

THE ROLE OF ANCHOR TENANT IN DRIVING TRAFFIC IN A SHOPPING MALL: THE CASE OF NAKUMATT EXIT FROM THREE SHOPPING MALLS IN NAIROBI

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Abstract

The current study investigates the role of an anchor tenant in driving traffic in a shopping mall. As the main tenant in a shopping mall, anchor tenants are expected to attract both human and vehicular traffic into a shopping mall. The traffic to the anchor tenant is expected to spill over to the non-anchor tenants and thus benefit them. This expectation is sometimes not met especially when an anchor tenant is posting sub-optimal performance or when they exit the mall. The background of this study was based on the malls in Nairobi who had Nakumatt Supermarkets chain as the anchor tenant. Nakumatt was the largest chain of supermarket with about 64 outlets in East Africa at its highest level at the beginning of 2017. However, due to a myriad of management challenges, the chain was forced to close most of its stores to a low of about 5 operational stores in mid-2018. As a result, and based on the findings, this affected the shopping malls as traffic reduced by almost 50% in some malls. The effects were felt in terms of reduced business activities in the mall, reduced occupancy levels, lower rental rates and general decline of mall financial performance. It is recommended that shopping malls should consider having more than one anchor tenant to mitigate against the effects of sub-optimal performance or exit of the anchor tenant.

Keywords:

Anchor Tenant; shopping mall; shopping centres; Nakumatt; Kenya

1.0 Introduction

Shopping malls success is the aim of all mall investors and developers. A fundamental ingredient of the success of the mall is the anchor tenant. An anchor tenant is an occupant in a shopping mall that draws traffic which drives business for other tenants in that shopping mall. According to Agrawal and Cockburn (2003), an anchor tenant, usually a large department store or supermarket in a shopping centre that attract traffic to the mall. This is because a key anchor tenant will draw both human and vehicular traffic to the shopping mall and thus ensure vibrancy of the mall. The anchor client also can influence the rental rates of a mall based on their drawing powers.

In Kenya, just like in any other parts of the world, shopping malls developers have endeavored to attract key anchor tenants to their malls. Nakumatt Supermarkets have been anchor tenant to about 75% of the major shopping malls in Kenya. This was due to the strong market presence that they had developed for over 30 years. The chain had a market presence in Kenya, Uganda, Tanzania and Rwanda. However, the performance of the chain started declining in 2017 with most of the

stores having empty shelves. The chain also defaulted on payments of rental rates to the shopping mall developers. As a result of the poor performance of Nakumatt, malls recorded reduced activities leading to attempts by most of the mall developers to evict Nakumatt and enlist another anchor tenant. Nakumatt resisted such moves by seeking court protection through court injunctions. This was despite the fact that the chain had lost shoppers as a result of lack of stocks. By mid-2018, Nakumatt had closed about 59 stores with only 5 operating in Kenya. The current study was focused at empirically identifying the effects of the sub-optimal performance and exit of Nakumatt from three major shopping malls in Nairobi. The study also makes recommendations to the developers of shopping malls in order to avoid the issues faced by the near collapse of Nakumatt Supermarkets.

2.0 Defining a Shopping Mall

A shopping mall is defined as an aggregation of retail and other commercial establishments owned and managed as a single property (Kotler & Armstrong, 2018). According to Jacobs (1986), the development of shopping malls started in the US and later spread to other countries in the world. According to Kowinski (1985) shopping malls first came in to existence in the 1920's in California where supermarkets would anchor and serve as attraction for a strip of smaller stores. Levy, Weitz and Pandit (2014) defined shopping malls as closed, climate-controlled, lighted shopping centres with retail stores on one or both sides of an enclosed walkway. The retail format variables for shopping malls include tenant mix, service offerings, promotional and advertising programmes and tenant placement (LeHew & Fairhurst, 2000).

According to Levy et al. (2014), a shopping mall image is comprised in the totality of functional and emotional qualities while Hunter (2006) and Ooi and Sim (2007) stated that the shopping mall image is defined by the anchor shop and the physical appearance of the shopping mall. Shopping malls offer services to its consumers in the form of a convenient access to a desirable mix of retailers within a managed environment to provide a satisfying and safe, shopping and leisure experience (Kushwaha, Ubeja & Chatterjee, 2017).

