

INDIA & INDONESIA

SO SIMILAR, YET SO DIFFERENT

SEEN THROUGH THE PRISM OF ORGANISED RETAIL



Organised retail has flourished and is still booming in Indonesia's primate city, Jakarta. So much so that, the authorities in Jakarta had to impose a moratorium on malls in the city and the developers are trying to get the moratorium revoked.

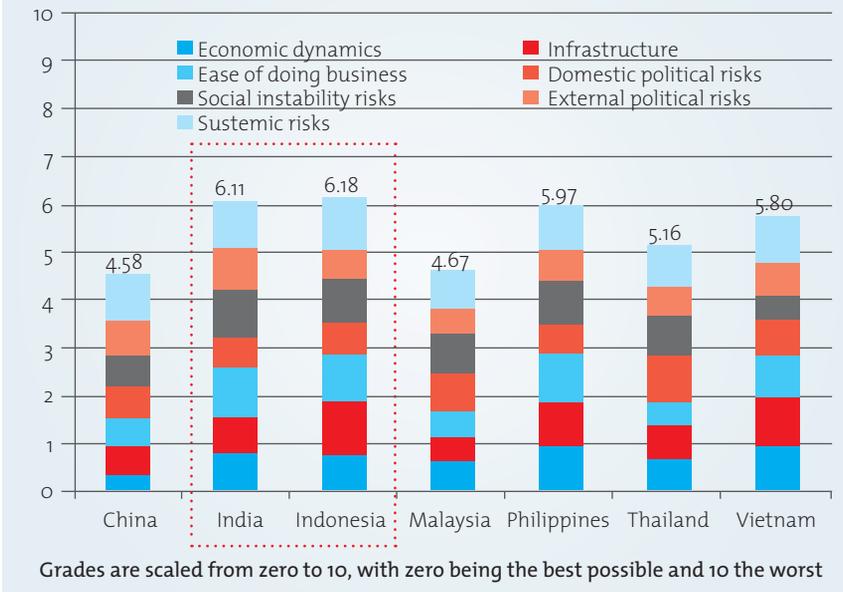
By Susil Dungarwal & Chandrashekar Kaul

India and Indonesia are growing economies of the world and both the Asian countries have necessary ingredients that are required for organized retail to grow and flourish. Chief among these is a growing, highly educated middle class with money to burn. Even more importantly, the middle class is politically influential and involved in moving the country towards openness. In terms of demographics, India is 2nd most populous country in the world while Indonesia is not behind with 4th place in the list. When it comes to largest democracies, India tops the list with Indonesia on 3rd spot, separated by US in between. Both the emerging Asian economies find their names in

the list of top 10 countries by GDP based on PPP (Purchasing Power Parity) valuation. Dependency ratio of both the countries is in its favour. That is to say, more number of people are earning as opposed to merely spending (or dependents). As per a report by RAI (Retail Association of India) published last year, it will take 26 years for India's dependency ratio to bottom-out and 11 years for Indonesia's. As can be seen in the Figure 1, there is not much difference in the business environment of both the countries. Now, these two countries, which World Bank data show together account for 21 per cent of the world's population and 3.8 per cent of global gross domestic product, are looking like bright spots, especially for the Asian region.

Both the countries had weathered the global financial crisis relatively smoothly because of their heavy reliance on domestic consumption as the driver of economic growth. India's domestic consumption accounts for 57 per cent of GDP and government stimulus averages only 3 per cent of GDP. Both India and Indonesia are liberalizing, and raising output because of that. Increasing investment by both local and foreign investors is also supporting solid growth. Foreign participation in retail trade is encouraged in Indonesia and therefore is fully liberalized. In India, single brand retail outlets can be fully owned and operated by foreign entities. Also, multi-brand retailing has been partially (51 per cent) opened up to FDI. The fact that Indonesia provides

FIGURE 1: OVERALL BUSINESS ENVIRONMENT SCORES OF EMERGING ASIAN COUNTRIES



Source: *Emerging Asia SWOT Report, 2011*

Visa on Arrival helps the retail's cause. And India too has very recently extended Visa on Arrival facility to 43 countries to boost tourism and hence the economy.

Wireless telecom is letting both countries leapfrog a hard-wire era that they largely missed, and the social web is responding as well. The private sector is more established in India but Indonesia is learning bottom-up growth. However, the trickiness of land-acquisition for major projects is a specific that the two countries share.

