



CATERING TO AN AFFLUENT INDIA

As Indian consumers develop a taste for the high life, luxury malls are mushrooming.

Susil S Dungarwal explains some strategies for constructing luxury malls

“**W**hat one generation sees as luxury, the next generation sees as a necessity,” said British politician Anthony Crosland. This definitely holds true for the Indian market if the past few years are anything to go by. The luxury market in India is worth Rs 2400 crore (Rs 24 billion) and is expected to grow at 30–32 per cent in the coming years, climbing to Rs 5000 crore. With this massive cash inflow, the market looks very conducive for the development of luxury malls to accommodate the topnotch brands aiming to establish themselves in India. Although the country has the infrastructure to meet their demands, the planning and construction of luxury buildings still has many flaws and loopholes that can prove detrimental for business.

Constructing a Luxury Mall

The most important aspect that defines a

luxury mall is the location. It cannot be very far away from a catchment area. Catchments are the areas around a retail outlet from which customers can be expected. For luxury malls, the need is for catchment areas with a sizeable population of affluent Indians who do not mind spending on luxuries. There should not be a bad road leading to a luxury mall or slums surrounding it. Just because a developer owns a huge piece of land in some faraway location does not mean that he can build a mall. Just because there is a huge residential colony near a location does not make it suitable either. It is very important to ensure that the malls are placed in locations which are retail-friendly. These factors may increase the rent of a store, but that should not be an issue, because a good luxury mall assures healthy sales.

Strategic Planning

Planning a luxury mall is very similar to that of a five star hotel lobby, where circulation,

visibility and accessibility have to be scientifically engineered. All the materials used in construction should be of high quality and complement the luxurious look and feel of the mall. The interiors should be done aesthetically. Having said that, it does not mean that the materials used have to be expensive; however, they should convey the desired look and feel.

To maintain the cachet of a luxury retail outlet, it must be ensured that it does not become a mass product. There cannot be luxury malls everywhere. Malls must be selective, with locations in just one or two places in major cities. A retail company may argue that fewer footfalls make the venture unviable, but they need to understand that the conversion rate in a luxury mall is far higher than that of a regular mall.

With the economy moving upwards and the Indian consumer now ready to splurge on luxury products, India is surely considered an upcoming luxury retailing destination. However, due to the big-ticket merchandise and affordability, luxury malls can currently be planned only in the major metros of the country. Such luxury malls should ideally be located in the central business districts or high streets. A luxury mall developer must be