According to Cil (2012) in shopping mall, outlets arrangement and layout are designed to ensure both the increased usage of the mall and customer improved sales. The layouts take into account the needs of the customers and the arrangement should attract the attention of the visiting customers. The appropriate arrangement of tenants in a shopping mall should ensure that anchor tenants are situated at the far end of the mall in order to attract the customers across the whole floor and thus creating a smooth flow by customers even for the smaller stores as the customers pass by to and from the anchor store. Retailers choose shopping centers as they offer additional amenities that are too costly for an individual store to provide, e.g., restrooms, playgrounds and parking, among other amenities. According to Eaton and Lipsey (1982) and Mulligan (1983), retailers located in large malls have a competitive advantage over those in small centers due to the attraction of multipurpose shoppers to large shopping malls. Brueckner (1993) stated that high

traffic levels in shopping malls are due to the spatial concentration of stores achieved by the mall, resulting in consumer benefits through one stop shopping trip as opposed to multiple-stop shopping trip.

3.0 Anchor Clients

Konishi and Sandfort (2003) defined an anchor store as “a store that increases, through its name’s reputation, the traffic of shoppers at or near its location”. An anchor store is a business within a shopping mall whose aim is to significantly increase the mall’s appeal (Damian et al., 2011). It contains all or most of the following features: it is large, multiple locations, has a strong brand, contributes significant traffic, has widespread appeal and usually has a preferential treatment with regard to rent and service charges. The International Council of Shopping Centers (ICSC) lists anchors as national mass merchandise stores, conventional department stores, discount department stores and other types of anchors. The basic idea is that anchor stores have customer drawing power. They are most often destinations for customers coming to the mall (Kimball, 1991).

According to Agrawal and Cockburn (2003), an anchor tenant is the large department store in a retail shopping centre that creates demand externalities for other shops as large department stores with a recognized name generate mall traffic that indirectly increases the sales of lesser-known stores. Anchor stores play a critical role in a shopping centre success. In most shopping malls, due to the power of the anchor tenant in attracting other tenants and traffic to a mall, the developers of malls lure an anchor tenant to a shopping center by offering substantial rent rebates while the other tenants pay higher prices (Benjamin et al., 1992; Pashigian & Gould, 1998).

In designing of malls, the most common configuration is linear. Parking is provided in the rear, at the sides, or in front or in a multi-level parking structure. The presence of two anchor stores, each placed at an end of the center, is typically considered optimal so that they will draw customer traffic through the center. According to Morgan and Walker (1988), the main objective for a mall configuration plan is to ensure that the maximum number of people pass the maximum number of shops. Very large shopping malls with more than two anchors will have the separated anchors with the principal anchor in the middle and the other two smaller anchors at the ends (Brown, 1999). Such large shopping malls are likely to have a central courtyard area reserved for food service near the center of the mall.

4.0 Impacts of Anchor Tenants

Several studies have derived the impacts, both positive and negative of anchor tenants in malls. Damian et al. (2011) stated that a greater presence of anchors in a mall directly increases the sales, and as a result, the rents charged to non-anchor stores in a mall. Researchers have found that anchor tenants have the ability to attract attention in a shopping mall and hence determine the level of success of a shopping mall. They also determine the number of customers that visit the shopping mall, commodity retail prices at the mall and the level of profit achievable at the mall.

Yuo et al. (2004) conducted an empirical study on the influence of anchor tenants in the mall performance and noted that anchor tenant has relevance to the expenses for entering the shopping mall. He noted that shopping mall attractiveness varies based on the presence of anchor tenants and the extent to which it can draw customers to the mall.

