Retail Head Start - Choosing the Right Location

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ABSTRACT

A retailer’s most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decision on product assortment, store décor, advertising messages and media, price, and service levels. The retailer’s product assortment must match the target markets shopping expectations. The retailer has to decide on product assortment breadth and depth. Retailers are accustomed to saying that the three keys to success are location, location, and location. For every kind of a retailing format there is a series of tradeoffs to be evaluated, in terms of costs and value of site while selecting the location. The location of the mall has become one of the decisive aspects of the retailing business. The location of the shopping mall spells its success or failure. A mall in a remote area would suffer from weak sales, poor cash flow and increased marketing and advertising expenses. The aim of this paper is to discuss in detail various aspects of real estate in the retailing industry with a specific objective of discussing all the aspects that are taken into consideration while selecting a location for shopping malls in India.

Introduction

Retailing includes all the activities involved in selling goods and services directly to final consumers for personal, non-business use. A retailer or retail store is any business enterprise whose sales volume comes primarily from retailing. Any organization selling to final consumers – whether it is a manufacturer, wholesaler or retailer – is doing retailing. It does not matter how the goods or services are sold (by person, mail, telephone, vending machine, or internet) or where they are sold (in a store, on the street, or in the consumers. Consumers today can shop for goods and services in a wide variety of retail organizations. These are store retailers, non-store retailers, and retail organization. Perhaps the best-known type of retailer is the departmental store. Retail – store types pass through stages of growth and decline that can be described as the retail life cycle. A type emerges, enjoys a period of accelerated growth, reaches maturity, and then declines. Conventional retail stores typically increase their services and raise their prices to cover the costs. These higher costs provide an opportunity for new store forms to offer lower prices and less service. New store types meet widely different consumer preferences for service levels and specific services.

India has the fastest growing retail market in the world, ranking above Russia and is classified as a ‘Priority 1’ market for international retailers. With over 12 million retail outlets, India is often called the “nation of shopkeepers”. The rise of organised retail does not mean the end of traditional retail. According to "Retail in India: getting organised to drive growth", a joint report by global management consultancy A T Kearney and the Confederation of Indian Industry.

In the past retailers held customers by offering convenient location, special or unique Assortments of goods, greater or better services than competitors, and store credit cards. Today, national brands are found in department stores, in their own shops, in merchandise outlets, and in off-price discount stores. In their drive for volume, national – brand manufacturers have placed their branded goods everywhere. The result is that retail – store
assortments have grown more alike. Retailers marketing decisions can be examined through target market, product assortment and procurement, services and store atmosphere, price, promotion, and place. Modern trade operates to a completely different set of rules. Given its superior bargaining power, it can negotiate better margins, wider product ranges and more frequent, speedier deliveries. For manufacturers, then, it makes sense to have a separate team servicing these outlets, working full-time to ensure both parties profit equally from the transactions.

To their credit, most large retailers are willing to accept such an arrangement. Their only condition: orders must be filled on time. Modern stores maintain lower inventories than traditional retail - nine days for Hypercity and under two weeks for Food Bazaar, compared to over three weeks for most kiranas - and losses due to a stockout are far more significant, for both the manufacturer and the retailer. Retail analysts say on-time order replenishments will become even more critical once the Wal-Mart/ Bharti combine begins operations - the American retailer works almost entirely on cross-docking and is likely to demand higher service levels, including potential levies for delays in shipment. Initiatives that help grow the category as a whole are particularly welcome, say analysts, since that boosts the retailers' revenue. And many FMCG companies are predicting that spends on promotion, in-store and point of purchase displays will increase significantly from the present 20-30 per cent share of the marketing budget. India still continues to be a strong preferred destination as a retail market and has reclaimed the top position amongst 30 countries in the results of the 8th Annual Global Retail Development Index (GRDI) revealed by global consulting firm A T Kearney, achieving it for the fourth time in 5 years.

"For a very long time to come, the biggest chunk of business will be from general trade. The corner shop will not disappear," says V S Sitaram, executive director, consumer care division, Dabur India. Even modern format retailers agree. "Microenterprise is the most adaptable retail entity in India. It will always remain relevant," points out Damodar Mall, president and CEO, foods business, Future Group.

