ICSC European Retail Property School

Overview: Shopping Centre Management in Europe

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Scandic Berlin Potsdamer Platz, Germany
Welcome

• Ice-breaker & introductions

• The facilitator & his role

• Aims and goals for:
  • The session
  • The week
Part 1 – History, Facts, Trends & Data
1. History & background of shopping centres and retail destinations.
2. Global overview & European shopping centre focus.

Part 2 – Management & Retail Overview
1. Shopping centre management & its various elements.
2. Ownership and management structures.
3. Marketing, retail principles & tenant relationships.

Part 3 – Strategic Shopping Centre Management
2. Business Planning
3. Improving the bottom line

Part 4 – Summary & Conclusion
Part 1 – History, Facts, Trends & Data

1. History & background of shopping centres and retail destinations.

2. Global Overview & European shopping centre focus.
Origins of Shopping Centres - Historical

- Oldest is thought to be Trajan’s Market, Rome. Circa 110AD.
- Grand Bazaar Istanbul – circa 1460AD. 3,000 shops covering 61 streets.
Origins of Shopping Centres – Modern

Australia & USA

- Started in 1956 in USA with Southdale in Minnesota (74,00sqm).
- Steadied development and maturity of industry.
- Greenfield sites generally used along with land-banking.
- Very strategic and focused on long term planning and growth.
Origins of Shopping Centres – Modern

Asia/Orient

• Heavy population density.
• Development and expansion to modern shopping centres late 1980’s and early 1990’s.
• Varies from country to country (like Europe) and is linked to economic growth and development.

China, Middle East & India

• Incredible growth and incredible future.
• Largest malls in the world.
• Emerging countries are leap-frogging established countries.
Origins of Shopping Centres – Modern

UK
- Brent Cross was the first covered mall opening in 1976. Out of town scheme.
- On-going debate regarding inner city malls versus out of town malls. Two very distinct markets.

Europe
- Every country is different
- Inner city versus out of town.
- Some facts and challenges.
## Facts & Figures

### New Shopping Center Inventory 2012 & 2013 Global Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>New GLA (Million sq.m)</th>
<th>Number of New SCs</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMERICAS</td>
<td>29.2</td>
<td>1,006</td>
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<tr>
<td>U.S</td>
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<tr>
<td>CANADA</td>
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<td>EUROPE</td>
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<td>ASIA</td>
<td>23.1</td>
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<td>CHINA</td>
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<td>OTHERS</td>
<td>2.7</td>
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<td><strong>TOTAL</strong></td>
<td><strong>63.9</strong></td>
<td><strong>1,659</strong></td>
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</table>

Source: Cushman & Wakefield Retail Research, Shopping Centers >5k sq.m in markets tracked by Cushman & Wakefield

### Shopping Center Inventory Global Regions

<table>
<thead>
<tr>
<th>Region</th>
<th>GLA (Million sq.m)</th>
<th>Number of SCs</th>
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<tbody>
<tr>
<td>AMERICAS</td>
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<td>U.S</td>
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<td>ASIA</td>
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<tr>
<td>CHINA</td>
<td>53.2</td>
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<tr>
<td>OTHERS</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>924.5</strong></td>
<td><strong>46,846</strong></td>
</tr>
</tbody>
</table>

Source: Cushman & Wakefield Retail Research, Shopping Centers >5k sq.m in markets tracked by Cushman & Wakefield

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1. See Technical Specifications
2. Major markets only
3. Primary countries only
4. Primary markets only
Facts & Figures

1. Retail sales data hard to ascertain now due to on-line influence.
2. In 2013, Central & Eastern Europe accounted for 70% of all new retail shopping centre additions to the market.
3. Total European market GLA is 154,000,000sqm – at 1 Jan 2014.
4. France largest GLA market size at 17,300,000sqm. Next is UK ay 16,930,000sqm and finally Russia at 16,876,000sqm.
5. Russia is forecasted to lead by GLA in coming years.
6. What can we draw from this data?
Types of Shopping Centres

- Neighbourhood
- Intermediate, District, Sub-Regional
- Regional
- Superregional
- Hypermarket Galleries
- Specialty Centre
- Factory Outlet
- Big-Box, Power, Retail Parks
Neighbourhood