The location of anchor tenant in relation to other tenants is important as it attracts shoppers to the centre from the entry point. Due to anchor stores, non-anchor stores enjoy the spillover effect and therefore anchor store attraction and location are emphasized as highly significant factors in the shopping mall management (Mejia & Benjamin, 2002). It is therefore imperative to ensure that the anchor tenants are located in places that they can draw shoppers between them and past other tenants. Eppli (1964) showed in his research that the sales of the non-anchor retail units in a regional shopping center could increase by 50%-200% because of the introduction of the anchor stores into the shopping center.

The presence of anchors has also been found to influence the customer's decision to frequent a certain mall, since they offer a wider range of products at lower prices (Damian et al., 2011). They also provide shopping centres with a stream of income and increased sales. Anchors also has a positive effect on the number of shoppers visiting the mall. Even though anchor tenants have an impact on the attractiveness and performance of a shopping mall, they have been found to have less influence on sales per visitor as leisure and entertainment associated functions have started to play an increasingly greater role.

Finn and Louviere (1996) stated that anchor stores influenced the image of shoppers towards a shopping mall and therefore formed a criterion for choosing shopping centers. You et al. (2001) showed that anchor stores pay lower rents, while satellites pay higher rents as cost per enjoying the effects of positive influence generated by anchors.

5.0 Effects of Exiting of an Anchor Tenant

Various studies have been conducted to identify the impact of loss of an anchor tenant to the mall developers and other tenants. The studies have found that the loss affects rents, traffic flow and consumer perception about the mall. Gatzlaff, Sirmans, & Diskin (1993) found that the loss of an anchor (loss of consumer drawing power) initially affects the center's vacancy. The loss of tenant's results in a subsequent decline in rental rates as management attempts to prevent a further loss of tenants. The rental rates of non-anchor tenants are estimated to decline approximately 25% in response to the loss of an anchor tenant as shopping mall management attempt to retain tenants. In a study, Yeates et al. (2001), found that the closure of the anchor store had a negative impact on other stores in the malls. Such a closure affects aggregate sales in adjacent stores by about 12 per cent.

Eaton and Lipsey (1982) and Mulligan (1983) found that the loss of an anchor tenant dramatically reduced the consumer drawing power of the center and resulted in substantial rental rate decreases

relative to similar centers with anchor tenants. Gatzlaff et al. (1994) demonstrated that the loss of an anchor store affected the ability to attract consumers and results in a decline of the area occupied by the other stores.

6.0 Shopping Malls in Kenya

The last decade has seen a growth in malls in Africa. According to Sagaci (2018), the number of malls on the continent of Africa more than doubled between 2010 and 2018 from 225 to 579 respectively, with urbanisation, population growth, increased interest from international retailers, changing consumer lifestyles and rising household incomes among the main factors driving this growth. Outside of South Africa, Egypt and Kenya have the highest number of malls. By 2020, it is projected that Kenya will have 83 shopping malls against Egypt's 121.

The success of the shopping malls is premised on several factors. The location of the mall close to major highways for high visibility and near attractive catchment areas is critical. This also allows for ease of accessibility of the mall as shopper's desire convenience in mall entry and exit. The design of the mall is also important. A mall should have an attractive layout; enable ease of movement around and between floors; open spaces, and; provision of sufficient walking space as well as parking space. Inherently and more cardinal is tenancy. Shoppers are attracted to a mall by the types of tenants (tenant mix) as well as the anchor tenant(s).

To differentiate themselves, newer malls are more focused at being destination malls than just shopping malls. Destination malls have been found to perform better than normal shopping malls (Cytton, 2018). In Kenya, there are three destination malls located in Nairobi. These are Two Rivers Mall, The Sarit Centre and Garden City Mall. Apart from The Sarit Centre, the other two have more than one anchor client – Two Rivers Mall (Carrefour and Chandarana) and Garden City Mall (Game and Shoprite).

7.0 Shopping Malls in Kenya and Anchor Tenants

As is the practice, all shopping malls had an identified anchor tenant. Some like Two Rivers Mall and Garden City Mall had more than one anchor tenant. This was more so due to their GLA with Two Rivers having 62,000 sq metres and Garden City Mall with 33,000 sq metres in its Phase one. Nakumatt was amongst the most successful client in most of the shopping malls with a network of 64 branches. However, by 2018, Nakumatt had close to 60 branches closed with only 5 operational branches by close of that year. The closure of Nakumatt due to various factors had an effect on the shopping malls. Research findings indicate that the closure affected five largest malls in Nairobi apart from Two Rivers Mall and The Hub Karen as they had different anchor tenants.

