

Factors that contribute to the shopping mall success marketing essay



**ASSIGN
BUSTER**

The majority of research into tenant mix has been concerned with the importance of tenant mix and review of nearly non-existent ideal tenant mix principles (e. g., Bruwer, 1997; Greenspan, 1987; Husin, 1991) rather than evaluating the effectiveness of tenant mix from the perception of customers. For example, there is a great deal of research that emphasizes the importance of creating a tenant mix model for proposed shopping centre (Downie, Fisher and Williamson, 2001), but far less information about the effectiveness of tenant mix design in tailoring customer demand once it is applied.

Downie et al. (2001) suggested that the effectiveness of a shopping centre tenant mix policy can be monitored by using four methods which are turnover index, shopper surveys, bespoke research and turnover details. However, to date, there has been lack of systematic research on the method to evaluate the effectiveness of tenant mix based on customer demands.

This chapter will first define the shopping centre and its classification and factors that contribute to the shopping mall success. Next, there will be a definition on the tenant mix term followed by a review of ideal tenant mix principles. Also, the pertinent literature on the expectations from effective tenant mix, tenant mix management and difficulties in maintaining a strong tenant mix will be discussed in this chapter.

2. 2 Definition of Shopping Centre

Definition of shopping centre by International Council of Shopping Centres (2004: 1):

“ A group of retail and other commercial establishments that is planned and developed owned and managed as a single property, with on-site parking provided.”

2. 2. 1 Classification of Shopping Centre

2. 2. 1. 1 Neighbourhood Shopping Centre

Neighbourhood shopping centre offers convenience goods and services that are needed daily by the customers. According to International Council of Shopping Centres, ICSC's (2004), 50% or more of the centre is anchored by supermarket while almost 33% of the centre is occupied by health-oriented business like pharmacy. In other words, supermarkets and drug stores become the key tenant of this type of shopping centre. A neighbourhood shopping centre is located within a residential area with net retail area between 30, 000 square feet to 150, 000 square feet. The primary catchment area is within 5 minutes driving distance with a market catchment between 20, 000 to 50, 000 people (International Council of Shopping Centres, 2004).

2. 2. 1. 2 Community Shopping Centre

A community shopping centre offers a more diversified essential goods and clothing compared to neighbourhood shopping centres. It has a net lettable area of between 150, 000 square feet to 350, 000 square feet. The primary catchment area is within 15 minutes driving distance with a market catchment between 50, 000 to 200, 000 people (International Council of Shopping Centres, 2004).

2. 2. 1. 3 Regional Shopping Centre

A regional shopping centre is a shopping centre that is located in a city centre or a suburban area. It provides wide range of general merchandise and services with a net lettable area between 350, 000 square feet to 900, 000 square feet. There will be three or more anchor tenants in regional shopping centre with at least one of it is full-line departmental store. The primary catchment area for a regional shopping centre is within 30 minutes driving distance and the market catchment are around 200, 000 to 800, 000 people (International Council of Shopping Centres, 2004).

2. 2. 1. 4 Super Regional Shopping Centre

Super regional shopping centre is almost similar to a regional shopping mall. The difference with regional centre is in terms of net rentable area where it can reach to almost 1 million square feet or more. Due to its large size, super regional shopping centre can have more than 100 tenants and at least four full like departmental stores or major supermarkets as it anchor tenants. The catchment area for super regional shopping centre is within one hour driving distance and the market catchment size can reach to more than 800, 000 people (International Council of Shopping Centres, 2004).

2. 3 Factors that contribute to the shopping mall success

The success or failure of a shopping centre depends on many factors. In order to sustain a business this competitive retail sector, one have to consider the short and long term strategy planning before establishing a shopping centre. Among the factors that contribute to the shopping centre success are strategic location, good shopping centre design and layout, wide

ranging tenant mix, sufficient parking space and efficient promotion and marketing strategy.

2. 3. 1 Location

Strategic location is one of the main success factors of shopping centre as it can lead to strong competitive advantages (Gabler, 2007). Besides, a good location can attract customers from its catchment area to visit the shopping centre. Also, the shopping centre is conveniently accessible for the catchment population will strengthen its position as a prime commercial centre within the community. A good location must also come with good accessibility from various road access as well as public transportation.