- GLA is less than 10,000sqm
- Daily shopping
- Convenience based centre
- Often open parking and shop fronts with covered walkway
- Located in residential areas
- Usually 1 level
- Anchored by supermarket
- Service immediate local needs
- Extended trading hours normal
- Common retail mix:
  - Butcher, florist, baker, greengrocer, hairdresser, newsagent, take-away food
Immediate, District or Sub-Regional

- GLA between 10,000sqm – 30,000sqm
- Weekly shopping
- Convenience and destination based shopping
- Major super-market
- Major discount department store
- 30 – 50 department stores
- Small food court
- No major entertainment offer
- Usually located on sub-arterial roads.
Regional

• GLA between 30,000sqm – 60,000sqm
• Weekly shopping & monthly shopping
• Convenience and destination based shopping
• Department store
• Full-line super-market
• Full-line discount department store
• Department store
• Around 100 speciality stores
• Large food court
• Entertainment offer such as cinemas
• Range of banks and service offers
• Usually located on arterial roads.
Super/Major - Regional

- GLA above 60,000sqm
- Destination shopping
- Full day out retail
- One or multiple department stores
- One or multiple full-line super-market
- One or multiple full-line discount department store
- 100+ speciality stores
- Large food court and restaurants
- Multiple entertainment offer such as cinemas
- Heavy zoning and regions
- Range of banks and service offers
- Usually located on arterial roads and out of town.
Hypermarket Gallery

• Typically GLA between 10,000 – 30,000sqm
• Has dominant retail offer combining supermarket and discount and/or department store
• Best examples are Carrefour and Walmart
• Limited range of speciality shops to support main anchor. Generally between 10 – 50 retailers
• Convenience is key.
• Small and limited food offer
• Limited entertainment offer
• Large amount of car-parking
Speciality Centre

- No dominant anchor.
- Focuses on specific market segment such as entertainment, leisure, home-wares, high-end fashion, cheap imports & others.
- Generally small in size and often converted from previous uses.
Factory & Designer Outlets

- Manufacturer sells their products directly to the public.
- Generally discounted and fashion orientated.
- No dominant anchor.
- Can be indoor or outdoor.
- Started in USA and spread to Europe through McArthur Glen.
- Airports often be ‘de-facto’ outlet centres.
- Trading area significantly larger.
Big Box, Power Centre & Retail Park

- Generally outdoor.
- Large format stores with large floor space.
- Bulky goods focus such as home-wares, garden, electrical, automotive, supermarkets and others.
- Usually smaller speciality retail mix to support anchors (food, newsagent).
- Generally out of town or on main arterial roads.
- Massive growth in USA, Australia & UK, Europe catching-up.
- Can be as part of greater retail development including shopping centre.
Part 2 – Management & Retail Overview

1. Shopping centre management & its various elements.

2. Ownership and management structures.

3. Marketing, retail principles & tenant relationships.
What is Shopping Centre Management?

- Depends on management model, ownership structure and size of asset.

- Europe and UK have division of responsibility into two areas; asset management and property management.

- Top of the retail asset management food chain due to complexity.

- Property management and asset management roles:
  1. Operations: Property Management
  2. Marketing: Property Management
  3. Administration: Property & Asset Management
  4. Executive & Other Disciplines: Property & Asset Management
Shopping Centre Management Structures

How is it managed?

- What is asset management?
- What is property management?
- What is fund management?
- In-house management.
- Outsourced management.
- Hybrid models.
- Conflict of interests (eg: Total Facilities Management)
Shopping Centre Managers Role

• Glue in the middle.
• Director of good impressions.
• Level of delegated responsibility.
• Tenant management.
• Centre rules enforcer
• Risk management.
• Communicator.
• Dispute resolver.
• Personnel manager.
• Read periodical and industry specific publications.
• Always write everything down, including use of file notes.
Shopping Centre Management Structures

Who is the owner?
• Stock exchange and non stock exchange listed companies
• Individual company – 1 owner
• Individual company – 1 or more owners
• Real Estate Investment Trusts (REIT) – publicly or privately held
• Joint venture
• Fund managers
• Financial institutions, administration and distressed properties

All ownership models have different rules, regulations and structures.
Operations Management