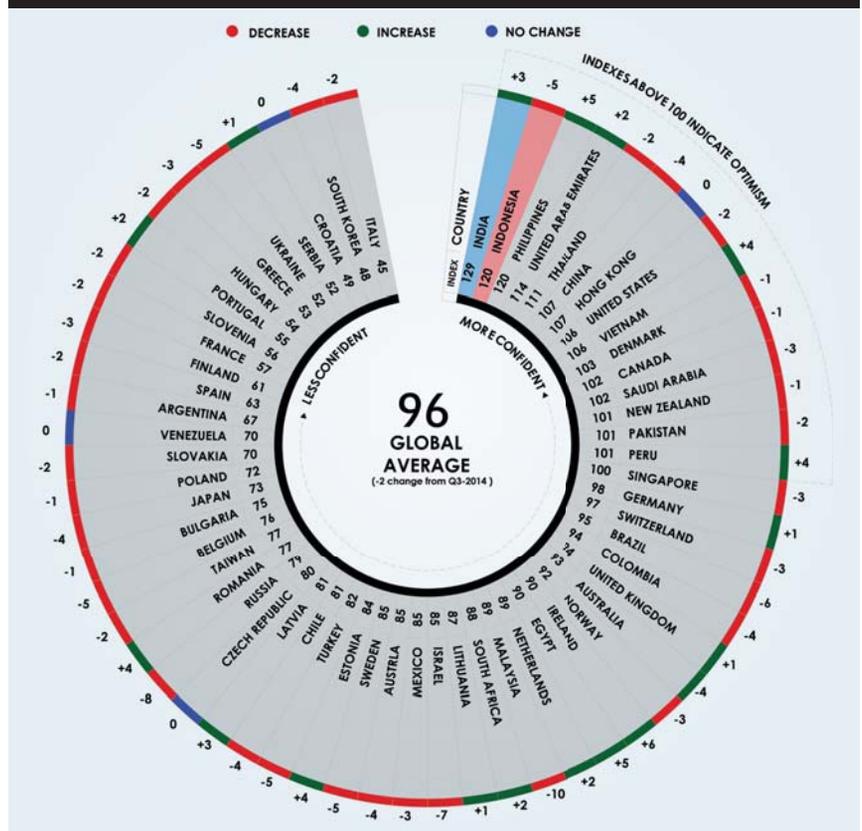
The retail sales growth of both the countries has grown at same rate (15 per cent) between 2007 to 2012. If we compare India & Indonesia in terms of the Global Consumer Confidence Index (CCI) for Q4 of 2014, they hold No. 1 and No. 2 positions respectively. India's score of 129, the highest index among 60 markets, increased 3 points from third quarter while Indonesia's fell by 5 points as shown in Figure 2. This shows consumer confidence levels in India & Indonesia have been optimistic and continue to do so.

Going by the statistics listed above, one would have expected the organized retail to grow on similar

lines in both the countries, however, that is not the case. As is evident, from Figure 5 and Figure 6 the per capita retail space and the penetration of organized retail is much lesser in India as compared to Indonesia. Still, the vacancy rate of malls in Indian cities is much higher than the vacancy of malls in Jakarta, which has a staggering 130 plus malls apart from 400 plus traditional markets & supermarkets. These statistics makes one ponder as to why the success rate of malls in India has been so poor when compared to similar emerging economies like Indonesia.

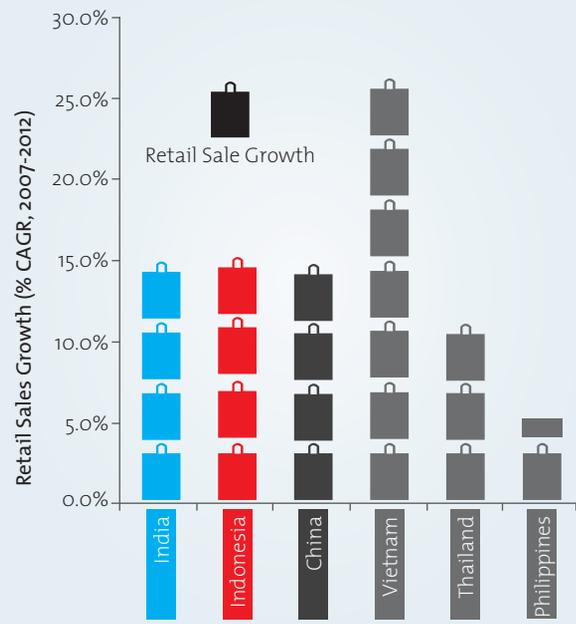
The shopping malls in Jakarta are much bigger and superior when compared to the ones in Indian metro cities like Delhi or Mumbai. The malls there out-perform the malls here in India on many accounts, be it the grandeur, the shop fronts, the occupancy rate, the retail offering,