2. 3. 2 Shopping centre design and layout

A successful shopping centre design and layout is not solely based on maximising retail floor area but it is about to create a comfortable shopping experience (http://findarticles.com/p/articles/mi_qn6207/is_20031116/ai_n2906923). Example of good shopping centre design is wide corridor, sufficient interior lighting and spacious central atrium to host events.

2. 3. 3 Tenant mix

The success or failure of shopping centre can also depend on its tenant mix. According to Borgen (1976), proper tenant mix and store location within shopping centre leads to good profits. An effective tenant mix will attract customer traffic into the shopping centres.

2. 3. 4 Parking

Every shopping centre needs to provide sufficient parking space in order to become a successful shopping centre. Shoppers will tend to turn away from the shopping centre if there is inadequate provision of parking space as they find it inconvenient especially during weekends and festive seasons. Besides, insufficient parking lots can also result in shoppers parking their vehicles along the road fronting the centre which causes slight obstruction to traffic flow. Thus, it becomes less comfortable for drivers who stop to drop or pick their passengers at the centre. Also, it will be advantageous if the shopping centre manager manage to improve the parking facilities by considering shopper's safety, comfort and convenience.

2. 3. 5 Promotion and Marketing Strategy

A marketing plan is a must to improve the sales and customer traffic of a shopping centre. These marketing plans may include promotional activities such as exhibitions, competitions, live show, community events and charitable campaigns. These promotional activities can be conducted during seasonal period such as festive seasons or school holidays in order to attract customers' attention to the shopping centre.

2. 4 Tenant Mix

Amongst the success factors suggested in previous literature review, tenant mix in a shopping centre is said to one of the most important factors in determining whether the shopping centre manager will succeed in positioning the centre.

2. 4. 1 Definition of Tenant Mix

Abratt et al. (1985) stated that from the perspective of shopping centre manager, maximising shopping centre profitability from the clustering of various tenants is one of the most important objectives of tenant mix.

However, Bruwer (1997) argued that a successful tenant mix is not only vital to the landlord and management of shopping centre, but also to tenants and their customers.

In line with this thought, the most comprehensive definition of tenant mix as described by Greenspan (1987) is the combination of homogeneous and heterogeneous retail agglomerations that encourage better relationship between customers and retail activities and run successfully as individual business.

Besides, tenant mix can be defined as a combination of measurement factors, such as the allocation of retail space, number of units occupied by each tenant category and the way the tenants are placed in the shopping centre (Kirkup and Rafiq, 1994).

2. 4. 2 Definition of Tenant

According to Evans and Evans (2007), tenant is defined as an individual or corporation who has interest on retail lots for a period of time and pay the rental as a reward to this interest.

2. 4. 2. 1 Category of Tenant

a) Anchor Tenant

Anchor tenant is a store which can generate high pedestrian flow on its own and therefore generates trade for smaller tenants. Anchor tenants enjoy longer leasehold ownership and pay lower rentals per square feet compare to satellite tenants (Guy, 1994)

b) Satellite Tenant

Satellite tenant is a smaller national or local tenant compared to anchor tenant and depends on the pedestrian flow created by anchor tenant (Evans and Evans, 2007)

2. 5 Principles of Tenant Mix

Numerous studies have considered the efficiency of tenant mix model as a key to success for a shopping centre. However, the concept of ideal tenant mix has not been formulated but it can be monitored through shopper survey or careful market research (Greenspan, 1987). The principles of ideal tenant mix are that the tenant mix must meet customer demand, wide range of tenants, ideal shop lot size, allocation of strong anchor tenant, right tenant placement and relocation of tenants and asset enhancement from time to time.

2. 5. 1 Meet Customer Demand

Customer demand is driven by demographics, trade catchment and shopping behaviour and cultural influences.

2. 5. 1. 1 Demographics

Managing a shopping centre's tenant mix requires consideration and analysis of a number of factors, including the demographics of the shopping centre's trade area. It is important to consider both local population data, which includes factors such as age, gender, marital status, household size and income.

