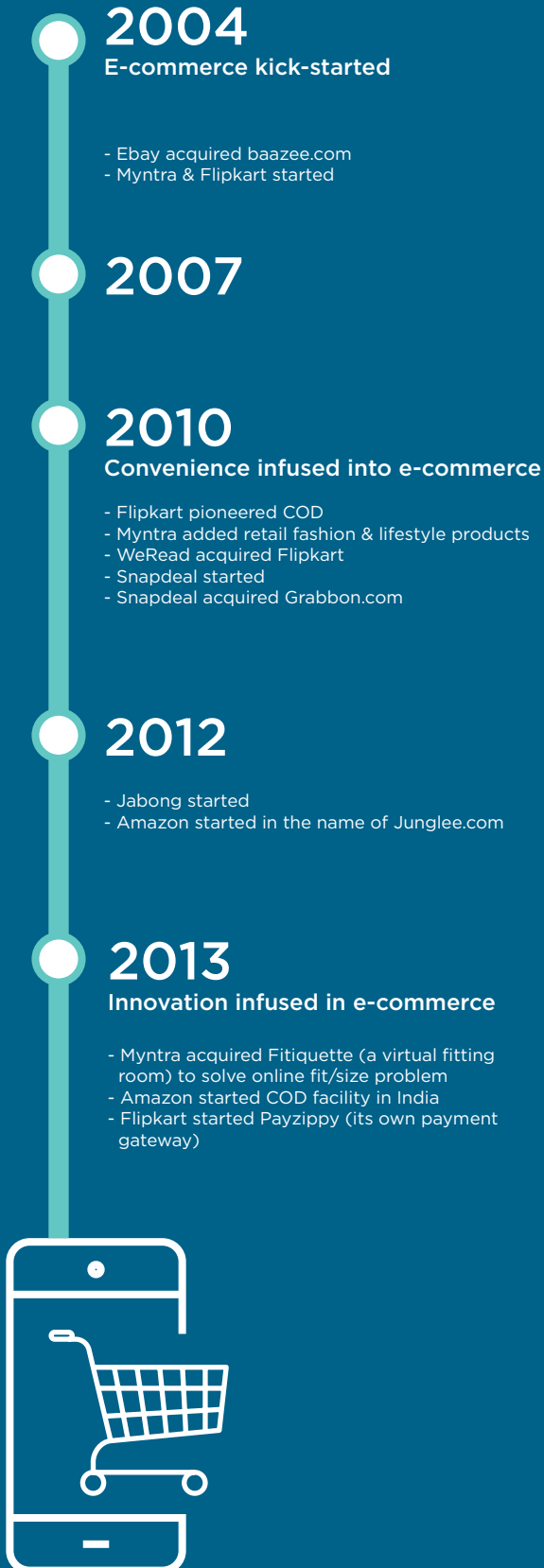


City identified under SMART city mission



Domestic & International air connectivity

Figure 20: India's e-commerce journey



Popular national and international brands have realized the potential of these untapped markets and have started penetrating here via rapid online presence and a gradual offline presence.

Another major trend seen in recent times is that 35% luxury sales come from tier II and tier III cities - urging the establishment of retail spaces to tap the market potential. With the rise of consumers in non-metro cities demanding fashion products, apparels, watches, etc., brands plan to bridge the gap. But, due to lack of good quality malls, brands are forced to operate from stand-alone stores or shopping complexes. For instance, Westside, Pantaloons, Big Bazaar etc. operate from such structural developments. This situation depicts an emergence of exclusive good quality retail space development in tier II and tier III cities.

As per industry estimates, there are additional advantages for retail brands in establishing in tier II and tier III cities such as:

- **Location charges will be 30-40% lesser than in metros.**
- **Rental values will be in the range of Rs 40-80 per sq. ft. in prime locations**, whereas the value is in the range of Rs 150-250 per sq. ft in equivalent location in metros.
- **Operating cost will be almost 30-50% lower** than that of metro cities.
- **Retail sales density will be in the range of Rs 5,500-8,500 which is lower than in metros**, but by innovative models and by addition of diverse products, survival in tier II and tier III will be assured.