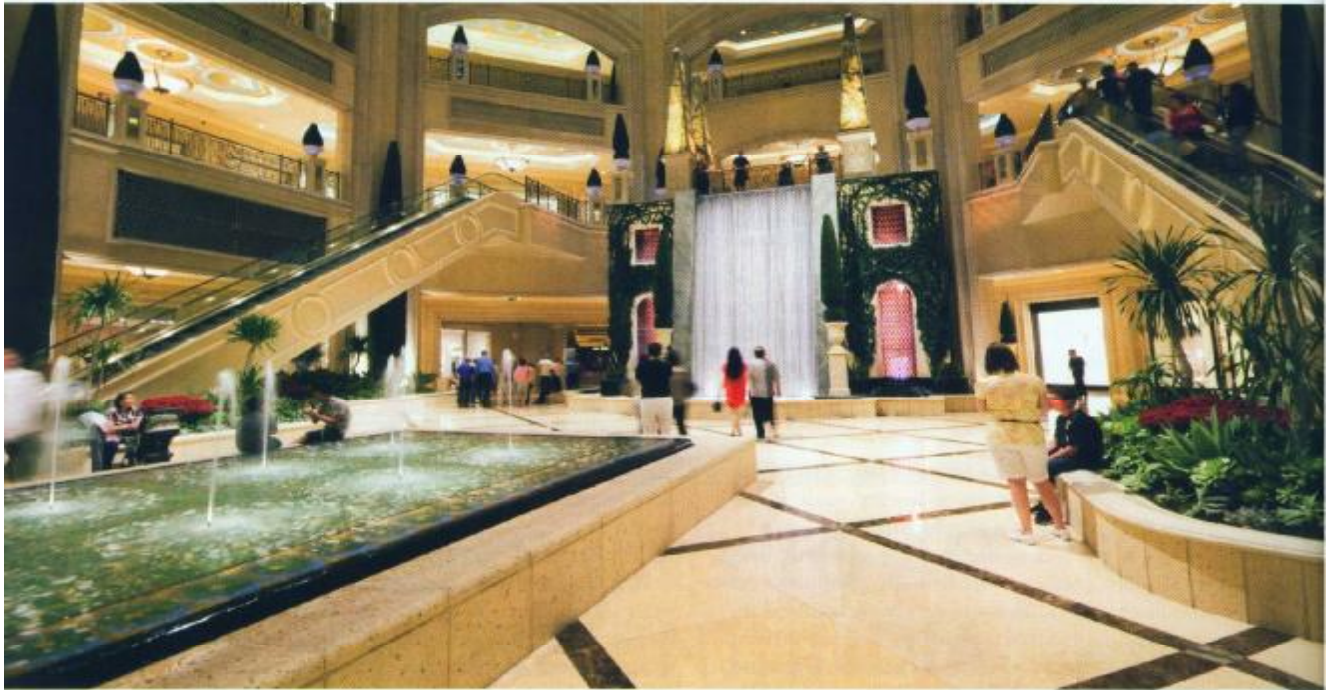
flexible in terms of floor space. Above all, choosing the right brand for every store is a big challenge. At present, there are about 50–70 luxury brands in India. There is a lot of choice for a mall owner, but it requires a fair amount of research to choose the right retail brand to make the luxury mall a success.

Managing traffic

One of the key aspects while planning the mall is traffic management. All the approach roads towards the proposed location of the mall should be wide and easily accessible. The movement of the traffic should be analysed to see whether the system can take the additional traffic load which will be generated by the mall. Traffic management includes managing foot traffic into the mall as well as 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.

The other important aspect is infrastructure management, which refers to the management of facilities provided to the tenants within the mall. This includes the provision of adequate power supply, safety facilities in case of emergencies and miscellaneous issues related to signage, water supply, sanitation, etc. These form an integral part of mall management as they are the basic amenities that any tenant looks 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. The overall shopping experience provided for consumers becomes an important factor for the success of a luxury mall. Ambience management includes the management of parks, fountains and the overall look of the mall.

Security in Luxury Malls

Since luxury malls have high-value merchandise it is important that mall security is a priority. A dedicated security system, fire-fighting system and fume-detection system are

important for security management in malls. Apart from vigilant security services, added security such as CCTV, smoke detectors, vaults, break-proof locks, etc. must be part of planning. At the entry points, guards should frisk visitors for security assurance and CCTVs and surveillance cameras should also be installed to ensure a threat-free environment.

The Learning Curve

Malls that were launched just before the recession set in are seeing high levels of rental income. But those launched during the recession have been badly hit. The rents are very low, but it may not be long before the mall owners start demanding high rentals again due to the shortage of luxury retail space. The luxury retail space is an evolving one and there is a lot of experimentation, both by mall developers and the retail companies. At present, the types of rental arrangements include flat rentals, a minimum guarantee and revenue share combination, full revenue share and step-up rentals. In the near future, we may actually see many more new formats of rental agreements being signed between stakeholders.

The last decade has seen malls springing up at a very fast rate in India. Sadly only few of these malls are constructed in a planned manner. Of some 700-odd malls planned in

the past, around 170 are operational. Out of the 170 operational malls, only about 12 can be deemed successful. Many projects then just end up being structures which are a collection of unplanned and unrelated stores with no focus on the consumer. Before planning a mall, it is very important to make an infrastructure accessibility report. At the same time, it is critical to conduct a catchment area analysis, failing which even well-planned malls could fail.