Still, with the rise of modern retail outlets, the nature of shopping will change. While stock-up purchases (buying the month's groceries, for instance) are likely to move to the supermarkets and hypermarkets, top-ups (when you run out of, say, shampoo, in the middle of the month) will continue at local stores. That shift in buying habits has far-reaching consequences for consumer product companies.

**SELECTION OF RETAIL LOCATION**

A retailer’s most important decision concerns the target market. Until the target market is defined and profiled, the retailer cannot make consistent decision on product assortment, store décor, advertising messages and media, price, and service levels. The retailer has to decide on product assortment breadth and depth. Retailers are accustomed to saying that the three keys to success are **location, location, and location**. Customers generally choose the nearest bank and gas station. Department-store chains, oil companies, and fast food franchisers exercise great case in selecting locations. The problem breaks down into selecting regions of the country in which to open outlets, then particular cities, and then particular sites. Retailers can locate their stores in the central business district, a regional shopping centre, a community shopping centre, a shopping strip, or within a large store. In view of the relationship between high profits and high rents, retailers must decide on the most advantageous locations for their outlets. They can use a variety of methods to assess location, including traffic counts, surveys of consumer shopping habits, analyses of competitive
locations. Retailers can assess a particular’s store sales effectiveness by looking at 4 indicators.

1. **Number of people passing by on an average day.**

2. **Percentage who entered the store.**

3. **Percentage of those entering who buy.**

4. **Average amount spent per sale.**

Choosing the location is the most important decision made by a retailer for a number of reasons. First of all, location is one of the key considerations for the customer. For different requirements a customer's location preferences may differ. Second, location decisions are strategically important for the retailer because they help in developing sustainable competitive advantage over the competitors that cannot be copied at any cost. Traditionally most of the retail locations were located on the High Streets. High Streets have been the favourites of retailers because they provide easy accessibility to the consumers. But, the exorbitant prices of properties on the High Streets and lack of availability large space have compelled retailers to opt for smaller properties. As a result of consumers demand for better and more quality and shopping ambience, retailers have started moving to the outskirts of cities in order to provide the entire range of products in large retail formats. This trend is moving at a considerable pace with most new malls – established or in the pipeline – being located away from the High Streets. In India, the real estate market has, for the first time, witnessed a sustained downward trend in the prices of property in major Indian cities, in past seven years. There has been a decline by 40 per cent to 50 per cent during this period. This has led to a dearth of prime properties at prices that please. Demand of property from retailers has been one bright spark in the property markets in this period of softening real estate markets.

**CHOICES AVAILABLE IN SELECTION OF RETAIL LOCATION**

Different retailing formats have different requirements of the kinds of locations they look for. While choosing the site the retailer is required to evaluate a number of trade-offs in terms of the costs and value of the site in question. More importantly, the convenience-for-the-customer is the most important factor for the retailer. In terms of the location, a retailer has three basic options at his disposal, namely:

1. **High Streets.**

2. **Destination Locations.**

3. **Convenience Locations.**

Besides these, the other forms of retail locations include carts, kiosks, RMUs (Retail Merchandising Units) and tall wall units etc. The following discussion would take into account all the three types of locations in the Indian context.

- **High Streets** Initially, the retailing outlets in India were mostly concentrated in the busiest parts of the cities. Known as the High Streets or Downtown, these locations are the hub of city's majority of commercial activities and witness heavy traffic flow. In the Indian context, most outlets are located on the high streets. The earlier high
streets now mainly comprise of offices and centres of commercial activities. Residential areas have a miniscule presence on the high streets. Mumbai's Bandra has come up to be as the hottest high street in the metro. The biggest advantage of high streets is the easy access that they provide to the shopper.