Having enough prospects for development along with the presence of a potentially untapped market, the retail segment should kick start the development with a unique model housing multiple brands with complimenting tenant-mix and add luxury, recreation as well as leisure to the shopping experience of the aspirant consumers.

Thus, the advantages of large-scale awareness of reputed brands, aspiration of customers from tier II and tier III cities, availability of large land parcels, low rentals, high disposable income, more leisure hours and investors such as Blackstone, Carnival group investing in smaller towns will make retail industry flourish and co-exist along with the e-commerce industry in tier II and tier III cities.

The retail malls in tier II and tier III cities will emerge as modern urban public spaces with the infusion of recreation and luxury to the shopping experience. As a result, residents will gradually let go the habit of only “click-to-buy” and will be attracted to the physical form of shopping and will no longer view mall spaces as purely F&B centres. The rate at which e-commerce industry is spreading its wings in tier II and tier III cities, it's imperative that retail space development should be faster erstwhile there are chances that the physical shopping experience will lose the race against the virtual world.



Brands enter tier II & tier III cities to bridge the gap but operate from stand-alone stores or shopping complexes due to absence of good quality retail spaces, urging for quality retail space development

Figure 21: Growth potential for reputed brands in tier II & tier III cities



Technological enhancements to aid mall sustenance & growth

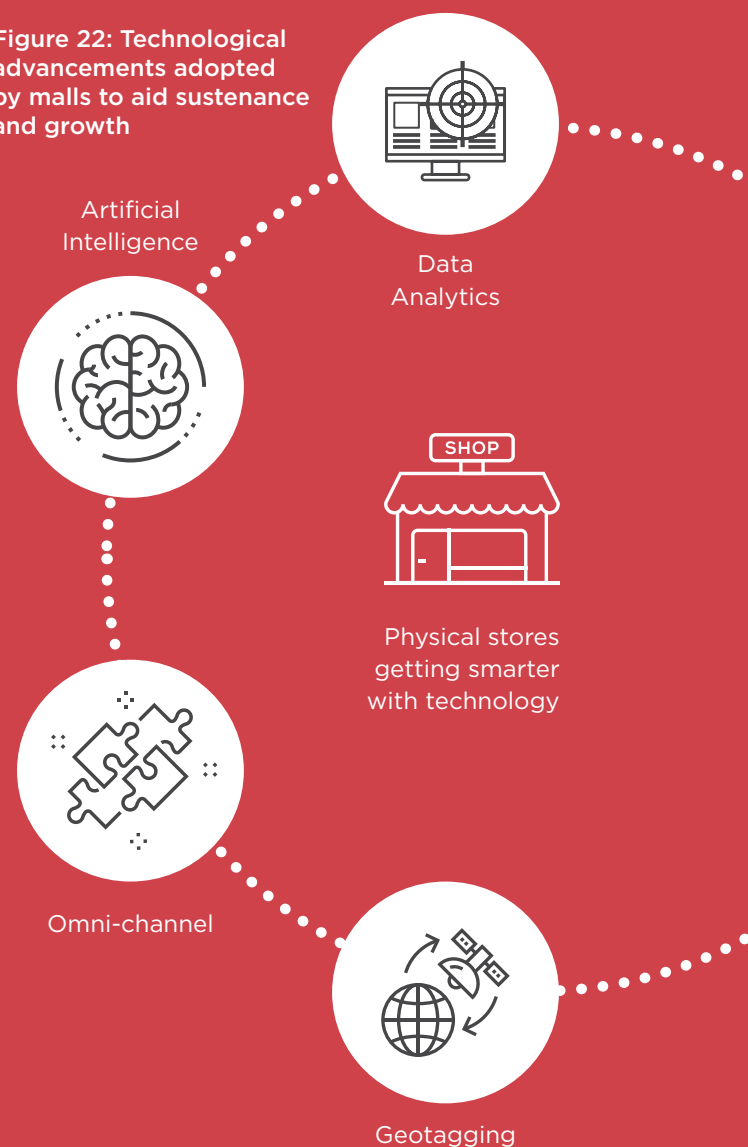
The upsurge in technological advancements has revolutionized the overall Indian retail market and given phenomenal rise to e-commerce segment, which is transforming consumer expectations and thereby altering the function of brick-and-mortar stores into more useful and entertaining customer experiences. Emergence of e-commerce and its wide-spread acceptance was envisaged by many retail experts as the beginning of the end of the brick-and-mortar era including malls particularly. But, to cope with the rising competition from the online portals who can swiftly adopt new technologies and thereby enhance customer shopping experience, brick-and-mortar retailers have also begun to re-strategize and rethink their business model to attract new and retain old customers.