The following aspects should be checked before taking the luxury plunge:

► **Feasibility:** In the past, some malls were constructed without carrying out a rigorous and diligent exercise on their feasibility. The market scene is gradually changing, and more and more developers are approaching property consultancy firms to conduct feasibility and positioning studies for their projects.

► **Zoning:** Landlords and developers tend to lease out retail space on a first-come-first-served basis. This creates a sub-optimal tenant mix, for example, a food and beverage outlet next to a designer apparel shop instead of an accessories or a footwear shop. Similarly, the visibility of retail units from all vantage points is poor in many malls.

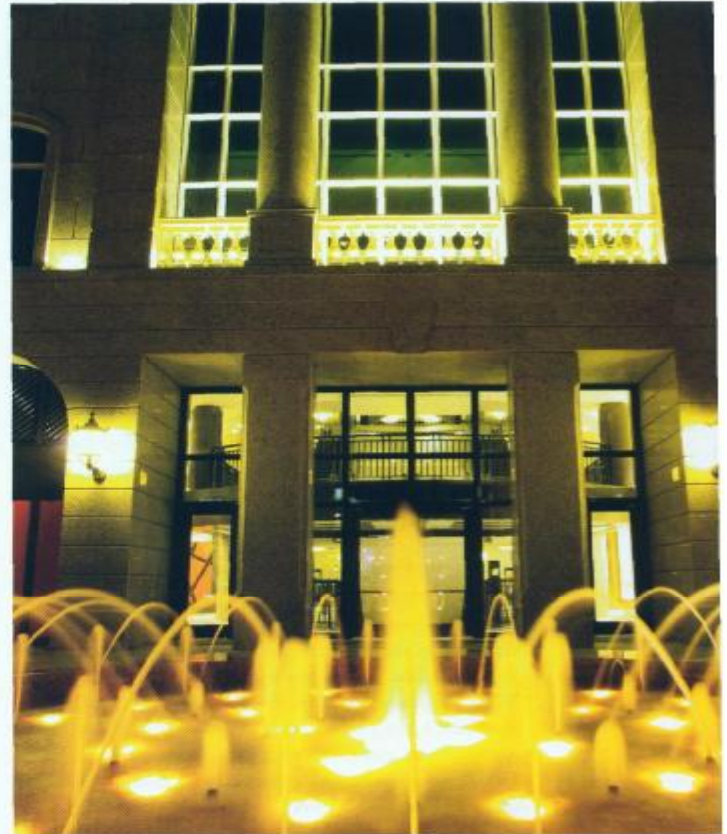
► **Promotional Activities:** There are very few promotional activities organised in the majority of malls. Developers perceive that these events only help increase foot traffic and not revenues.

► **Facility Management:** Good infrastructure and facility management of common areas becomes a problem in malls in which retail outlets are sold by strata title.

► **Parking:** Many malls in India do not have adequate parking facilities. Since most malls are being built in cities, 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.

What the Future Holds

The Household Income Survey by the National Council for Applied Economic Research revealed that in 2001-02, there were 20,000 families in India with annual incomes of more than Rs 1 crore. By 2005, the number increased to 53,000 and the number is expected to touch 140,000 families by end of 2010.



A market of India's size is irresistible for any international company, and every luxury brand wants a bigger share of the pie. Leading the way are malls like Bergamo, an upcoming luxury mall in Chennai which is being designed on the lines of a classical Italian monument with a multicoloured mosaic duomo (dome). This 'bespoke' retail space will house only premium international luxury brands in its luxurious interiors.

While cities like New Delhi, Mumbai and Bangalore have had a taste of luxury malls, the cities that are expected to catch up are Chennai, Hyderabad and Kolkata. These cities offer some potential for luxury malls, thanks to a growing affluent middle class, which mostly works in the IT sector and travel overseas. These cities will take luxury one step ahead and inspire tier-II cities to follow suit and enter the booming luxury retail market. ➡

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