- Outgoings or Service Charge Management
- Total Facilities Management
- Maintenance
- Security
- Cleaning/Janitorial
- Physical Plant & Life Cycle Costing
- Service Contracts
- Health & Safety including Fire Strategy
- Day to Day Tasks
- Staffing
- Environmental Sustainability
Marketing Management

- Marketing budget.
- Marketing objectives.
- Marketing plan.
- Asset size and catchment area.
- Owners contribution including marketing managers wages.
- Head office or group contributions.
- Income from marketing activity such as sponsorship.
- Retailer assistance.
Marketing Management… Cont

• How does it affect footfall and/or sales?
• Financial impact
• Marketing goals
• Public relations
• Retail and tenant management
• Centre manager and marketing managers role
Administration Management

- Centralised or de-Centralised.
- Debt management.
- Insurance.
- Reporting.
- Compliance.
- Human resources.
Executive & Other Disciplines

- Business Plan
- Government & Community Relations
- Legal
- Leasing
- Owner Relations & Communication
- Retailer Relations
- Crisis Management
- Marketing
- Other responsibilities
Shopping Centre Stakeholders

- Owners & owners representatives
- Managers
- Developers
- Agents
- Consultants
- Retailers & tenants
- Contractors
- Local, regional and national authorities
- Customers
- Community, charity and non-profit organisations
- Local residents
- Media
- Others?

*Each has its own priorities and vested interests*
Shopping Centre Management

Development Management
- Developments and re-developments.
- Relationship between development & asset management.
- Relationship between development & property management.
- Normally always separate companies, but could have same owner.
- Development profit.
- Hand-over from development to asset/property management.

Agents & Consultants
- Leasing agents and in-house leasing process.
- In-house, outsource and hybrid models.
- Specific consultants.
- Specific ‘niche’ functions.
Retailers Fundamentals

- Retail math concepts
- Benchmarking
- Retail P&L statement
- Merchandising
- Retail watch list: Top 10 and bottom 10 retailers
Retail Math Concepts

Gross Profit Margin Ratio

\[
\text{Gross profit margin ratio} = \frac{\text{gross profit}}{\text{income}}
\]

Or as %

\[
\text{Gross profit margin (\%)} = \left(\frac{\text{gross profit}}{\text{income}}\right) \times 100
\]

Net Profit Margin Ratio

\[
\text{Net profit margin ratio} = \frac{\text{net profit}}{\text{income}}
\]

Or as %

\[
\text{Net profit margin (\%)} = \left(\frac{\text{net profit}}{\text{income}}\right) \times 100
\]

Breakeven Analysis

\[
\text{Number of units} = \frac{\text{total fixed costs}}{\left(\text{unit selling price} - \text{variable unit cost}\right)}
\]

Or as $

\[
\text{Dollar value} = \frac{\text{total fixed costs}}{1 - (\text{total variable costs} \div \text{total sales})}
\]
Benchmarking

Data Needed

• Industry (i.e. bakery)
• Permitted use (i.e. bakery including coffee)
• Location (i.e. shopping centre)
• Type of business (i.e. included licensed seating)
• Trading hours (i.e. 6 days)

Key Ratios

• Occupancy cost %
• Sales per square metre
• Wage ratio %
• Sales per staff member
Some Retail Benchmarking

### Footwear

<table>
<thead>
<tr>
<th>Benchmark ratio</th>
<th>Annual turnover range</th>
</tr>
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<tbody>
<tr>
<td>Income tax return</td>
<td>$65,000 – $150,000</td>
</tr>
<tr>
<td>Labour turnover</td>
<td>21% – 25%</td>
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<tr>
<td>Rent/turnover</td>
<td>14% – 21%</td>
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</table>

<table>
<thead>
<tr>
<th>Benchmark ratio</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Income tax return</td>
<td>$150,000 – $600,000</td>
</tr>
<tr>
<td>Labour turnover</td>
<td>11% – 16%</td>
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<tr>
<td>Rent/turnover</td>
<td>0% – 15%</td>
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<table>
<thead>
<tr>
<th>Benchmark ratio</th>
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<td>Income tax return</td>
<td>More than $600,000</td>
</tr>
<tr>
<td>Labour turnover</td>
<td>12% – 16%</td>
</tr>
<tr>
<td>Rent/turnover</td>
<td>9% – 13%</td>
</tr>
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### Toy/Game Retailing

