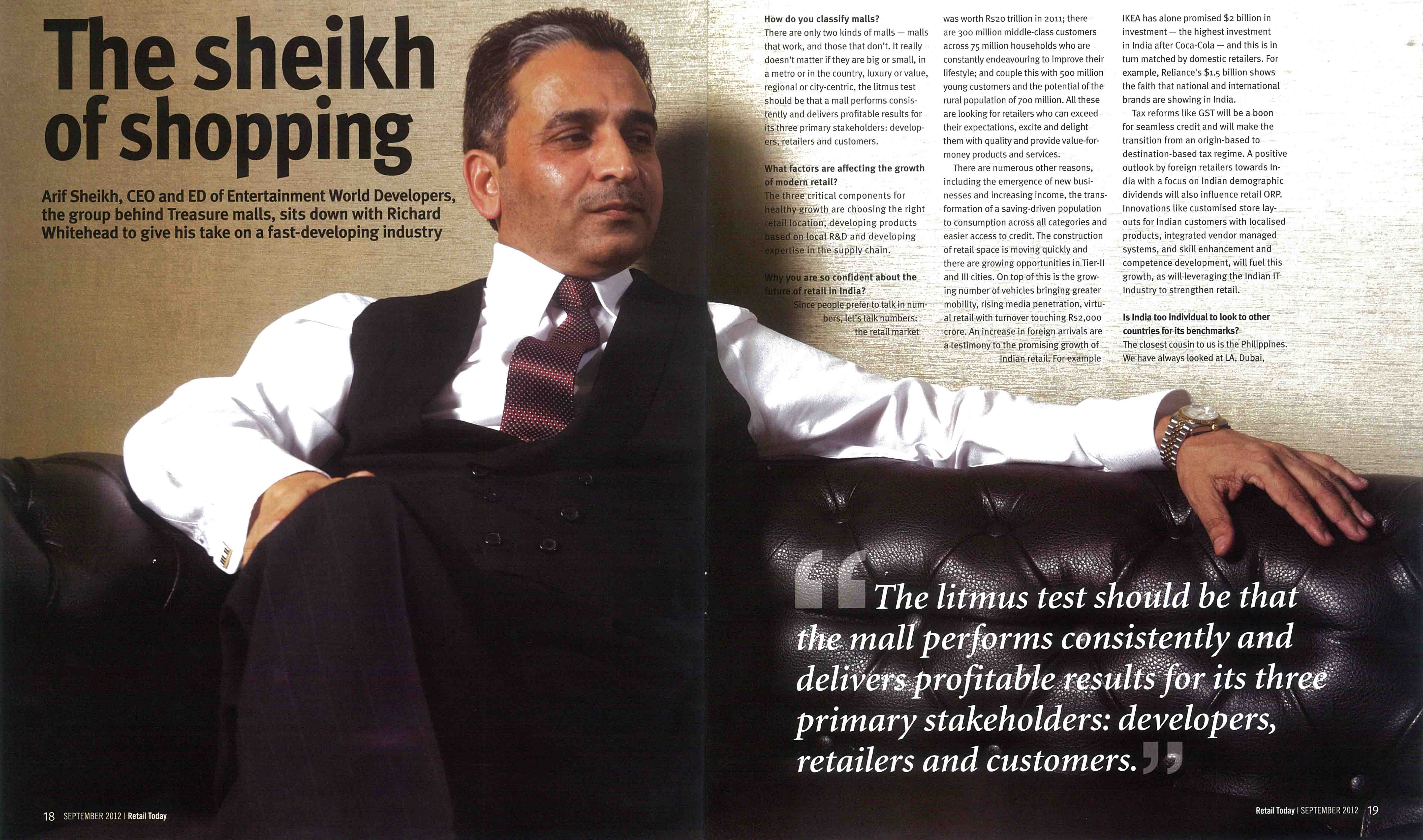
The sheikh of shopping

Arif Sheikh, CEO and ED of Entertainment World Developers, the group behind Treasure malls, sits down with Richard Whitehead to give his take on a fast-developing industry



STRAIGHT TALK

How do you classify malls?
There are only two kinds of malls — malls that work, and those that don't. It really doesn't matter if they are big or small, in a metro or in the country, luxury or value, regional or city-centric, the litmus test should be that a mall performs consistently and delivers profitable results for its three primary stakeholders: developers, retailers and customers.

What factors are affecting the growth of modern retail?
The three critical components for healthy growth are choosing the right retail location, developing products based on local R&D and developing expertise in the supply chain.