In today's digital era, even the physical stores are getting 'smarter' by using technologies like Artificial Intelligence (AI), data analytics, geo tagging, omni-channel shopping network, etc. Consumer-centric platforms such as Augmented Reality (AR) or Virtual Reality (VR) are attracting customers with theme-based innovative marketing techniques, social kiosks at malls or places with higher public concentration, buying online and picking offline; all adding to the ease of shopping along with an everlasting experience. With all the modern means of marketing coupled with technological assistance, personalisation is another aspect which is going to flourish big time making shopping simpler, faster and qualitative for the customers.

In a country like India that boasts of a population of 1.35 Billion (2018 estimated) and possesses a rapidly adopting tech-savvy culture, modernisation and innovation are critical for the survival of the brick-and-mortar stores. This will assure success by providing physical innovative experience to the customers than what he can get on the online portals. Virtual trial rooms or screens will help customers check out variety of products and help them buy via the online channel of brands as per their convenience.

Thus, by uniting conventional methods with key success elements of digital experience, brick-and-mortar retailers have the advantage to offer consumers an experience surpassing that of even online sites. All they need is to tap on the unprecedented growth in overall consumerism in India to their best advantage. With rising disposable incomes, consumer expenditure is expected to rise to US \$3,600 billion by 2020 from US \$1,595 billion in 2016. And, if the mall operators along with their tenants get the strategy right, the result will add in retaining customers, higher sales, repeat visits, and increased footfalls.

Figure 22: Technological advancements adopted by malls to aid sustenance and growth



Furthermore, with technology taking centre-stage in connecting people, brick-and-mortar stores are also going online to reach out to their customers spread across the length and breadth of the country and other nations. Thus, sensing immense opportunity in the growth of e-commerce majors such as Amazon, Flipkart, Myntra etc., existing brick-and-mortar stores are also syncing up with these e-tailing websites. A few players such as Tatacliq, Lenskart etc. have also gone ahead to develop their own online platforms as well as establish an offline presence to improve the last mile delivery. Alternately, brands such as Urban Ladder, Pepperfry etc. having an online presence are putting up physical stores which act more as experience centres for their customers. Thus, we can say that both e-commerce and brick-and-mortar spaces will co-exist in the present ecosystem and drive consumerism to greater heights.

Meanwhile, a few key technological enhancements whose adoption will go a long way in improving the brick-and-mortar retail businesses in India are mentioned here.

Data Analytics and Geotagging

In today's era where technology is at the forefront of every move, it is imperative to tap customers with relevant products and offers. And, one way to know what consumers want is via data analytics and geotagging. Shopping experience has transformed over a period and it is simpler, faster, better and hassle-free. With mobile devices of shoppers now connecting to the mall's Wi-Fi network, a new channel of communication has opened between the retailer and the customer via which offers, schemes etc. can be pushed by the retailer. It gives the shopper relevant info right from where to park the car to existing offers. This makes the shopping experience more personal, convenient and enjoyable. Additionally, the tech-savvy consumers are now also seen to be adhering to the idea of sharing few personal data via digital interaction.

As per Accenture, more than 50% consumers divulge their personal information in return for a more customized offer. Further, with the help of both online and offline shopping history, personal recreational activities presented in social media platforms such as participation in yoga, zumba activities, running etc., retailers analyse customer data and provide them with a customised set of products along with suitable offers.

There is another modernised way of marketing called **personalisation**, wherein a data-driven approach and geotagging methods are utilised to retarget consumers with relevant product and deals. While retailers rejoice over increased sales, customers seem satisfied with their experience and look to return for the next shopping experience.

LULU international mall in Kochi, for instance, is setting a new benchmark in customer experience by using modern technologies like geo-fencing, beacon technology and Automatic Number Plate Recognition (ANPR) for customer interaction and thus keep them updated with the latest offers, products and availability as soon as they enter the mall premise.

