

Mall retailers opt for revenue-share model

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The retail business model is changing in Tier I cities, as more and more mall retailers are going in for minimum guarantee and revenue-share models

Six months back, the minimum guarantee and revenue-share models were the trend in the business structure in Tier II cities due to the decrease in footfalls in shopping malls. But now, this model is being adopted in metros where most of the big shopping malls are following the minimum guarantee and revenue-share models; in a few cases, they are following only the revenue-share model.

A few renowned shopping centres in Tier I cities (Mumbai, Pune, Chennai, Bengaluru and Delhi) are following the revenue-share model. Shopping centres in Delhi (DLF Place, Select Citywalk, and Ambience Shopping), Bengaluru (Forum Mall, Garuda Mall), Mumbai (Magnet Mall, High Street Phoenix, and Inorbit) and Pune (Ishanya Mall) are following the revenue-share model.

“Out of 160 tenants, almost 50 of them are operating on the revenue-share model. In the first year, we had seven retailers ready to operate on this model; in the second year 14 opted for this model and now we have 29 retailers operating on the same arrangement. The minimum guarantee and revenue-share models get the mall owner completely involved in the business, because we are linked to the revenue. It becomes our interest to see that every brand does extremely well,” said Rajiv Duggal, chief executive officer, Select Citywalk.

“The developer is extracting more profit in this business model and simultaneously he is also making the business more sustainable because the cost of occupation of the property is minimised,” said Susil S Dungarwal, founder and chief mall mechanic, Beyond Squarefeet Advisory Pvt Ltd, a mall advisory firm.

“In the Magnet malls in Mumbai, we are following all three formats—fixed rentals, minimum guarantee and revenue-share with tenants. The business model depends on the category of the business, transparency that the retailer is able to share and the kind of trust that we have with the retailer,” said Mr Dungarwal.

As per industry experts, Forum Mall was the first one to start the revenue-share model in Tier I cities in 2003 which was followed by other developers. A few mall owners are still hesitating to switch over to this model because they think that this business model needs more transparency.

“Shopping centre owners do not like to go ahead with this kind of a (revenue-share) model with every tenant because it requires more transparency in billing,” said IS Narula, president and chief executive officer for value-added real estate and retail business, Deepak Fertilisers and Petrochemicals Corp Ltd.

He also added, “To sustain a revenue-share business model, the mall owner has to have a clear understanding of the business model (profit margins of different businesses) and there should be a degree of trust and transparency.”

“It is important for a landlord to understand what he is getting in the revenue-share model. You should always implement a revenue-share model with a brand (only after) knowing fully well what you can expect. The revenue-share model does not increase revenues. It only means if the business increases, then you have the potential of an upside,” said Shubhranshu Pani, managing director—retail, Jones Lang LaSalle Meghraj.

Most successful shopping centres are hoping that the revenue-share model will sustain itself during a slowdown. Besides a successful business model, the zoning of the shopping centres is also important. Most industrial figures say that out of 120 shopping malls operating in the country, only 10 to 15 of them are successful.

“Through the revenue-share business model, we have proved to the other retailers that zoning is very important in a mall. Our revenue-share model is totally dependent on zoning. If you have not zoned your retailers in the correct place, the customer will be disturbed. If you have zoned them well, people come back more to your mall. If they come back more (often), you convert more customers, you have more sales and your revenue is secure,” said Mr Duggal.