Population and economic data can help to determine the spending behaviours of customers, and consequently assist in identifying the appropriate retail tenant mix crucial to the success of a shopping centre (Simmonds et al., 2000). Simmonds et al. (2000) has also found out that an area that has a larger proportion of homeowners versus renters usually signifies greater stability in term of financial. The spending habit of an aging population is different from those areas that have a higher percentage of young families or relatively transitory student population. Therefore, it is of utmost important to identify the demographics of the catchment population as it help to choose the right tenants to serve the needs of different target groups.

2. 5. 1. 2 Trade Catchment

The overall trade area can be segmented into primary, secondary and tertiary trade area, where the primary trade area is usually referring to the immediate population catchments within an arbitrarily defined commute and the latter trade area refers to the trade area beyond the primary zone area (McCollum, 1988). According to Carter (1993), it is important to delineate a trade area of a shopping centre as it can help to predict how customers in a market trade area will spend for their needs.

<https://assignbuster.com/factors-that-contribute-to-the-shopping-mall-success-marketing-essay/>

In line with this thought, the choice of tenant mix should satisfy any unmet demand for goods and services within a centre's catchment area. In a survey done by Reidenbach et al. (1984), shoppers tend to shop at shopping centre located beyond primary catchment area due to the lack of choices in goods and services provided by the shops near their house. Therefore, Downie et al. (2001) have made a conclusion that shopping centre that offer for variety of goods and services that are not available in an area can therefore retain local expenditure and capture sales from competing centres.

The catchment analysis which involves the study of demography, psychographic and social-cultural characteristics can assist the shopping centre managers in identifying the appropriate tenant mix strategy, including gap assessments, strength, weaknesses, opportunities and threats. Also, this will ensure the relevance of the shopping centre's tenant mix to its respective customer base.

2. 5. 1. 3 Market Segmentation

Market segmentation can help shopping centre manager to provide a merchandise mix that reveals clear relationships to store type preference by line of trade, shopping needs, product preference, and intertype competitive preference.

Darden and Lusch (1983) have segmented the buyer needs into five segments which are quality shoppers, price-sensitive shoppers, non price-sensitive shoppers, sociable shoppers and specialty shoppers in their study of market positioning. Also, they have segmented life stage-buying power segments into modest young, moneyed young, budget stretched young,

wealthy young families, budget strained older households, affluent older households, struggling retired and comfortably retired.

From the retailer's point of view, both strategies offer useful insight.

Shopping needs addresses store characteristics or consumer shopping needs, while the life stage-buying power addresses consumer product requirement constraints. This knowledge can then be used to identify the shopping centre current positions and their competition.

a) The Relationship of Market Segmentation to Tenant Choice

Darden and Lusch (1983) have demonstrated the diagnostic capability of life stage-buying power segmentation approach.

According to the research made by Darden and Lucsh (1983), for young families who are budget stretched, some social pressure still exist but economic constraints limit them to discount stores for apparel. However, for older families, they still favour the traditional department stores which usually have great depth in apparel.

For home entertainment purchase, young families tend to buy home entertainment goods at discount stores and older families favour traditional department stores. Meanwhile for sporting goods, department stores are not a factor for younger half of the customers. They become more important to older customers. Both discount and specialty stores are very strong in the market. In harder pressed households, discount stores are stronger, in more affluent households; specialty stores generally have a larger share (Darden and Lucsh, 1983).

<https://assignbuster.com/factors-that-contribute-to-the-shopping-mall-success-marketing-essay/>

2. 5. 1. 4 Shopping Behaviour and Cultural Influences

In a research of shopping behaviours done by Rajagopal (2008), the repetitive of tenant types in a shopping mall will reduce the shopping attractions and visit of shoppers to the malls.

Today, shopping centre is not only recognised as a place to shop but also a place where lifestyle is inspired concurrently with growing urban affluence and customers' discernment. The fine dining, café culture, eating out, leisure and entertainment and community service have become part of today's shopping experience. This new era of shopping centre experience was due to the construction of large shopping centres with 'one-stop-centre' theme (Rajagopal, 2008).

The 'one-stop-centre' concept is definitely suitable to tropical country like Malaysia as the hot climate deters many from pursuing outdoor activities. The enclosed shopping centre with central air conditioning can therefore provide respite from the climate and becomes a pleasant environment for shopping and social activities. Malaysia's richness in cuisine from the blending of its multi racial diversity has widespread eating out as part of local culture. Thus, food and beverage is said to be one of the most important tenant in a shopping centre's tenant mix.