8.0 Objectives of the Study

The objective of this study was to identify the effects of the anchor client on traffic in a shopping mall. Specifically, the study sought:

1. To determine the traffic trends to the identified shopping malls before the anchor client had issues, during the issues and the after issues
2. To determine the effects and implications of the challenges facing the anchor client to the shopping malls.

9.0 Research Methodology

This research sought to find out the effects of Nakumatt as an Anchor tenant on mall traffic. Information was sought from the management of eight largest malls where Nakumatt was an Anchor tenant. However, only three malls responded with traffic counts between 2017 and 2018 which was on condition that the names of the malls are not revealed. The malls are therefore designated as Mall A, Mall B and Mall C. The period 2017/18 was chosen as this represented the time before Nakumatt had issue, when the issues were evident and the aftermath. Subsequent to the traffic counts depth interviews were held with the management of the three malls. The interviews had three main questions including: (i) what has been the effects of Nakumatt as an Anchor tenant to your mall? (ii) what strategies did you put into place to address the challenges posed by Nakumatt's situation? (iii) what were the lessons learnt from the experience of Nakumatt's performance as an anchor tenant?

10.0 Analysis and Results

10.1 Traffic Trends in the Shopping Malls

The analysis below presents the traffic trends in the three malls during the period 2017 – 2018. The analysis is presented through a time series chart indication a month by month performance. It indicates the period before Nakumatt issues came to the fore, during the issues and after the issues as indicated in the sections below.

Mall A - Traffic Trends

Nakumatt was the main Anchor tenant in Mall A. As can be seen from the figure below, issues with Nakumatt came into the fore in April 2017. The performance of the anchor client can be seen to have affected the traffic count for Mall A. The decline in number of vehicles visiting the mall can be observed from March 2017 when Nakumatt's financial position started affecting suppliers to the stores and thus empty shelves. As a result, shoppers presumably moved to other shopping malls where there was an Anchor tenant to provide for their shopping needs. Nakumatt in this mall closed in August 2017 resulting to a more decline in traffic. The downward trend continued up until November 2017 when some upward trend is noted. From interviews with Mall A management, the growth in traffic numbers was driven by the Christmas festive season promotions. This trend continues to almost the same level of March 2017. French retailer Carrefour moved in February 2018 driving to an increment in vehicles into the mall. This information is provided in the table below.