FIGURE 2: Q4-2014 NIELSEN CONSUMER CONFIDENCE INDEX



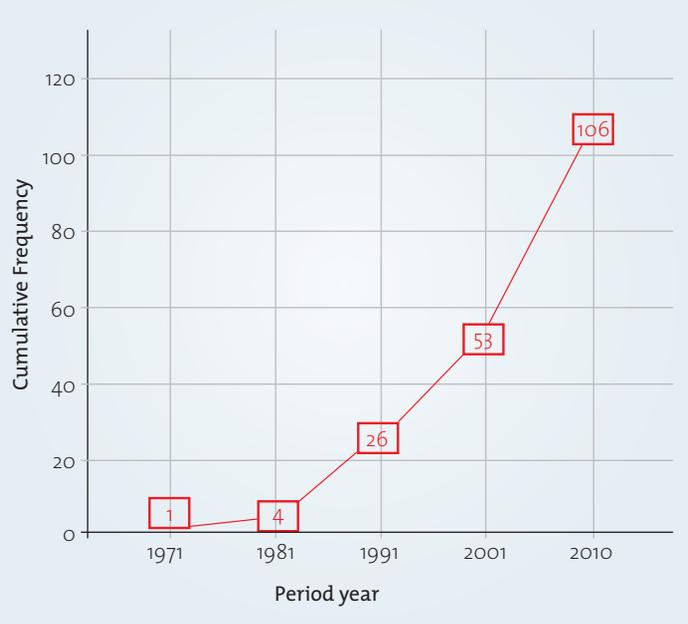
Source: *2014 Consumer Confidence Series - 4th Edition*

FIGURE 3: RETAIL SALES GROWTH IN ASIAN COUNTRIES



Source: Respective Country's Government Statistics; The Associated Chambers of Commerce and Industry of India (For India)

FIGURE 4: THE GROWTH NUMBERS OF JAKARTA SHOPPING CENTRE



Source: Herlambang, 2009

zoning, the utilization of non-leasable spaces, the parking, integration of outdoor spaces with indoors, directional signage's and so on. One must visit Beach Walk in Kuta, Bali to see how beautifully the landscaped area and water bodies have been integrated with the indoor & outdoor retail space. The mall has been so designed that it considerably cuts down on the operational cost on HVAC & artificial lighting without compromising on the comfort level of the customers.

As one moves around in the shopping malls in Jakarta, it becomes quite evident that the developers along with the designer have made a conscious effort to create an asset that would offer its customers an experience that they would enjoy and cherish. One can feel the idea of creating the shopping mall has not just been to make maximum money from every inch that has been built but to provide superior experience to their customers that shall bring them back to their malls every time they step out to shop. The malls there have special waiting areas for



▲ GROUND FLOOR PLAN & PICTURES OF BEACH WALK, KUTA

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▲ ATRIUM OF GRAND INDONESIA, JAKARTA

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customers who require Taxi's, which is being called by in-house mall team on request. The parking levels have dedicated lanes for pedestrian which one doesn't generally see anywhere in any Indian mall. They have also put technology to good effect in their favour. All parking bays have indicators suggesting if the parking is available or not. The green or red light at each parking bay towards the driveway makes it very easy to find a parking space. The marketing team of Grand Indonesia decides the event and promotion areas based on the footfalls recorded by sensors that detect heat from human body. The lesser that footfalls in a particular zone, more the events and promotions in such zones of the mall are planned. This data is also used to optimize air-conditioning in various zones depending on footfalls at a given time in a given zone. On the part of retailers, they are fully dependent on CCTV cameras and other technology to avoid frisking and holding the baggage of customers near entrances. One can just walk in and walk out of any stores thereby adding to the seamless circulation experience. How much importance is given to smaller details can be made out by their directional signages, washrooms, loose furniture, plant rooms etc.