Why you are so confident about the future of retail in India?
Since people prefer to talk in numbers, let's talk numbers: the retail market was worth Rs20 trillion in 2011; there are 300 million middle-class customers across 75 million households who are constantly endeavouring to improve their lifestyle; and couple this with 500 million young customers and the potential of the rural population of 700 million. All these are looking for retailers who can exceed their expectations, excite and delight them with quality and provide value-for-money products and services.

There are numerous other reasons, including the emergence of new businesses and increasing income, the transformation of a saving-driven population to consumption across all categories and easier access to credit. The construction of retail space is moving quickly and there are growing opportunities in Tier-II and III cities. On top of this is the growing number of vehicles bringing greater mobility, rising media penetration, virtual retail with turnover touching Rs2,000 crore. An increase in foreign arrivals are a testimony to the promising growth of Indian retail. For example IKEA has alone promised $2 billion in investment — the highest investment in India after Coca-Cola — and this is in turn matched by domestic retailers. For example, Reliance's $1.5 billion shows the faith that national and international brands are showing in India.

Tax reforms like GST will be a boon for seamless credit and will make the transition from an origin-based to destination-based tax regime. A positive outlook by foreign retailers towards India with a focus on Indian demographic dividends will also influence retail ORP. Innovations like customised store layouts for Indian customers with localised products, integrated vendor managed systems, and skill enhancement and competence development, will fuel this growth, as will leveraging the Indian IT Industry to strengthen retail.

Is India too individual to look to other countries for its benchmarks?
The closest cousin to us is the Philippines. We have always looked at LA, Dubai,

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London or Singapore to provide our benchmarks, but that's not the case now.

But when I say benchmark I don't mean to copy, I mean to learn, and the Philippines is a good example of where to find this knowledge. The country had a very similar issue of limited national organised brands and a huge number of local stores, but they integrated beautifully, they evolved. They built a large number of shopping malls and the government became involved very successfully while retailers formed their own associations to collaborate with vendors and mall developers.

We are very unusual country, we have very particular local tastes and requirements but we have not produced much in the way of retail technology. We need to launch more products to suit all domestic tastes and we need to be involved in more product development in this way. In the Philippines, they implemented their own home-grown model and they didn't involve the government in it — the retailers did it all by themselves. Neither did they benchmark the West. Instead they showed interest at what had been done in Thailand and Southeast Asia and took that as knowledge rather than copying it.

What key challenges does the retail industry face?

Indian retail is a cost-hostile industry and needs patient capital, but at the same time our customers are value-conscious and everyone looks at small retailers as a holy cow. In spite of all the positive demographics I mentioned earlier, organised retail penetration stands at just five to six per cent, and therefore there is 60 million sq-ft of mall space will 11 million sq-ft of vacancies. The number of key Indian retailers has been stuck at 150. We are also faced with high stamp duty, rigid land use and tough zoning policies, higher PSF CAM charges due to the inadequate size of malls and higher fuel and electricity costs.

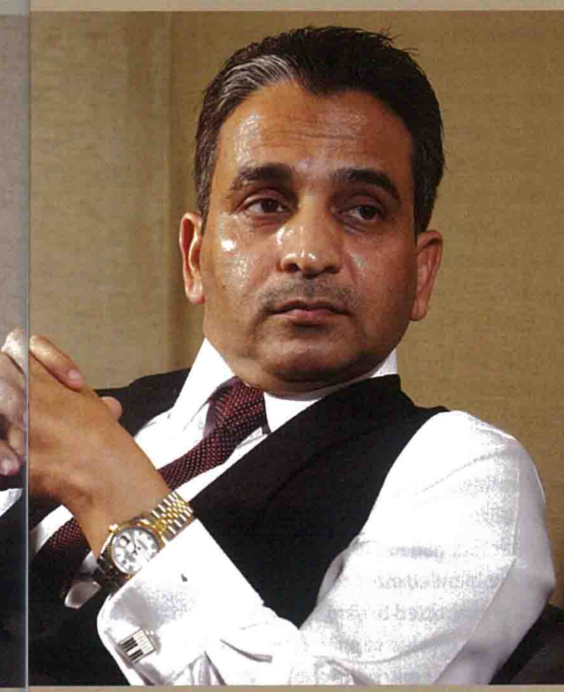
There are high deployment costs due to the lack of technology, we face long legal process to determine ownership titles, the supply chain involves a number of layers of agents and wastage in the SCM of food is running at 20 to 40 per cent. On top of this, India endures one of the lowest levels of retail productivity in the world.