2. 5. 2 Wide Range of Tenants

The range of tenants to be provided in the shopping centre must be balanced with the income levels of the catchment population. Amongst the criteria to determine the right tenant mix for a shopping centre is the quality, price range and the brand, either locally or internationally, of the products

and services. For instance, the shopping centre can provide some tenants that offer lower cost products or services for the low income groups and higher quality and products price for the high income household (<http://www.property-investing.org/shopping-centers.html>).

2. 5. 3 Size

The number, nature and size of the stores within a shopping centre play a role in determining the shopping centre's tenant mix design (Dawson, 1983). Also, in a study of strategic approach in retail management by Berman and Evans (1995), location and size of each tenant are related to the catchment area.

Carter (1993) explained the relationship between the size of a tenancy and trade area to be served by a shopping centre by using retail gravity model. Using Carter's retail gravity model, it can be hypothesized that the larger and closer the store, the higher the probability that the customer will shop there. However, Bruwer (1997) contented that the description of the shopping catchment population is more vital in implementing an ideal tenant mix for a shopping centre, rather than the size of each tenants or store categories.

Highman (2010) mentioned that the size of a tenancy is depending on the products and services that it offers. It will be a waste of space if large space is provided for stores which require only half of the space allocated. Besides, it will lower the rental income of the shopping centre as larger tenancy space generates lower rental per square feet.

In order to obtain an ideal space ratio, Highman (2010) suggests shopping centre manager to do some research on other properties with similar category of tenant within its vicinity. By doing this, the shopping centre manager can estimate the space needed by each business type and adjust the size of its tenancies accordingly.

2. 5. 4 Strong Anchor Tenant

Bruwer (1997) mentions that choosing a sustainable anchor tenant is vital in establishing a successful mall. In a study of mall strategies by Chadka (n. d.), anchor tenant can occupy up to 25% of the total gross floor area of a shopping centre. Similarly, in a study of managing tenant mix by Downie et al. (2001, pp. 6), anchor tenant is “ always relatively large and sufficiently well regarded, either in terms of quality, price or function, to be a destination in its own right”.

It is important to secure a few attractive anchor tenants with proven successful sales record of merchandises or services before constructing the shopping centre (<http://www.property-investing.org/shopping-centers.html>). Therefore, the pre-leasing contract with anchor tenant is normally signed during the planning stage. According to Primo (1988), it is advisable to have three to five anchor tenants in a shopping centre, however, the number of anchor tenants vary with the size of shopping mall, the size and type of products or services offered by the anchors, and the anchors' competitor.

The placement of anchor tenant within the shopping centre is important as it generates traffic flow. For instance, by placing some anchor tenants on the

higher floor rather than agglomerate all the anchors in ground floor will improve the traffic on higher floor. Therefore, other tenants will be placed clustering around the anchor tenant and depend on the pedestrian flow it creates (Husin, 1991).

2. 5. 5 Tenant Placement

The placement of tenants is based on the types of retail or service (Husin, 1991). The concepts of comparison shopping and convenience goods shopping are used in tenant mix management (Downie et al., 2001).

Comparison goods are purchased at irregular intervals, for long term use, with suitability, quality, price and styles being important factors in their selection meanwhile convenience goods are those purchased regularly, so that convenience of location, selection and buying are important (Northern and Leonard, 1977).

The selective tenant mix under comparison good includes fashion and footwear boutiques, household furnishing and jewellery stores. Meanwhile, according to Downie et al. (2001), food, newspaper, drinks and other products which are typically sold in supermarkets are categorised as convenience goods.

Comparison goods tenants are placed on the same floor in order to attract customers who want to compare similar goods before making a purchase.

2. 5. 5. 1 Clustering

Highman (2010) described clustering as the assemblage of similar tenants into one location. The tenant clustering process is proven to be productive and able to generate higher sales.

The advantage of clustering tenant is to attract customers to shop for the goods in that particular shopping centre frequently. This is because clustering will build a customer perception that the shopping centre offers wider range of products or services and thus will sell the item that the customer looks for (Highman, 2010).