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<td>13% – 15%</td>
</tr>
<tr>
<td>Rent/turnover</td>
<td>10% – 16%</td>
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<tr>
<td>Motor vehicle expenses/turnover</td>
<td>2% – 4%</td>
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<td>Income tax return</td>
<td>$150,000 – $550,000</td>
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<td>Labour turnover</td>
<td>8% – 13%</td>
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<tr>
<td>Rent/turnover</td>
<td>6% – 13%</td>
</tr>
<tr>
<td>Motor vehicle expenses/turnover</td>
<td>1%</td>
</tr>
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<table>
<thead>
<tr>
<th>Benchmark ratio</th>
<th>Annual turnover range</th>
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<tr>
<td>Income tax return</td>
<td>More than $550,000</td>
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<tr>
<td>Labour turnover</td>
<td>10% – 14%</td>
</tr>
<tr>
<td>Rent/turnover</td>
<td>6% – 11%</td>
</tr>
<tr>
<td>Motor vehicle expenses/turnover</td>
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### Supermarket

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<td>8% – 13%</td>
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<td>Rent/turnover</td>
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<td>Labour turnover</td>
<td>6% – 9%</td>
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<tr>
<td>Rent/turnover</td>
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### Clothing

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<td>Rent/turnover</td>
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<td>Motor vehicle expenses/turnover</td>
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<table>
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<td>Labour turnover</td>
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<tr>
<td>Rent/turnover</td>
<td>8% – 14%</td>
</tr>
<tr>
<td>Motor vehicle expenses/turnover</td>
<td>1%</td>
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Source: Australian Tax Office
## Some Retail Benchmarking

### Books

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<tr>
<td></td>
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<tr>
<td></td>
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<tr>
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</tr>
<tr>
<td></td>
<td>11% – 15%</td>
</tr>
<tr>
<td></td>
<td>11% – 15%</td>
</tr>
<tr>
<td>Rent/tturnover</td>
<td>11% – 19%</td>
</tr>
<tr>
<td></td>
<td>8% – 12%</td>
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<tr>
<td></td>
<td>6% – 11%</td>
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### Music & DVD

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<tr>
<td>Motor vehicle expenses/tturnover</td>
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### Discount & Variety

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<tr>
<td></td>
<td>9% – 16%</td>
</tr>
<tr>
<td></td>
<td>9% – 15%</td>
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<tr>
<td>Rent/tturnover</td>
<td>19% – 26%</td>
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<td>16% – 21%</td>
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<td>11% – 19%</td>
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<tr>
<td>Motor vehicle expenses/tturnover</td>
<td>2% – 3%</td>
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<tr>
<td></td>
<td>1% – 2%</td>
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<tr>
<td></td>
<td>1%</td>
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### Homewares

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<td>$250,000 – $900,000</td>
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<td></td>
<td>More than $900,000</td>
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<tr>
<td>Labour/tturnover</td>
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<tr>
<td></td>
<td>10% – 16%</td>
</tr>
<tr>
<td></td>
<td>11% – 16%</td>
</tr>
<tr>
<td>Rent/tturnover</td>
<td>12% – 21%</td>
</tr>
<tr>
<td></td>
<td>10% – 19%</td>
</tr>
<tr>
<td></td>
<td>8% – 15%</td>
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## Retailer P&L Statement