- **Destination Location** Better known as the One-Stop Shop, a Destination Location is a store that provides the entire gamut of merchandise to the shoppers. Shopping malls are the best examples of a destination location. This concept is very common in India and has existed for a long time now. But, the way its developers and the concerned agencies have perceived it has been entirely wrong. In India, selling the property has been the primary aim of the real estate developers and the government bodies concerned with it. Basic facilities like parking, security and maintenance etc. were overlooked in the process. But, the things have been changing in the recent times. With the organized retailing coming up as a booming industry, the attitude of the developers, government bodies and corporate, towards shopping centres, has witnessed a drastic change. With retailing industry taking a proper shape in India, a number of projects of opening up modern malls are either on the verge of completion or are in the pipeline.

- **Convenience Location** Internationally referred to as the Mom-N-Pop stores, these are typical neighbourhood stores. Catering to the daily needs of the customers, they are generally located in residential areas. In India, the Kirana shops are the best example of convenience locations.

**OBJECTIVE OF STUDY**

The objective of study is as follows:

1. **To prioritize various factors associated with real estate decisions in choosing a location for shopping malls in the Indian context.**
2. **To study the relevance of the shopper's perspective in the decision making process of choosing a retail property, by a retailer.**
3. **To study the role and importance of a retailer's brand image in attracting customers to a particular location.**

In order to prioritize the factors responsible for the selection of a location for a shopping mall, a small market survey is carried out at Nagpur wherein the following shopping malls/retailers were taken as the sample:

- Pantaloons
- Reliance
- Milestone Mall.
- Eternity Mall.

In the following paper an attempt has been made to study and highlight the current property trends in the Indian retailing industry, including highlighting the key problem areas and making specific recommendations to potential retailers, investors and real estate agencies.
RESEARCH METHODOLOGY

Problem Definition –

To Study The Current Property Trends In The Indian Retail Sector.

The purpose of this paper is to study and highlight the current property trends in the Indian retailing industry and making specific recommendations to potential retailers, investors and real estate agencies.

HYPOTHESIS

- Retailers take customers perspective into account while opting for a retail location.
- The current trends in the supply of real estate properties to the retailing industry work as decisive factors in the success of the business.
- Customers choose their shopping locations because of their easy accessibility.
- Brand image plays a major role in attracting customers to a particular retail location.

TYPE OF RESEARCH

Both Descriptive and exploratory research was used in compiling this study. While exploratory research helped in developing the hypotheses through the analysis of secondary data, descriptive research was used in order to study the current property trends in the Indian retailing industry.

TYPE OF DATA

Primary Data:

Tools used to collect Primary Data : Interview & Questionnaire.

In order to collect the primary data questionnaires were administered on the sample as well as collected through personal interview with the Centre Heads & Line Managers.

Secondary Data:

Secondary Data is collected by referring various publications, journals, articles and websites.

SAMPLING DESIGN

Area Of Study : Nagpur

The area of study selected is Nagpur city. It is the second capital of Maharashtra and has the status of upcoming METRO city. The type of population is cosmopolitan. The upcoming MIHAN project has already changed the face of Nagpur. It has already become an prospective investment and business, option for big players.

Universe Of Study: The target population for this market survey included all the Central Head & Line Managers from the retailing industry and the real estate agents living in Nagpur.

Sample Frame: The sampling frame for this study was the list of the store managers/operations managers of the retailing outlets covered during the survey.
Sample Size: As the population was limited in this case, a small sample of six retailers in Nagpur was taken.

Sampling Technique: For the purpose of this survey, Non-probability sampling technique of Quota Sampling was employed as the sample size was small and fixed and the sampling unit was clearly defined.

DATA INTERPRETATION

Be it any retail organization, the conventional technique of choosing a retail location remains the same. There bound to exist certain differences in terms of the level of integration with the site selection process. Site decisions have to very quick and they cannot wait for any sort of study or tying up with a merchandise plan, as any delay in execution could mean loosing out a golden opportunity. Following is a discussion on the current and emerging trends in the attitudes of retailers towards site selection for shopping malls, based on a small survey carried out in Nagpur.