However, Husin (1991) argued that the existence of similar merchandise on the same floor creates unnecessary competition although the floor specialisation approach creates convenience to shoppers. Highman (2010) argued that placing tenants that offer the same goods and services into random location will leave a bad shopping experience to the shoppers. This is because shoppers need to walk for a longer distance between similar tenants. A lengthy shopping trip can be quite tiring. Hence, clustering tenants is an effective tenant mix management as customers prefer ease shopping experience and shop access (Highman, 2010).

An effective tenant placement through clustering of similar types of business will provide a chance for shopper to do comparison shopping (<http://www.property-investing.org/shopping-centers.html>). For instance, by clustering the fashion retail lots, shopper can do their shopping easily without having them to traverse the entire shopping centre.

2. 5. 5. 2 Complementary

Another way to encourage multiple-purpose shopping is by clustering different collection but complementary tenants near each other.

Complementary tenant mix is defined by Greenspan (1987) as the placement of stores which relate to each other and work together to meet customer demands. In doing so, it will encourage customers to purchase from different types of shops at a single trip at the shopping centre. For example, shopping centre manager can cluster shops that offer complementary services such as cinema and food-related business.

Nevertheless, Downie et al. (2001) pointed out that the relative importance of convenience and comparison shopping in the design and management of tenant mix varies in accordance to the size and nature of the shopping centre.

2. 5. 6 Tenant Relocation and Asset Enhancement

Proactive management such as tenant re-mixing and asset enhancement can be done in respond to the changing market trend.

2. 5. 6. 1 Tenant Relocation

The pedestrian flow and rental prospects can be improved by relocating tenants. Besides, the modification of existing tenant mix can add different appeals to target market demographics (Kirkup and Rafiq, 1994). In other words, tenant re-mixing is an important factor in maintaining the customer relevancy of the shopping centre over time. For example, by changing an old furnishing lot with cinema would be advantageous in making a visit to a shopping centre more complete for young working couples and singles who

may desire some entertainment after shopping. Subsequently, with the availability of entertainment and leisure in a shopping centre, an average shopper will spend longer time in a centre during the visit.

2. 5. 6. 2 Asset Enhancement

Asset enhancement can be made by rearrange low yield lots into higher yielding area. For instance, a low yield zone such as parking space can be renovated to a new specialty retail zone. The advantage of reconfiguring the space is that the net lettable floor area will increase and increase the rental income subsequently.

Tenant refurbishment may be done in order to become a shopping centre that caters to the convenience of its customer who appreciate value and comfort when shopping (Downie et al., 2001). The purpose of tenant refurbishment is to enhance shopping experience and revitalise the aesthetical appeal of shops.

2. 6 What Is Expected From Effective Tenant Mix?

According to Downie et al. (2001), a tenant mix is effective if it has reached its objectives to create an exciting shopping experience, attract and retain shoppers, differentiate between shopping centres and generate pedestrian flow.

2. 6. 1 Creating an Exciting Shopping Experience

Wakefield and Baker (1998) found out that shoppers level of excitement, which are positively linked to their levels of spending, duration of visit and

intention to return in the future are influenced by the variety of tenants in the shopping centre.

For instance, the variety of food services and entertainment can persuade shoppers to stay longer and thus increasing the chance that they will spend (Downie et al., 2001). These features are especially important for shoppers who visit the shopping centre for the purpose of gathering with their family and friends, information acquisition on possible future purchases or spending their leisure time rather than making purchases of goods or services (Downie et al., 2001).

2. 6. 2 Attracting and Retaining Shoppers

Abratt et al. (1985) felt that the variety in tenant mix will maximise shopping centres' attractiveness to the population of the catchment trade area. With a wide range of tenants, shopper will have the tendency to visit the shopping centre at a higher frequency (Stoltman et al., 1991). A good tenant mix should offer a broad range of goods and services for their customers.

Besides, shopping centre that can meet customers demand by offering a medium to high range products and quality services can contribute to increased customer traffic flow (Kirkup and Rafiq, 1994). Customer will also find it more attractive to shop at larger stores for certain products or services as it has wider selection compares to smaller store (Carter, 1993).