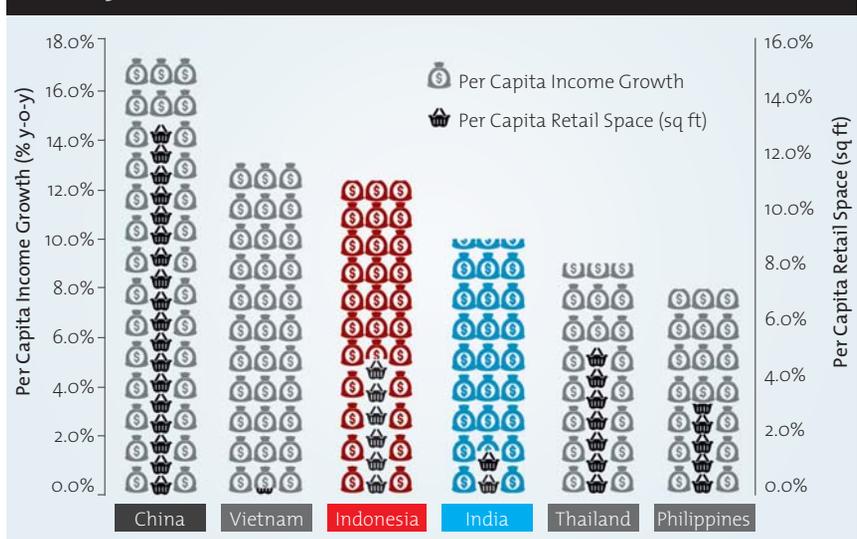
It was also observed that the developers preferred to construct the new mall adjacent or near their old mall. This suggests that developers prefer to pamper their customers with abundant choices and consolidate themselves at one location rather than create a footprint elsewhere. On part of the retailer, it is surprising to

FIGURE 6: ORGANIZED RETAIL PENETRATION (AS OF 2013)



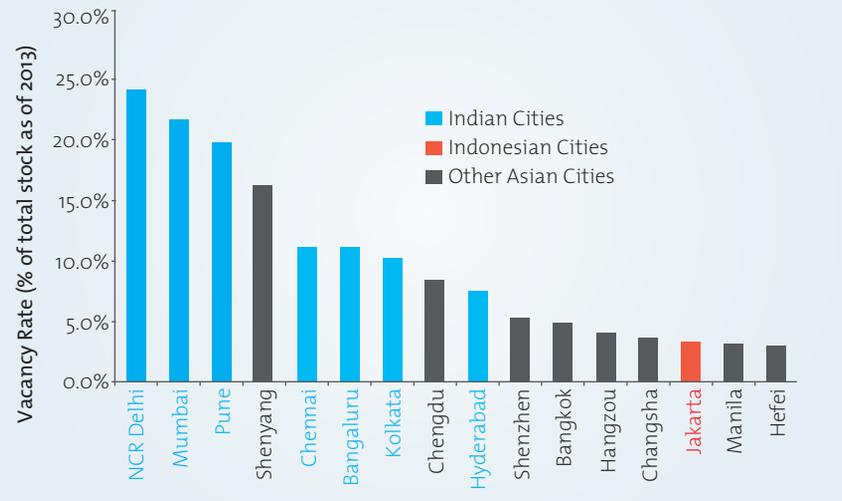
Source: Industry Sources; The Associated Chambers of Commerce and Industry of India (For India)

FIGURE 5: PER CAPITA INCOME & PER CAPITA RETAIL SPACE



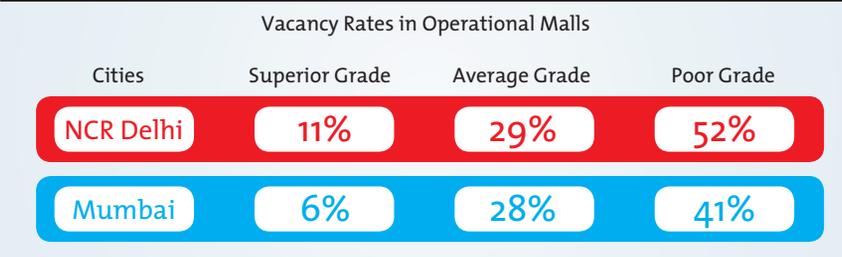
Source: Global Insight, Real Estate Intelligence Service 4Q13

FIGURE 7: VACANCY RATE (% OF TOTAL STOCK AS OF 2013)