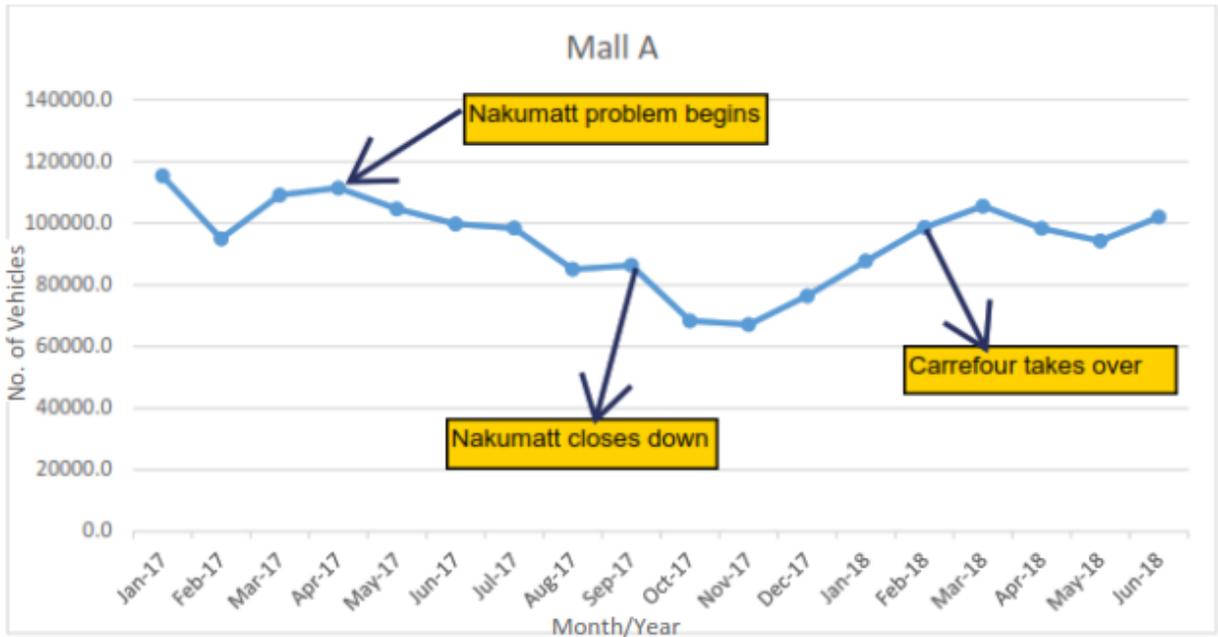


Figure 1: Mall A - Traffic Count Time Series Plot

Mall B - Traffic Trends

In the case of Mall B, Nakumatt problems begun being felt in May 2017. Thereafter, there was a sustained decline in vehicular traffic to the mall. This was witnessed up to November 2017 when Nakumatt restocked the supermarket and had a confidence building media campaign. It also coincided with the festive season. However, as can be observed from the figure below, even with the efforts of both the mall management and Nakumatt, vehicular traffic did not grow to the near levels experienced before Nakumatt had issues. This situation is unlike in Mall A where the entry of a new anchor tenant seems to have ignited back the interest of shoppers to the mall.