Customer-centric platforms

Today, technology has taken centre stage and has transformed the way retail segment works. In a circumstance where technology was anticipated by many to be a hindrance in the growth of malls or shopping arcades, smarter digitised experience mediums with customer-centric technology such as **Artificial Intelligence (AI), Augmented Reality (AR), Virtual Reality and Internet of Things (IoT)** are attracting customers back to the brick-and-mortar stores.

AI is considered essential in mall competitiveness and its products mainly include sales and CRM-based apps. This technology has a greater impact on customer service, sales as well as marketing. AR, on the other hand, is known to enrich the experience by imposing digital content on the real world, where as VR gives altogether a unique experience by completely disconnecting from the actual world and immersing customers in alternate reality. Personalised, interactive and engaging experience for customers via AI, AR, VR is and will continue to change the entire perspective of shopping at the malls.



Omni-channel retail

For example, DLF Cyber Hub offers a unique AI-based “Phygital” experience with Huber, a virtual concierge, where shoppers can talk to Huber to find out about the next event, navigate through physical space while adding to the ‘discoverability’ of brands and experiences present, reserve a table, checkout the menu, etc. During the conversation, Huber gets to know about the customer and can make personalized recommendations.

To define it, omni-channel retailing is a fully-integrated approach that provides shoppers a unified experience across both online and offline channels. It extends from brick-and-mortar locations to mobile-browsing, e-commerce marketplaces, onsite stores, social media, and everything in between. Most omni-channel retailers have a physical as well as digital presence and provide seamless, effortless and high-quality experiences to consumers.

Figure 23: Omni-channel retailing

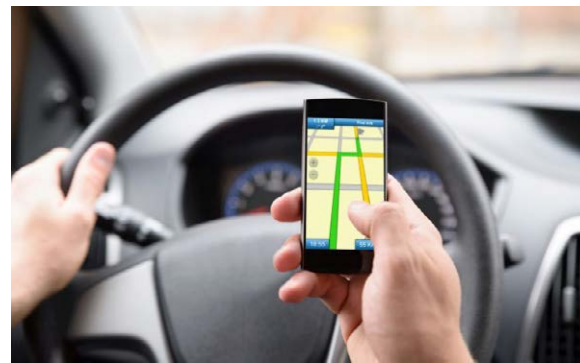
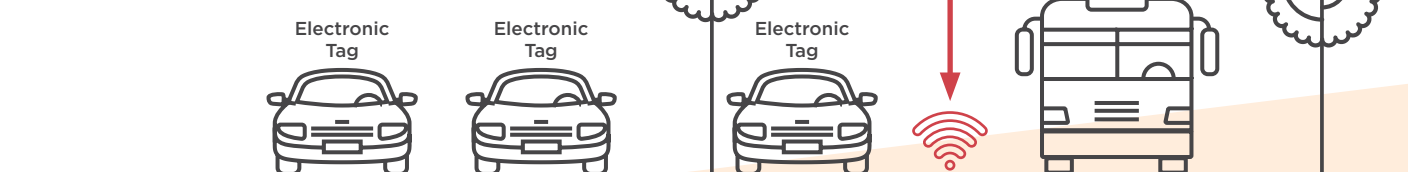


Technology is evolving rapidly, and its dominance can be explicitly seen across the brick-and-mortar stores. **The main strategy for a successful retailer will be to adopt multiple platforms to connect with their customers and create an omni-channel retail for the large set of tech-savvy population.** Customer engagement with the brands/products via various mediums such as social media, e-commerce, interactive screens at brick-and-mortar stores, kiosks and mobile apps etc. is the emerging concept of retail called omni-channel.

The idea of omni-channel was majorly developed because of the busy lifestyle of the consumers, lack of time, increasing disposable incomes, increased dependence on the gadgets and the usage of social media platforms for anything and everything. In the current day scenario, the highly successful arenas of omni-channel retail are in electronics, media and apparel.