Land is at a premium, debt servicing is expensive, banks are reluctant to extend credit to developers, and there is mistrust between retailers and developers on data sharing and cross promotion. There is a lack of interface between retailers to work on a larger scale to promote shopping festivals like DSF in Dubai. Even developers are not looking at the long horizon in terms of investments. These things, if they had been done right, should together have turned retail into an amazing, amazing growth engine.

What is your advice to the industry's stakeholders?

Secure the right retail space first, work on R&D and develop local products. Indian customers want access to all International brands but they also want products specially designed and developed for them, so product parity will boost consumption and demand. We should also work on better SCM and give strong consistent representation to the government on required reforms so that we can remove all obstacles.

Whenever we seek the support of the government, we issue plethora of demands across a number of forums by a broad range of stakeholders. However, the stakeholders should in fact sit together, list the issues, prioritise them, and choose the three main ones to present to the government. These may be small but



important ones, and we should go all out to get them resolved.

These baby steps will serve to build up confidence and encourage all to collaborate more. By raising issues among their audience in one voice at same time, stakeholders can create the right pressure in the constituency, which plays a critical role in Indian political system.

Why does your cause merit support?

If retail grows, that means greater choice, a rationalisation of prices, an increase in tax-compliant and high-tax paying retailers and a more efficient supply chain. In the food chain, this will make for better grading, sorting, storage and less wastage, as well as an increase in farmers' realisation, higher quality due to the best practices being used and more employment. Other industries, like logistics and the cold chain, will develop faster and small stores have more opportunity for franchise options or will serve as supplies to bigger stores. Aren't these reasons enough?

Even though everyone talks about India's huge market, the big challenge is that it is also the most value-conscious market in the world. People go into luxury brand outlets but they still want to negotiate prices. Relationship between brands and malls is also cyclical, based on the demand and supply equilibrium. When there isn't enough retail space and demand is high, developers are able to dictate terms; but when there is a sufficient retail space and vacancy is high, as is the case at the moment, then retailers can call the shots. So when the cycle is over, there is no win-win situation, and this is certainly not based on rationales.

From our experience, this all happens when a retailer or the mall developer are not making money. Rather than focusing on growing business by paying attention to what the customer wants and working on revenue share, our focus is always on cost, cost and cost. This is what we are trying to change; we say that instead of competing, let's cooperate and collaborate with each other.

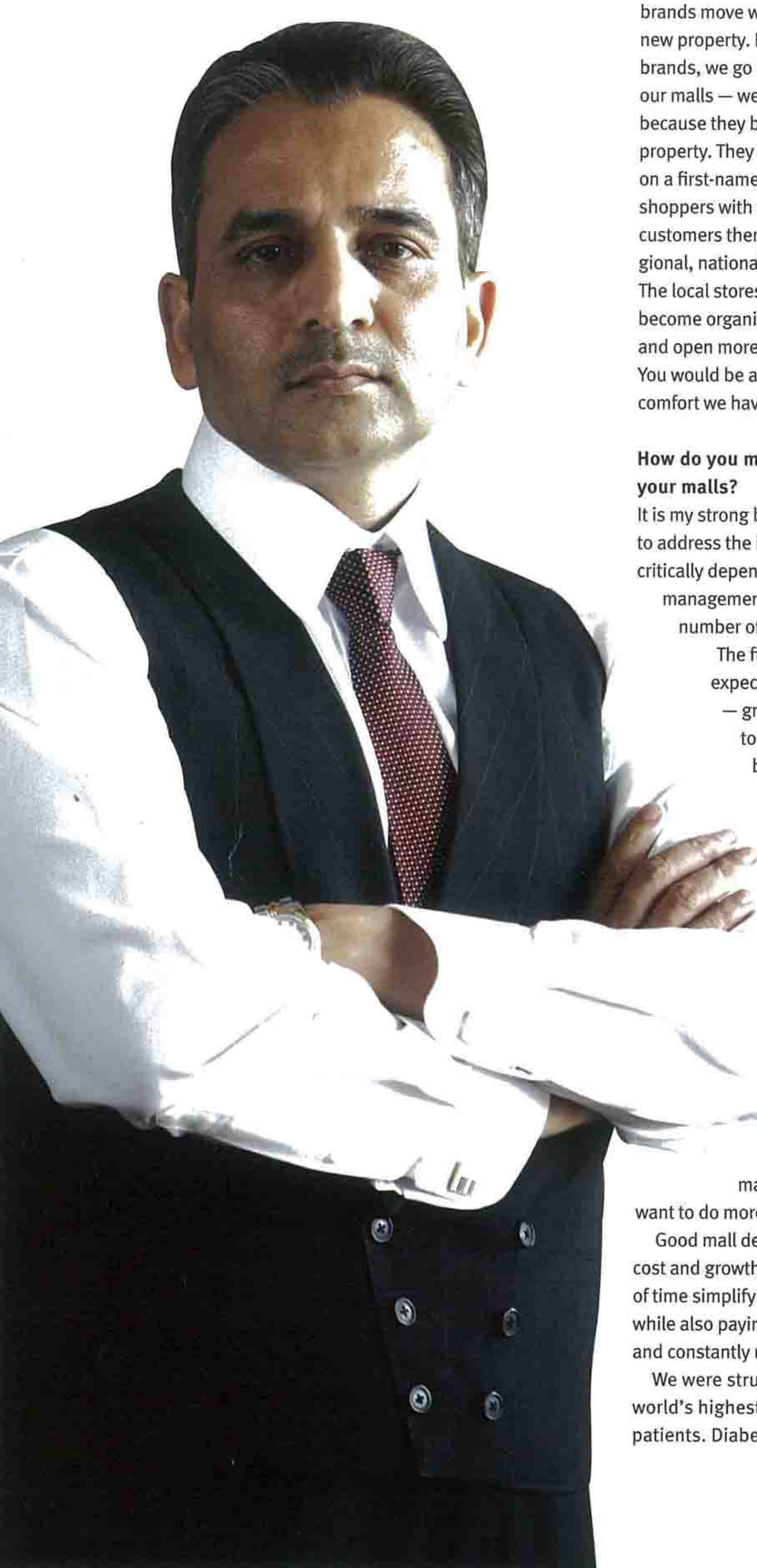
You go to Dubai, Singapore or Hong Kong, and see successful shopping festivals year after year. For such events, local government and civic bodies act as coordinators, and each retailer contributes a certain amount of money based on the number of square feet they operate on. They use that kitty to promote the entire industry many times over at regional and at international level. We once went to a couple of cities where we were operating and asked other mall managers if together we could put on events in the festival season to support retailers. We suggested measures like bringing in performers to the city: at 10 o'clock he would perform at our place, at noon at other mall and later at 4 o'clock he would perform at third mall, and so on. But very few agreed to split the cost and share the programme and promotion.