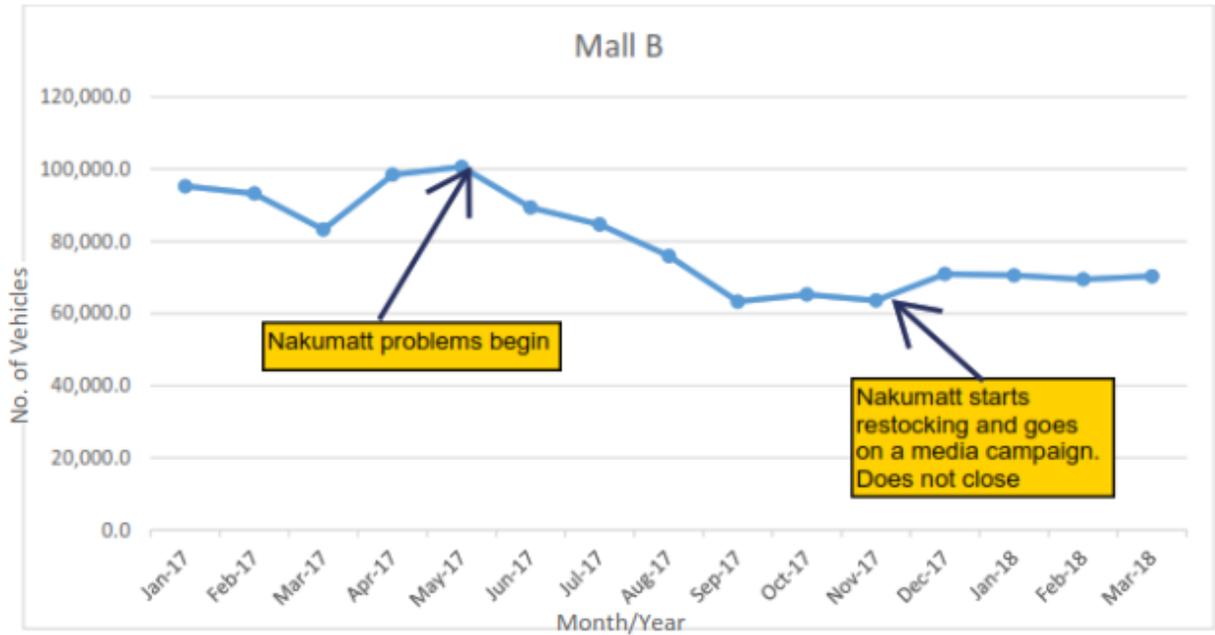


Figure 2: Mall B - Traffic Count Time Series Plot

Mall C - Traffic Trends

In the case of Mall C, Nakumatt started experiencing problems in April 2017. This saw a steep decline in numbers of vehicular traffic from a high of 200,000 vehicles in April 2017 to a low of 98,000 vehicles in October 2017 when it closed down. However, again due to the end of year festivities and related shopping campaign by the mall management, vehicle movement increased between November 2017 and January 2018. Thereafter the reversed to the situation when Nakumatt closed. Due to a legal battle between Nakumatt and the Mall management, an identified new anchor client to replace Nakumatt had not been able to take over by June 2018.

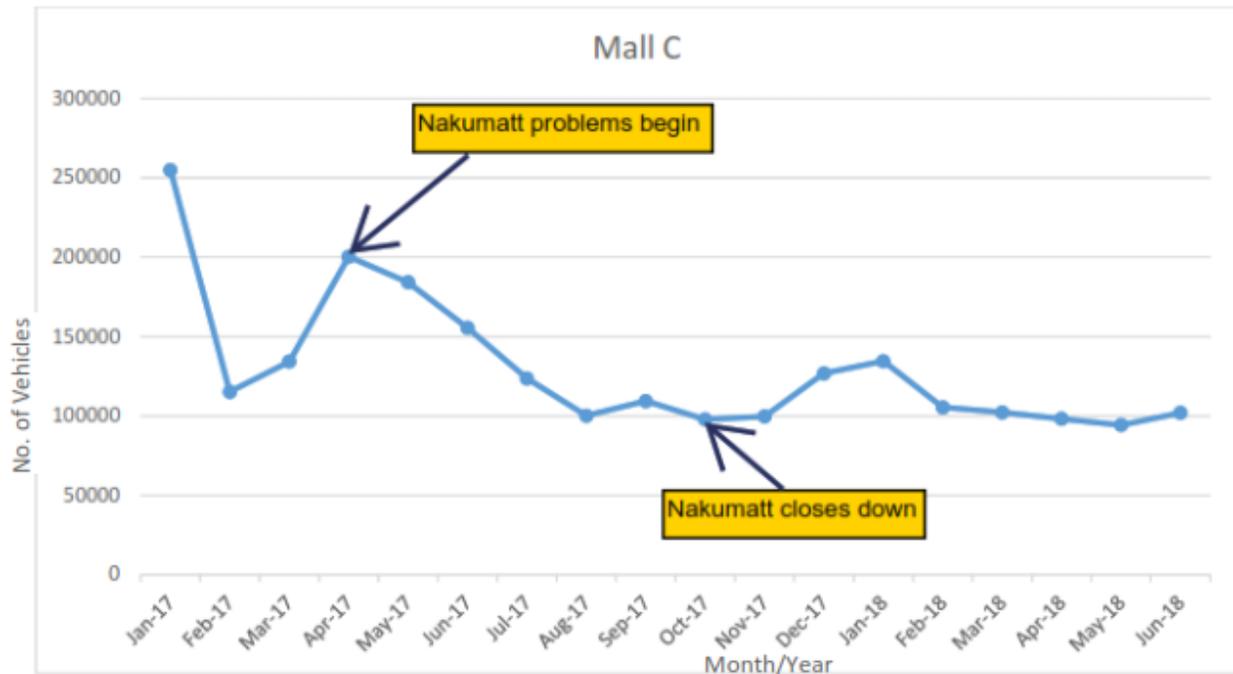


Figure 3: Mall C - Traffic Count Time Series Plot

10.2 Effects and Implications to the Shopping Malls

Based on the time series data and interviews with the shopping malls management, the effects of the situation confronting Nakumatt as an anchor tenant in the malls was quite high. All the three shopping malls were severely affected in terms of their credibility/reputation, sustainability, revenues, mall management costs and relationships with non-anchor tenants.