Today's shoppers are actively using social media and are keen to spend on the right product after doing an in-depth research. By analysing the consumer behavioural pattern, product search, shopping trends, lifestyle and activities, customised e-mails, SMS, search feeds with product suggestion and upcoming offers are directed to them. The customer is retargeted with the relevant messages of products on all the possible electronic mediums. For instance, customers receive mailers from their respective banks highlighting discounts and offers in a specific e-commerce giant or brand. If a customer has forgotten to purchase a product but was looking for it, SMS or mail message is communicated to the customer as a reminder to buy the product. Stores these days hold the basic information of the customer in the form of the telephone number or e-mail ID which helps the retailer or respective brand in tapping the customer with appropriate offers and products.

Figure 24: Smart parking service



Technology to enhance parking facilities in malls

In metro cities, vehicular traffic has tremendously increased due to factors such as rapid urbanisation, changing lifestyle and growing nuclear families, resulting in an increase in parking issues and pollution. The concentration of vehicular traffic, as well as pedestrians, is high in shopping places or malls and due to lack of a proper parking facility management, it often becomes a chaotic process.

Malls act as modern public spaces in the present-day scenario and parking contributes a high share of revenue. But, an increased number of cars, lack of vacant spaces, high fares, lack of proper information has made parking an issue, demanding high attention with an appropriate solution. Like in all other aspects, technology can play a vital role in solving this problem and enhance the parking facility at the mall with the aid of intelligent parking service, a part of intelligent transport systems (ITS).

Malls understanding the big-time problem of parking facility and management should adapt technology in assisting their customers by exclusive apps. The app should provide detailed information regarding available parking slots, location along with navigation, price, advance booking provision, mode of payment and traffic status to analyse the travel time.

Technology can add ease in parking facility at malls with the aid of Wi-Fi network and kiosks that provide help as well as info for parking. As soon as a customer enters the parking area, their mobile devices will be connected to the Wi-Fi network providing a notification regarding the available vacant slot. This notification also includes directions or audio assistance for the customer to drive and park in the right spot. The kiosks can be used to do the payment or seek help in locating the car to the customer.

Players providing parking solutions

Bengaluru-based Central Parking Solutions (CPS), a large parking management organization in India, specializes in providing tailor-made solutions to the parking challenges faced. It provides innovative end-to-end solutions along with cutting-edge technology and state-of-the-art design keeping the customer-delight experience in mind. It is transforming the traditional method of parking into a complete hassle-free affair by infusing smart technology in the form of mobile app that provides detailed information about the parking at required location clubbed with digital ways of payment.

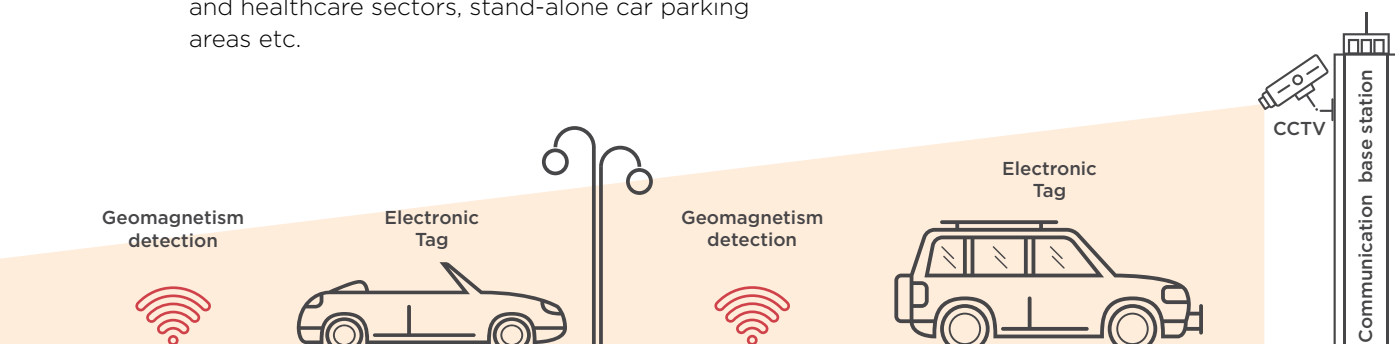
Having its presence across 23 cities of India, CPS's parking management operations are expected to begin across multiple malls including Quest mall in Kolkata, Garuda mall in Bengaluru, GVK mall in Hyderabad and to further expand in cities like Raipur, Indore, Jabalpur, Thane etc. It also extends its services to townships, theme parks, metro stations, retail and healthcare sectors, stand-alone car parking areas etc.