### Example Profit and Loss Statement

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Total revenue</td>
<td>$1,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>Less Cost of Goods Sold</td>
<td>$426,200</td>
<td>42.6%</td>
</tr>
<tr>
<td>Gross Profit</td>
<td>$573,800</td>
<td>57.4%</td>
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<tr>
<td>Less Expenses</td>
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<td></td>
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<tr>
<td>Accounting and legal fees</td>
<td>$11,700</td>
<td></td>
</tr>
<tr>
<td>Advertising</td>
<td>$15,000</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>$38,000</td>
<td></td>
</tr>
<tr>
<td>Electricity</td>
<td>$2,700</td>
<td></td>
</tr>
<tr>
<td>Insurance</td>
<td>$15,200</td>
<td></td>
</tr>
<tr>
<td>Interest and bank charges</td>
<td>$27,300</td>
<td></td>
</tr>
<tr>
<td>Postage</td>
<td>$1,500</td>
<td></td>
</tr>
<tr>
<td>Printing and stationary</td>
<td>$8,700</td>
<td></td>
</tr>
<tr>
<td>Professional memberships</td>
<td>$1,800</td>
<td></td>
</tr>
<tr>
<td>Rent for premises</td>
<td>$74,300</td>
<td></td>
</tr>
<tr>
<td>Repairs and maintenance</td>
<td>$21,100</td>
<td></td>
</tr>
<tr>
<td>Training</td>
<td>$6,900</td>
<td></td>
</tr>
<tr>
<td>Vehicle operating costs</td>
<td>$20,000</td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>$223,500</td>
<td></td>
</tr>
<tr>
<td>Workers compensation</td>
<td>$6,500</td>
<td></td>
</tr>
<tr>
<td>All other expenses</td>
<td>$14,100</td>
<td></td>
</tr>
<tr>
<td>Less Total Expenses</td>
<td>$488,300</td>
<td>48.8%</td>
</tr>
<tr>
<td>Equals</td>
<td>$85,500</td>
<td>8.6%</td>
</tr>
</tbody>
</table>

**Source:** Western Australian Government, Small Business Development Corporation
Merchandising

- No hand-written signs!
- All must link together for 1 theme.
- The senses
  a) Sight
  b) Sound
  c) Scent
  d) Touch
Merchandising

- Technical and design criteria, including:
  a) Storefront Entries
  b) Entry Floor
  c) Storefront Windows
  d) Display Zone
  e) Storefront Closure
  f) Storefront Colour
  g) Finish Materials
  h) Signage
  i) Floorings
  j) Ceilings
  k) Partitions
  l) Finish Materials
  m) Floor Plan/Circulation Design
  n) Fixtures & Merchandise Displays
  o) Cash Wrap
  p) Light Fixtures
  q) Architectural & General Lighting
  r) Ornamental Hardware
Merchandise Philosophy

- Ease of movement around goods, and ease of purchase for customers
- Stimulate the senses: sight, sound, touch, taste and smell
- Cater to the type of shopping: impulse, everyday, distress, special or leisure

- Shape: symmetrical, asymmetrical, composite, grouping
- Design: theme, open, coordinated
- Product Use: subtle, dominant
- Layout: space, shelving, flow of goods and people, fixtures
- Aesthetics: lighting, warmth, colour
Legal & Risk

- Risk management is everything.
- Always get legal opinion if unsure.
- Read the lease or contract.
- Always identify risks across the board, including personal, legal, business plan, financial, etc.
- Know and be familiar with local, national and international laws.
- Compliance with local authorities on issues such as roads, especially if part of a development agreement.
- Types of legal issues.
- Handling legal issues.
- In-house and external legal assistance.
Part 3 – Strategic Shopping Centre Management

2. Strategic Planning
3. Improving the Bottom Line
Human Resource Management

- Leadership style:
  1. Democratic
  2. Autocratic
  3. Laissez Fare
- Internal = Human resource management.
- External = Stakeholder, community & contractor management.
- Praise, Improvement, Encouragement (PIE).
- Legislation
- Organizational Skills
- Recruiting/Hiring/Compensation/Disciplinary Action/Separation
- Training and Skills Development
- Performance Appraisal and Counselling
Strategic Planning

Strategic Plan and Elements:

- The Business Plan
- Leasing Plan
- Redevelopment Plan
- Operational Plan
- Marketing Plan
- Financial Plan
Improving the Bottom Line

There is only two ways of increasing financial performance:
1. Increase Operating Income, or
2. Decrease Operating Expenses

Group Exercise:
List ways and tactics to:
1. Increase Operating Income
2. Decrease Operating Expenses
3. Minimise risks
Summary & Conclusion

- Summary
- Future of Management in Shopping Centres
- Expanding the Scope of Management
- Questions and Answers
- Open Forum for Additional Discussion
THANK YOU
Class Evaluation:

Please remember to complete the class evaluation by using your smartphone or tablet.

Class Evaluations Link:

survey.icsc.org/2014ERPS