In terms of credibility and reputation, the performance of the anchor tenant was related to the perceived performance of the shopping mall. This was due to the fact that many shoppers were driven to the mall by the anchor tenant and thus associated the mall with the tenant. In two of the malls, as a result of the situation with Nakumatt, they sought an exit agreement which Nakumatt rejected and thus the issue ended in courts. During the court proceedings instituted by Nakumatt to guard itself against eviction from the mall, it was laid bare the financial effects of the failure by the anchor tenant to pay rents which affected the Mall’s obligation to pay its financiers. This had a major credibility and reputational risk to the mall management.

The declined traffic affected the malls various revenue streams especially in terms of parking revenues. All the malls charged shoppers for parking. This was the second highest source of revenue other than rents charged to the tenants. On the other hand, the malls were unable to attract major corporate events and promotional activities which attracted revenues through the short term lease of space. This was because the malls were considered “unattractive”. As a result, shoppers and sponsors of corporate and promotional events preferred other shopping malls with a vibrant anchor tenant.

In the aftermath of Nakumatt performance and its effects on the malls, and as a result of reduction in both human and vehicular traffic, a number of tenants either scaled down or closed their outlets in the malls altogether. The closure compounded the malls further affecting shoppers and rent income to the malls. Consequently, the occupancy rate declined. In order to address this issue, the malls were forced to reduce their rental rates in order to attract new occupants. Additionally, the existing clients also applied for a review of their rental rates and terms. In order to keep them, a negotiated agreement was reached resulting in further depressed rental incomes. According to Cytonn (2018) the rental rates of shopping malls declined in 2017-2018 by 6.2% as a result of mall developers decreasing rents to attract retailers.

In order to keep the existing tenants, the malls had to engage in various activities at retaining and attracting shoppers and tenants. As a result, the malls' management were subjected to an increased marketing budget to keep the flow of customers to the mall and maintain the mall's credibility and customer confidence. Some of the malls had also to incur costs related to legal suits aimed at replacing Nakumatt as an Anchor tenant.

On the positive side, the respondents indicated the great desire by both global and local supermarket chains to occupy the space that Nakumatt had as anchor tenants. This also presented them with an opportunity to restructure their tenancy agreement with the new anchor tenants based on the lessons learnt from the Nakumatt experience. A preference for global chains against local family owned supermarket chains was prevalent among the respondents.

11.0 Conclusions and Recommendations

The role of the anchor tenant in the performance of a shopping mall cannot be gainsaid. Several studies have reported this critical relationship. In the current study, it can be concluded that there is a relationship between the anchor client and vehicular traffic to the mall and thus the overall performance of the mall. There is an adverse implication of the performance of an anchor tenant to the shoppers, tenants and mall developers. To the shopping mall developer, occupancy, rental rates, mall management costs, reputation, credibility and sustainability are affected. To the non-anchor tenants, their business performance and sustainability is also affected.

To mitigate against the effects of sub optimal performance and or the exit of an anchor tenant shopping mall developers should consider the having several anchor tenants. Mall with a large GLA can have a mall design that considers at least two anchor tenants with each being on the extreme ends of the mall. On the other hand, if mall design does not facilitate two anchors, mall developers and promoters should designate an existing business for promotion to a sub anchor tenant level. Such a business on its own should draw traffic to the mall independent of the anchor tenant. In most mall developments, food and entertainment has found to attract shoppers to a mall in large numbers as an anchor tenant would do. It has also been found that food and entertainment businesses pay higher rental rates than do anchor tenants.

There have been several studies from different parts of the world on the role of the anchor tenant in shopping mall performance. However, there exists a paucity of studies in the African regional and more specifically Kenya. The current study focused on traffic numbers as an indicator of mall performance in relation to the anchor client sub-optimal performance and or exit. It is recommended that further studies should be conducted in Kenya focusing more on performance of non-anchor tenants in relation to the anchor tenant. Such a study should also seek to identify shopper's perception and attitudes towards an anchor tenant.

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