Besides the above-mentioned technological ways of making parking simpler and finding location easier, there is another way to locate and park vehicles in malls or large public places in an affordable way. This system is already adopted in South Korea initiated by S-oil, wherein helium balloons named "HERE" are tied up at every point of parking, helping the drivers to find the location easily and quickly, thus saving time and fuel. Once the car is moved to the location, the balloon is pushed down, and the area is occupied. Similarly, once the location is vacant the balloon rises to show the space available for parking. The drivers are notified with navigation details to reach the spot more comfortably.



Above mentioned methods can thus be adopted in Indian malls, helping the drivers find the location with the help of audio assistance. The audio assistance will be provided by sensing the location of the driver in the parking lot. To find the car in the parked location one can walk up to the smart kiosk area, type the car number and find the car along with navigation.

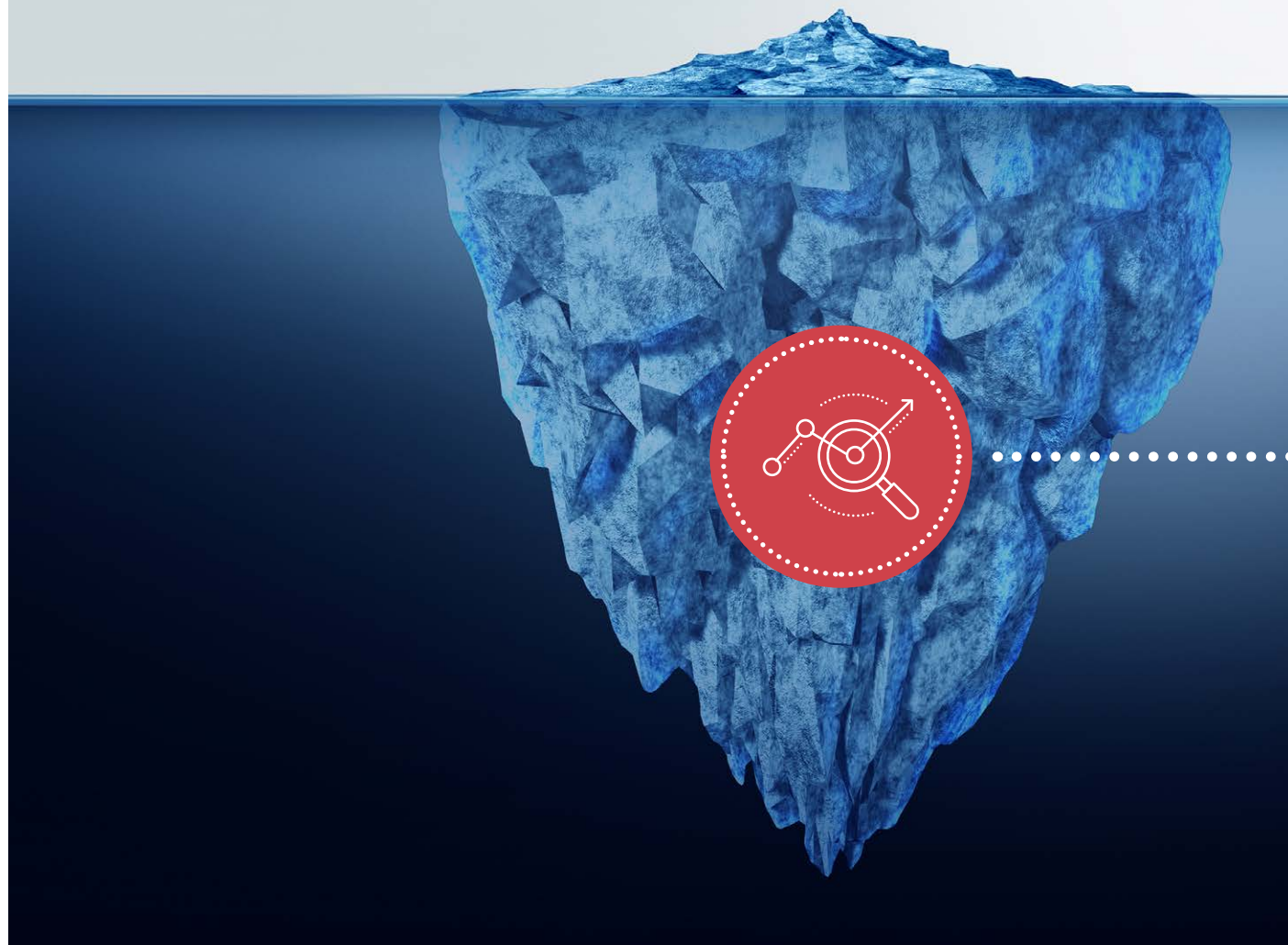
Thus, while the dominance of technology is explicitly seen across the brick-and-mortar stores, the winner will be those who will potentially strike a balance across multiple platforms and create an omni-channel for the tech-savvy consumers. Retailers who are agile enough to adapt and revolutionize their way through these changes will continue to grow and thrive in the future.

