Organized vs. Independents: The Times They are A-Changin'

As part of my recent visit to India, I attended the Asia Retail Congress 2010. The conference included a wide variety of topics and related lively dialogue around them as indicative of the dynamic nature of the Indian marketplace. It has only been since July that I last traveled to India, and I was particularly struck on how the dialogue at this conference had changed in seven months from one that seemed to be primarily territorial, defensive and divisive to one that is collaborative, curious and explorative.

Back in July, the debate was primarily focused on the "war of the worlds" that exists between "organized" retail and the vast majority that is independently being done in India today. To some, this battle takes on a moral tone, discussing the impact of organized retail be it in areas such as employment through to culture and tradition, to the power of localized retailers and how those operators know their customers and even their families.

On the other hand, the speed of life, growing consumer aspirations for products, assortment and a shopping environment that enhances the process of purchasing (one that has changed radically in India where retail was one of scarcity to today's market of abundance) highlights many of the benefits and values that organized retail might add. Interestingly enough, a February 12th article in DNA India spoke about how one of India's most successfully organized groups, Future Retail, and through one of its most successful retail projects, Big Bazaar, has found a way to bridge the gap between those two heretofore "warring" retail segments. Through various initiatives, ranging from attracting community vendors within specially markets to set up shop within the Big Bazaar (they gave an example of the local banana vendor Baburaj in Malleswaram whose outdoor stall was a landmark of sorts now resides inside the Big Bazaar Family Centre), giving their customers yet another reason to enjoy the best of both worlds, a sense of the local; with a dependability and scale of the national.

Other examples were mentioned such as alliances into temple societies, samajs, to help supply spiritual and religious goods that until now would only be available through independent merchants surrounding the temples district. These two categories, while widely separated, represent two of what most consider the most difficult for organized retailers to connect with – the need for market immediacy and freshness, along with the desire for an emotional connection to their customers across things spiritual and religious. No small feat for Big Bazaar!

Through my discussions with the various retail and real estate executives during my trip, I observed a lively and active dialogue about the role of developers. Developers seek to raise the bar of retail tenants, while helping to support a supply of unique, professional, and ultimately successful retailers. If successful in developing and nurturing this pipeline, they will benefit with a sufficient quantity of retailers to populate the major centers; resulting in a series of choices beyond today's very limited supply. These discussions also addressed the need for more professionalized management of shopping centers. Given today's fragmentation of India's shopping center industry, the quality of talent and the inadequate experience pool that exists today has forced the developers to look outside to third-party international managers.

While this is a good step, it is no more than a stop gap measure to the greater problems over fragmentation and supply. A natural consolidation will need to take place among shopping centers in order to support the degree of overhead and management training that will be necessary from site selection through leasing, tenant incubation and development. Ultimately a broader approach to financing and capital structure will be needed to facilitate a perspective compatible with the longer term capital returns that quality shopping centers require.

The highly fragmented ownership structure, from the "condoization" of centers to block leasing, is most likely not a sustainable model. This model in other countries, which in its most simple form allows the department stores to control their own destiny within the centers, have ultimately proven not workable, as the major anchors (let alone the small, less developed Indian brands who have been allowed this approach) cannot always be counted on to provide the necessary marketing and merchandise to assure customer draw. While problematic with anchor stores, this situation could ultimately prove to be especially disastrous as related to specialty stores, since their track record of success and growth is even more checkered then their counterpart anchors.

Quality centers can only be achievable with quality, professional management. And that quality is one that starts with the conception, leasing, project management; right down to the details that relate to maintenance and renovation of the centers. This obligation does not end at the building line or even the property line; it realistically extends to the street, the neighborhood, and even the district that the centers choose to exist within.

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The long and short of it includes the following: That a robust, direct, and self-critical review of the industry - from the building blocks and stepping stones of the retailer to the macro-economics and management of the shopping centers - is a dialogue that needs to take place. This dialogue can't take place in an isolated basis with one group or the other pointing fingers; it is a dialogue that needs to take place in the context that sees the huge number of culturally-important independent retailers and recognize that many of the best retailers in the future will come out of this entrepreneurial class of operators. Likewise, the organized retailers will not be successful without better understanding the micro aspects of the markets that they hope to operate in; to learn from the best practices of those that they ultimately intend to compete with (hence Big Bazaar with their in-store flour mill).

So despite the naysayers, critics, and traditionalists who contend that things shouldn't change and can't change, change is nonetheless happening. In big ways and small, change is happening at the largest and most successful companies and within the humblest corner store

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