What differentiates retail in Tier-II cities?

Sometimes less is more. Paying twice the rentals in Metro India doesn't necessarily give you twice the footfall or twice the returns. But on the other hand, at half the rentals, it does mean twice the space for almost the same footfall and returns per square foot. Metros constitute only 30 per cent of total consumption, while the rest of urban and rural India accounts for 70 per cent.

Faced with the influx of international brands, is there room for local retailers?

Because people have a loyalty to a generation of old local retailers who know the local pulse, we try to get these companies



to open up in our mall, and we always try to have a 30- to 40-per cent blend of local retailers. We still pitch modern retailers and we know the value they can provide — that is why 80 per cent of these brands move with us whenever we open a new property. But when it comes to local brands, we go all the way to get them into our malls — we go down on knees to them because they bring amazing value to a property. They know half of the catchment on a first-name basis. And they bring core shoppers with them to the mall; these customers then upgrade to shop for regional, national and international brands. The local stores grow with us and also become organised enough to scale up and open more doors as regional brands. You would be amazed about the level of comfort we have with each other.

How do you make a difference through your malls?

It is my strong belief that our malls' ability to address the industry's many challenges critically depend on our approach to mall management. We approach this in a number of ways.

The first is to exceed the expectations of the customers — great mall management has to go beyond the traditional boundaries of customer service.

There must be real-time access to information to have a clear picture of the mall. It should also be fully compliant. Market-leader strategies need to be executed, and at the heart of a great mall are employees who want to do more with less.

Good mall developers keep an eye on cost and growth. They spend a great deal of time simplifying process and systems while also paying attention to innovation and constantly upgrading their services.

We were struck by how India has the world's highest number of diabetic patients. Diabetes can affect people in many ways, including their eyesight. As a result, we looked at the font size of our signage so that those who had difficulty with sight could see them clearly.

We once took a kid, an adult and a senior citizen on walks through the mall in order to find out where each age group might first become tired or where they got thirsty. We then put amenities in these locations. It was simple anthropological thinking.

Around 60 per cent of our training expenditure goes towards outsourced housekeeping and security staff. We have a full-time employee whose job is solely to train these personnel on 365-day training calendar. The security guards and housekeeping staff are employed by a facilities management company, but we hired this trainer ourselves because we wanted to look after our customers and make sure that they are treated right. As well as this, we try to fill our staff with positive energy and motivate them through healthy competition among them.