•  **Shopping Malls: The Buzzword**

  Shopping malls are here to stay. Retailers have now realized the importance of One-Stop shopping and entertainment facilities for the consumers. Almost all the major retail chains, big business houses and corporate are setting up malls of international standards in all major Indian cities. Potential Demand From The Region And Competition Potential demand, from the area under consideration, is a very important factor that is taken into consideration while choosing a location. This is done by making use of the data available on demographics and the demand for various products from different sections of the society within the given region. A number of Indian research agencies like NCAER, ORG-MARG and IMRB supply such data to the retailers.

  The retailers also consider the competition in the chosen region in order to ascertain their break-even and ROI. Accessibility, Terms Of Occupancy and Legal Considerations Accessibility, terms of occupancy and legal considerations are three key factors taken into account while choosing a site for a mall. The location of the mall should be easily accessible by the customer. The location of the shopping mall spells its success or failure. A mall in a remote area would suffer from weak sales, poor cash flow and increased marketing and advertising expenses. Whereas, put the mall in a good location and the business will thrive with all the expectations of the retailer surpassed. Terms of occupancy play a major role in deciding upon a particular property. Whether the property is to be leased on a long-term or a short-term or is it to be purchased, are the fundamental decisions that the retailer has to take right at the first thought of opening up a mall. Legal considerations are also highly important in choosing a location as rules and regulations differ from one place to another. A retailer may face stringent legal formalities if he wishes to open a mall at the centre of the city, whereas the same may be lenient for the outskirts of the city. Use Of Demographic Classification While choosing a location for a shopping mall in India, the retailers classify cities and regions on the basis of Socio-Economic Classes (SECs). They also classify the prospective area in terms of urban population, income level of households, bank deposits in the region, sales of consumer goods and penetration of credit cards.
• Fast Development Of Area

Nagpur has the status of upcoming METRO city. The type of population is cosmopolitan. The upcoming MIHAN project has already changed the face of Nagpur. It is having its effect on the socio-economic and socio-cultural aspects of the population of the city, which is creating a shift in the living and shopping taste of the mass. It has already become an prospective investment and business, option for big players.

• Emergence Of Family Entertainment Centers (FECs)

The One-Stop shopping and entertainment concept has given birth to Family Entertainment Centers (FECs). All the upcoming malls are merging shopping with entertainment by adding multiplexes and game parlours to shopping malls. The purpose is to make the family visit the mall and offer them all that they need ranging from entertainment, food, culture and shopping at one place only. Focus On Providing Add On Facilities Indian retailers, now-a-days, are trying to offer as much of value and experience to their customers as they can. To facilitate this they are pumping money in acquiring larger spaces so that they can make shopping a much better experience by providing facilities like parking space and air-conditioning etc.

• Long-Term Leasing

Exorbitant prices of prime properties have made retailers discover leasing as a much cost effective option. Still there is some resistance faced by the retailers with regard to leasing. But, with the entry of established retailing chains, corporate houses and international chains, the property owners are now becoming optimistic towards leasing of properties to retailers. Retailers have started considering leasing as the norm for the future.

• Suburban Shift

The key trends in major Indian cities show an increasing population shift to the suburbs. The market in the suburbs has a high potential for the development of shopping malls that offer shopping-cum-entertainment facilities to their customers. The retailers have already identified this and they are on the move to grab their share. More and more retailers are trying to establish their malls in the suburbs.

MALLS--THE ROAD AHEAD...

The retailing industry in India holds a bright future in the light of the benefits that it can get from the current and emerging trends in the Indian property markets. Following is a discussion on what future does the industry holds if it taps the opportunities offered to it by the developments in the Indian property markets.

• Emergence Of One-Stop Shopping Avenues

Retailers are now gradually realizing the need and importance of One-Stop shopping malls for the shopper where, if not all, most of his needs could be fulfilled. This has led to opening up of One-Stop malls, known as the Family Entertainment Centres (FECs). Consumers can now have much better experience in shopping and entertainment. Eternity Mall at Sitabuldi and Milestone Mall at Wardha Road, Dhanloti at Nagpur is one of the best examples of a One-Stop shopping mall.
**Expected Large Supply Of New Retail Space**

With an ever-increasing entry of corporate and big business houses into the retailing industry and emergence of new malls that meet international standards, large supply of new retail space is expected. This would definitely act as a stimulator in prompting existing retailers and prospective retailers to come up with new properties.