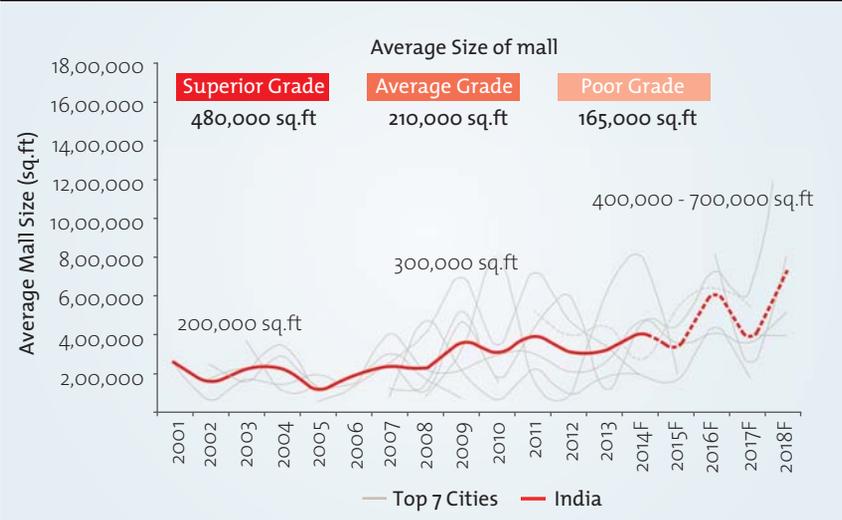
Source: Global Insight, Real Estate intelligence Service 4Q13

FIGURE 8: POLARIZATION OF VACANCY IN INDIAN CITIES



Source: Real Estate intelligence Service 4Q13

FIGURE 9: INCREASING AVERAGE MALL SIZE IN INDIA



Source: Real Estate intelligence Service 4Q13



▲ FOOD SOCIETY OF KOTA

see the same retailer at two to three different locations in the same mall. Here in India, retailers don't prefer to open another outlet within a certain radius of an exiting outlet, leave aside being in same mall at two locations.

Some factors that would go in favour of Indonesia is their high literacy rate of 90 per cent as against India's 62.8 per cent. Also, The percentage of urban population in Indonesia is more than 50 per cent as against India's 32 per cent urban population. Even though GDP of India is higher but Indonesia has higher GDP per capita. The mall culture has been built into the lifestyle of an average Jakartan. The mall holds a central place in the society and social life of Jakarta. Here, it must be noted that there are some regulatory frameworks also in place that facilitates the presence of small and medium enterprises (SME) in shopping malls that would otherwise spring up on the high street. In Jakarta, as per the regulations, the developer has to dedicate 20 per cent of the net leasable area to these SME's. Probably this is the

reason why one gets to see a diverse retail offering in the shopping malls in Jakarta. One can see banks to clinics to tailors in a mall. The authorities in Jakarta also have plans of connecting these shopping malls with the proposed mass transit station; the way it is done in other South East Asian cities, to integrated these shopping malls seamlessly in everyday life of its citizens.

Having said that there are many factors, which are intrinsic to the success of a modern shopping mall, be it in India or Indonesia. If one goes by the vacancy level of various malls in Indian primate cities, its quite evident that superior designed & built malls have lesser vacancy rate. And when one analyzes superior designed shopping malls in India or elsewhere, one can easily relate it to the size of the mall, its

cent of the operational malls in India have medium or high vacancy levels. That's one more reason why malls in Jakarta are more successful, due to high percentage of leased models (single ownership).

What is also seen a successful trend, in both India & Indonesia, is the fact that modern shopping centers are made as an integral part of a mixed used use development. The commercial offices especially compliment the F&B component of the

levels. Kota Kasablanca in Jakarta has one complete section of the mall spread across two levels, called Food Society, dedicated to food alone. There is a very interesting space created at the center of this zone at level which can be seen from first floor in the center where musical performance take place while people enjoy their food.

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▲ DEDICATED PEDESTRIAN LANE IN PARKING



▲ CIRCULATION PATHWAY CLEARLY MARKED IN PLANT ROOMS

design, its circulation etc. Most of the malls which are in the range of 8,00,000 to 12,00,000 sq.ft GLA are designed well and are more successful that smaller sized malls. Based on data available, success of a mall can also be related to the fact, whether the mall is a leased model or a sold model. More than 75 per

cent of the operational malls in India have medium or high vacancy levels. That's one more reason why malls in Jakarta are more successful, due to high percentage of leased models (single ownership). What is also seen a successful trend, in both India & Indonesia, is the fact that modern shopping centers are made as an integral part of a mixed used use development. The commercial offices especially compliment the F&B component of the

centers as destinations which are not just meant for shopping but also for entertainment, food, fun, play, leisure etc. We could add to these offerings by adding zones where people can pursue their interests and hobbies like painting, music, yoga etc. It will give an edge to malls, which are able to capture and accommodate activities and services in the malls which are currently absent and for which people have to depend on high street.

The most important learning from Indonesian retail expedition has been that if shopping malls are able to stay relevant to their catchment and customers, organized retail is here to stay. However, adaptability and flexibility, is the need of the hour. Shopping malls should diversify their offering and not limit themselves to food, fashion and cinema !!! **IR**

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