2. 6. 3 Differentiating between Shopping Centres

The rapid growth of shopping centre has increased the need to differentiate a centre from its competitors. Therefore, tenant mix should create a specific

image for the shopping centre and position it in relation to competing shopping centres (Abratt et al., 1985).

Downie et al. (2001) emphasised how anchor tenant play an important role in determining the overall tenant mix of the shopping centre. Finn and Louviere (1996) explained that besides its influence in determining the range of merchandise in the centre, anchor tenant also impart a dominant influence on shoppers' image and thus on centre patronage. Nevertheless, the sentimental qualities together with the functional characteristics of the anchor contribute to its image in shoppers' minds.

2. 6. 4 Pedestrian Flow

The location of anchor tenant and tenants is important as it attract people to the centre from the entry point and avoid situation where only few tenants can survive by avoiding areas of low pedestrian flow (Downie et al., 2001).

According to Calus (1975), the location of each tenant needs to be carefully arranged in accordance to the shopping centres' layout and its relationship with other tenants. This aspect of tenant mix is important in order to create maximum pedestrian flow (Abratt et al, 1985). However, it is not an easy task to achieve optimum tenant mix location plans as the larger tenants tend to demand specific locations (Kirkup and Rafiq, 1994).

2. 7 Tenant Mix Management

In order to have a better understanding on the market for strategic planning and positioning of the shopping centre, it is vital to conduct a shopper survey. Similarly, Greenspan (1987) has suggested customer-centric

management in managing retail tenant mix as it allows managers to understand their shoppers, consumer' psychographics and trends.

Most of the shopping centre managers rely on the market research done by the specialist in analysing the customer trends within the shopping centre trade area. Some shopping centres, however, have their own market research specialists who will collect data, analyse them, and supply management with feedback in the form of statistical tabulations and subsequent recommendations (Lion, 1976).

Lion (1976, p. 11) has pointed out that " it can be economic suicide to start a project without adequate market research". This shows that market research plays an important role in ensuring the success of a shopping centre.

Downie et al. (2001) state that it is wise to do shopper surveys at a regular interval. Shopper survey should be used as a medium to monitor the tenant mix effectiveness and suggest for a change in respond to the shifting customer trend. Furthermore, it has been proven that by doing a survey, one has more advantages as the reason for the upward or downward trend can be known clearly compared to sales figures which only show an increase or decrease.

The management of tenant mix should be proactive rather than relying changes prompted by retailers (Greenspan, 1987). It will be too late for the shopping centre manager to only realise the need for tenant mix change indicated by the failure of a retailer as it may caused unnecessary void to the shopping centre.

During market boom, shopping centre manager is encouraged to negotiate for surrender of leases which might involve some compensation to the tenant that is suffering from losses.

2. 8 Difficulties in Maintaining a Strong Tenant Mix

In a research carried out by Smith, Garbarino and Martini (1992, p. 41), 61% of shopping centre landlords believed that tenant mix of a shopping centre was “ very important” meanwhile the rest felt that it was “ somewhat important”. However, in a study done by Downie et al. (2001), only 46% of shopping centre landlords confidently answered that their centre’s tenant had done well in keeping up to date with the current retail trends.

As highlighted by Kirkup and Rafiq (1994) in their article, it is difficult for shopping centres to remain strong in their tenant mix due to the changing market trends. Such changes in retail market may be caused by three reasons that include shopping centre competition, economy recession and changes in customer demands (Kirkup and Rafiq, 1994).

The number of newly developed malls and the expansion of existing centres have intensified the competition between shopping centres. It is reported that the supply of shopping centres in Malaysia has grown from 1. 2 million square meters in 1992 to 9. 4 million square meters in year 2008 (JPPH, 2009). Yuo et al. (2003) described that the “ retail industry is almost a perfectly competitive market, thus the actions of competitors always dramatically influence marketing strategies”. Hence, the shopping centre managers play an important role in enhancing their shopping center image through tenant mix in order to be more outstanding than the others.

Besides, the impact of the recession has caused negative impact on the retail sales and also profits for many retailers. As a result, those shopping centres that are not so well located and lack of control over tenant mix have been very poorly occupied since the late 1990s.

The change occurring in customer demand due to the emergence of new types of retailer has also caused difficulties in maintaining a strong tenant mix. T