**Long-Term Leasing**

Property owners have now become optimistic about the long-term leasing of properties for retailing since the corporates; big business houses and international chains have started entering the Indian retailing industry. Opportunity For Global Players with relaxations in the taxes and restrictions applicable to foreign investors in real estate and operations in India and the depreciation of the Indian currency against the US Dollar, global players now find it lucrative to enter Indian retailing market by acquiring prime properties at highly discounted prices. Marks & Spencer's was the first international chain to come up with a store in India.

Planned properly, consumer goods companies can take advantage of different shopping habits at different shopping formats. While organised retail provides brands much-needed visibility and platform for customer-interaction, manufacturers also need to make some changes to packaging to bring their products in line with the requirements of modern retail and its customers. Global Meltdown has affected the Retail Sector also. Slower retail sales are causing Indian retailers to delay expansion plans and restructure their operations. But this has opened the window of opportunity for global retailers and many, including Wal-Mart, are continuing expansion plans as Indian consumers grow increasingly affluent, brand conscious and familiar with global retail formats. Developing countries are expected to be the ones who will lead the economic recovery. Unlike most developed markets, GDP in emerging markets is expected to continue to grow and populations in many countries are younger, increasingly urban and showing a "growing interest" in modern retail formats, suggests the report.

**TRENDS IN RETAILING**

When the going was good in the real estate sector a few years back, retail was seen as a lucrative avenue to park one’s funds. But given that the current scenario creates skepticism on the return on investment, is retail still seen as a profitable option? However, the slowdown in the market made this investment yield low returns over the next few months. Needless to say, the global financial meltdown and the slowdown in the Indian economy have adversely impacted India’s retail sector.

“It is important to consider factors such as presence of prominent anchor/large tenants, tenant mix, location/frontage of the mall vis-à-vis any major road, ease of approach and catchment catered while investing in a mall as they can have a significant impact on the rentals. But if you are looking at the high street format, it is imperative to select a prominent ‘address’ for your store, i.e it should feature in leading shopping corridors of the city.” According to C&W, an investor should evaluate opportunities in established retail destinations.

Most owners have made significant gains through leasing of their retail space over the years and are likely to hold on to their investments till demand picks up. In the event of investors exiting from established mall spaces with assured returns, there is an opportunity to
invest in malls. But not all feel that retail is moving slow at this time. But he says that one must study the options carefully. In case the properties are in prime areas it is better for the investor to weigh his options carefully as prices of the property in the medium term will appreciate. The return on investment has to be the main consideration in case he moves his investment to another portfolio. Whether you decide to invest in retail real estate right now or not, be sure to understand the appreciation potential that the location has to offer. Decide which retail format you would be more interested in and then make a choice. You may just strike a good deal in these tough times.

Lately, retail has been one of the growth areas in the global economy. It has witnessed a high growth rate in the developed countries and is poised for an exponential growth, in the emerging economies. Along with the rapid growth, retailing scenario has also been characterized by increasing competition and emergence of increasingly new retailing formats with an overlap of merchandise being offered across different formats, the competition has become intense and unpredictable in terms of the direction where it is coming from. In the light of these, the study of how consumers choose retail stores, and what drives the store choice, cannot be overemphasized. The emergence of a variety of retail formats, offering a diverse mix of offerings to the consumers, adds further confusion to the domain of store choice. One way to look at the problem of store choice is then to acknowledge the mergence of various store formats and incorporate them into the models for store choice.

**CONCLUSION**

Retailing is all about being at the right place at the right time. Basically, it is all about three Ls – Location, Location, and Location. While deciding on a business proposition, real estate issues are the most crucial ones by the virtue of the fact that real estate is the largest fixed investment for a retailer. Location related decisions in retailing are said to be the most fundamental decisions because it facilitates getting the merchandise to the ultimate consumer at the right place, at the right time, in the right quantities, and at the right price.

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