We don't allow kiosks in the atrium of our malls. Although it compromises commercial returns, it nevertheless increases visibility and trading density for high-rental-value atrium outlets. It also allows customers free movement and diffusion to all floors.

International, national and local festivals are blended into the event calendar, each one directed towards conversion and high-invoice-value support for retailers.

As women contribute a lot to fulfill the needs of their families, we decided to meet with their demands by bringing in the Ladies First initiative at our malls. We provide them with facilities like dedicated parking zone, baby feeding rooms, free yoga and aerobics classes, diaper changing plates, shoppers assistants and a unique ladies' washroom with beauty and household tips.

Teenagers are the trendsetters who drive the world of retail fashion. Taking our relationship with teens to the next level while also developing loyal customers for the future, Treasure Malls initiated "Teens ka Adda". This is a place where teenagers can hang out for free with comfortable sitting, a Wi-Fi zone, an entertainment hub, music on demand, talent searches and social activities.

One of our most admired services is our guest service staff. Up to 10 personnel in bright uniforms move around the mall to help shoppers with heavy shopping bags. They approach, greet and offer their services to customers. The staff also keeps handy baby strollers and wheelchairs.

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We organise a number of training programmes for interested retail staff on visual merchandising, selling skills, grooming and we even conduct a contest on customer service to encourage better business. We also provide monthly feedback from customers.

How do you respond to the feedback?

The secret is to keep talking. The offices of all our mall managers are locked at 1pm; from this time on, these managers are all on the floor talking to retailers and customers, observing and helping customers and floor staff. We monitor footfall very closely to the point that we know where all the guests go once they enter the mall. And if you really listen to them, they will give you some great clues about their behaviour.

We designed the food court in one mall beautifully with lots of imported artificial plants. But then we talked to the customers, they said they would prefer not to have these plants – they thought it made the space a little dark. So we took on board what they said, even though it was a very difficult decision for all of us as we really loved that design. But once we've removed the plants, we were able to use the space for more tables and chairs, meaning that table turnover went up by 31 per cent and sales doubled. That really does show the benefit of listening to customers.

Once, a lady complained about the washrooms: she said that when she put her expensive leather handbag down on the counter, it would get wet. So we installed hangers above the washbasins and got great reviews for this. Every three hours, the mall manager and general manager of operations visit each washroom.

We are very proud of all our innovations, and we are also proud about the way other mall developers follow us. We were the first small-town mall to introduce senior-citizen morning walks, eight years back. We also brought in yoga classes, aerobics sessions and ethics lessons for kids. And we installed India's first prepaid taxi booth, in association with traffic police, to make commuting easier for our customers. Every mall in India is run by developers, but retailers and customers manage ours. We have a retailers' committee made up of anchor and vanilla store managers — these are our primary customers, so what right do we have to make decisions that affect their business in the mall? We work as assistants to them, and after they meet, they tell us what decisions they have made, and how we can help implement these. We discuss, debate sometimes and agree on many points and execute them together.

What about the old chestnut of FDI?

Unless people take us seriously — and we take ourselves seriously — nothing will happen. Everybody knows what FDI will bring to this country, but we don't want to listen to it. We are willing to spoil 30 per cent of our grains in the monsoon, but we are not prepared to allow FDI, which may help build cold chains to store it. Customers will get better prices and choice, retailers will get better margins, farmers will get better value, the government will get bigger taxes, and even the mom-n-pop shops will get more franchisee options and the ability to act as suppliers. Out of the entire chain, only agents and middle-men stand to lose.

Slowly, there is a growing political consensus to allow up to 51-per cent FDI in multi-brand retail, which will pave the way for growth in retail segment.

Apart from political will, the FDI investors also have to understand the dynamics of the industry — at present, they tend to weigh their retail portfolio against investment in residential projects. While a residential portfolio stands to provide secured incremental cashflow for investors, organised retail development comes with a gestation period of 18 to 24 months. Also, they plan to enter into the business after the first phase of risk has already been taken by the developer. On the flip-side, mall rental revenues stand at seven to nine per cent, compared to two to four per cent in the case of residential property. FDI's cannot exit from the mall business within a span of three years or so, with 30- to 40-per cent gains through structured or unstructured means. The commercials do not allow that liberty.

What are your thoughts on technology in Indian retail?

We are among the leaders when it comes to the global IT Industry, but the use of our own technology in retail is still in the stone age. Barcode scanning was our first major step towards system-based retail, RFID was the buzz word for a few years, but then nothing great happened on a mass level. We have a difficult market to predict due to our diversity and evolving demographics, and unless we have strong IT adoption we won't be able to reap the benefits. For example, Cloud computing can be used for intelligent store applications and help increase revenue. RT