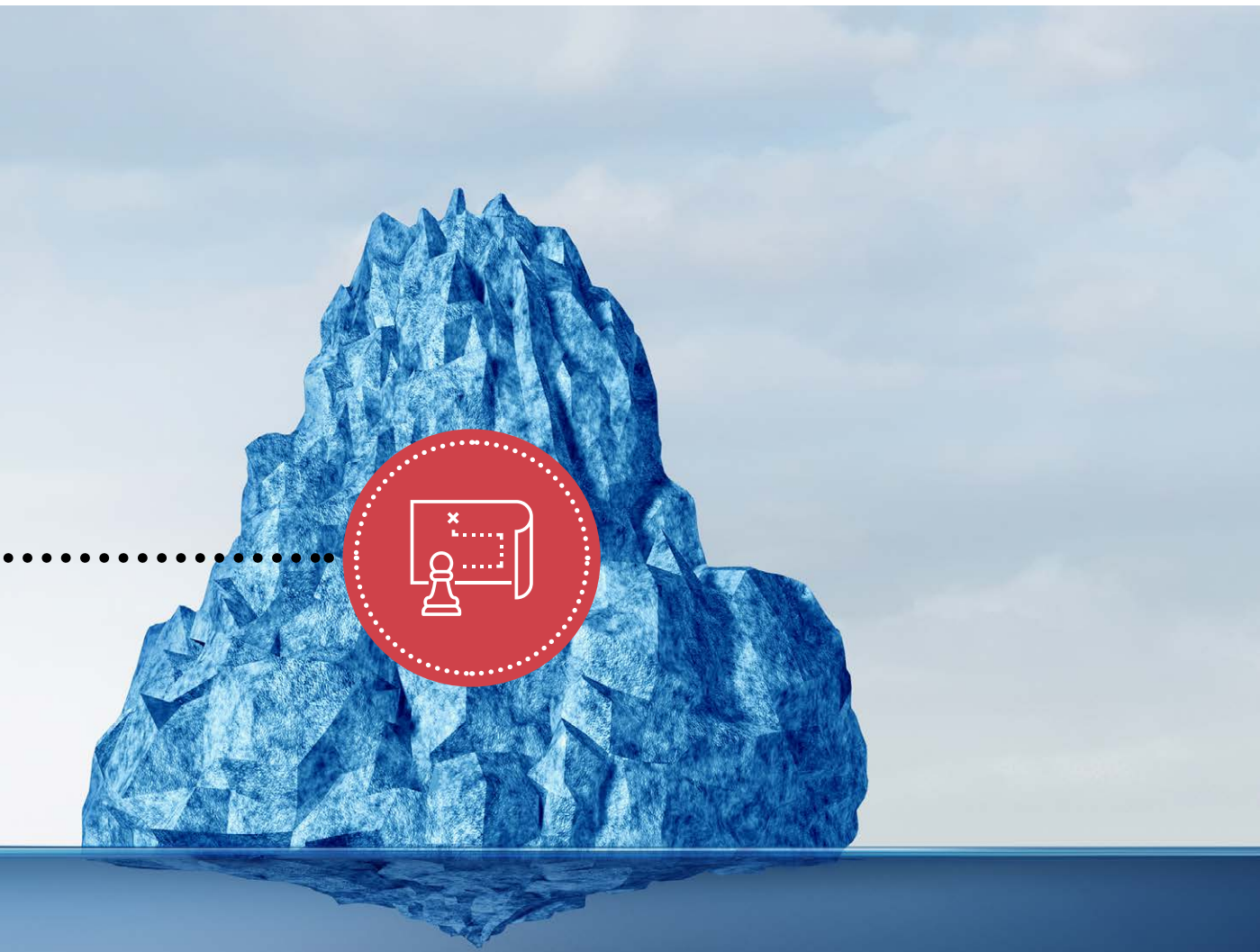


Conclusion

Retail malls, thus, after surfacing in the late 90's have witnessed an on-going evolution to cater to the changing needs of shoppers. The policy support and growing interest of overseas entities in developing economies such as India has continuously fueled the growth of retail malls. However, due to lack of experience and expertise, malls in India witnessed failure and closure as well. But, **re-working on the strategies** to capture more shoppers in this digital era of online shopping has helped these malls to co-exist in the highly competitive environment.

It is also evident that the Indian retail industry has been on a steep unlearning / learning curve. This process is by no means complete. The retail scene in India, as well as the rest of the world, is changing far too rapidly for players to become complacent. In other words, the process of evolution for the retail industry is a constant work-in-progress - and yes, there will always be winners and losers. However, given the rapid pace of adaptation we are seeing today, it is more than likely that ten years from now, there will be far more winners than losers.





The emergence of **tier II and tier III cities** as the future growth engines in the country is also prompting developers to target these under-penetrated markets and compete with the online shopping portals. More so, with rising millennials and increasing focus on creating experience, the future of malls is not just limited to the shopping needs of buyers but creating an overall experience for all age groups, ultimately leading to re-visits and increase in footfalls.

All in all, retailers who are agile enough to adapt and revolutionize their way through changes will continue to grow and thrive in the future. Besides technological advancement and digitization, the future of retail will see diverse business ecosystems blend together not just to deliver the best to their consumers, but to gain a competitive edge over the others as well.

ANAROCK PROPERTY CONSULTANTS PVT LTD
(Formerly Jones Lang LaSalle Residential Pvt. Ltd)

ANAROCK is India's leading independent real estate services company that houses a comprehensive range of complementary businesses. Our key strategic business units are Residential Broking & Advisory, Retail Transactions & Advisory, Capital Markets, Hospitality, Investment Management, and Research & Consulting.

ANAROCK serves the needs of investors, developers, occupiers, financiers and the public sector.

With a dynamic team of 1500+ real estate experts, we have deep understanding of clients' requirements and a strong commitment towards business values. ANAROCK is headquartered in Mumbai with presence in all major markets in the country and dedicated services in Dubai. ANAROCK also has a global footprint with over 80,000 preferred channel partners.

Every facet of ANAROCK reflects the core promise and vision to its clients and partners – Values over Value.

Visit: www.anarock.com

OUR AUTHORS

Virendra Joshi
Vice President, Research
virendra.joshi@anarock.com

Roubal Khorana
Assistant Manager, Research
roubal.khorana@anarock.com

Shruti R Merwade
Assistant Manager, Research
shruti.merwade@anarock.com

OUR EDITOR

Priyanka Kapoor
AVP, Research
priyanka.kapoor@anarock.com

FOR RESEARCH SERVICES, PLEASE CONTACT:

Prashant Kumar Thakur
Head of Research
prashant.thakur@anarock.com

ANAROCK Property Consultants Pvt. Ltd
1002, 10th Floor, B Wing
ONE BKC, Plot No. C-66, G Block
Bandra Kurla Complex
Bandra East, Mumbai 400 051
www.anarock.com

MahaRERA Registration No. A51900000108 available at <http://maharera.mahaonline.gov.in>



© 2018 Anarock Property Consultants Pvt Ltd.
All rights reserved.

All information in this report is provided solely for internal circulation and reference purposes. ANAROCK makes no statement, representation, warranty or guarantee as to the accuracy, reliability or timeliness of the information provided. No part of this report may be reproduced, distributed, or transmitted in any form or by any means, including photocopying, recording, or other electronic or mechanical methods.