An exploration of the accessibility of prime retail space to start-up retailers – the landlord’s perspective

Graeme Pyle
97163105

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Abstract

This study explores the accessibility of prime retail space to start-up retailers from the landlord’s perspective.

The purpose of this study is to determine the degree to which prime space is accessible to start-ups retailers. The study also aims to identify the factors influencing start-up access to prime space, the strategies used by start-ups to access prime space and the criteria by which landlords evaluate these start-ups.

The study followed an inductive, qualitative approach. Ten in-depth interviews with leasing decision makers were conducted. The interviews were summarised and the data units therein categorised. The categories were then analysed and testable propositions were developed from these emergent categories. By applying analytic induction in light of the theory base, a set of explanatory models were derived.

The study finds that prime retail space is not easily accessible by start-ups. However, it also provides a deeper understanding of the context in the form of a set of explanatory models for the phenomena observed. Armed with this understanding, start-ups can modify their approach and vastly improve their access to prime space.

Keywords

Retail, prime, entrepreneurship, start-up, lease
Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other university. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

______________________  ______________________  ______________________
Name                      Signature                   Date
Dedication

To my father, Cyril Pyle (17 August 1942 – 9 October 2010)

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1. Introduction to the Research Problem

The Problem

The most important determinant of retail success is the location of the store (O'Roarty, McGreal, & Adair, 1997). Prime retail space is therefore retail space which will have a strong, positive influence on the success of most retail businesses. Obviously there is a lot of competition for this space. However, it is unclear to what degree start-up retailers have access to prime space.

The Financial Mail (2007) proclaims “The swing to independent retailers and individual choice is worldwide”. Citing the British Design Council, they list “owner-operated passion” and “individual, not corporate, opinion” as two of the five key elements of the “new retail”.

By contrast, the Times (2010) writes “Small businesses and franchises face intimidating odds when operating from shopping centres and malls where South Africa’s retail giants reign supreme. And it doesn't help that smaller businesses are often charged more per square metre than their larger counterparts - a practice that has attracted the attention of the Competition Commission”

According to Gable, Topol, Mathis and Fisher (1995), the critical imperfection is the lack of free entry into shopping malls. In a free market, resources are allocated to the highest bidder. Given that the market for retail space is not a free market, it is important to understand the factors influencing entry into this market.
From an academic point of view, researchers (Collis & Montgomery, 1995; Wernerfelt, 1984) have long stressed the importance of key resources as a source of competitive advantage for firms. Access to resources for entrepreneurs has also been examined in depth (Brush, Greene, Hart, & Haller, 2001). Given that prime retail space is a key resource for retail entrepreneurs (O’Roarty et al., 1997), this study is a natural extension of previous work.

The researcher is also the owner of a start-up retail business. The business is called Cramers Coffee (2010) – a specialty coffee business, similar to Starbucks internationally and the Seattle Coffee Company in South Africa. This business sought to acquire prime space in 2007. The researcher found the process rather frustrating. He was turned down many times, but the reasons as to why were never clear. Eventually the business found space in an up-and-coming, semi-prime location. Again, the reasons as to why the business was able to acquire this space were unclear.

Armed with knowledge of the topic from the start-up’s perspective, the researcher is very keen to understand the landlord’s perspective. Studying access to a key resource such as prime retail space for start-ups from the landlord’s perspective is also a valuable contribution to academia.

**Objectives**

The objectives of this study are to explore the accessibility of prime space to start-up retailers from the landlord’s perspective. The study determines the degree to which prime space is accessible to start-ups, as well as the factors that influence this. The study also identifies the strategies used by start-ups to access prime space and the
criteria that landlords use to evaluate start-ups seeking prime space. The study develops a set of explanatory models for the phenomenon observed.

The study focuses on entrepreneurs rather than small business owners. Carland (2007) defines small business owners as individuals who establish and manage a business primarily to derive an income to support their lifestyle. Small business owners are typically satisfied with just a single store. Entrepreneurs, however, establish and manage businesses for the principle purposes of profit and growth (Carland et al., 2007). Retail entrepreneurs aim to open multiple stores in order to create a retail chain.

Small businesses and entrepreneurs face similar challenges in the beginning. However, their paths begin to diverge after the establishment of the first store. This study aims to track the path of the entrepreneur, grounding this study in the exciting domain of entrepreneurship research.

**Scope**

This study will seek to understand the perspective of the landlord. Analysis from the start-up’s perspective and integrative studies will be left to future researchers.

The assistance provided by franchises gives franchisees an advanced platform from which to launch their businesses. However, the burden of ownership as well as the responsibility to “make or break” the business still rests with the franchisee. As such, we consider a franchisee within a franchise context to be a start-up retailer.
However, we do not consider new franchises as retail start-ups. Franchises are in the business of selling prescriptive business formats to franchisees. Our study is limited to start-ups directly involved in retail.

Start-ups are generally companies with limited operating history. In the retail industry, start-ups are loosely understood to be privately held companies who do not yet have wide-spread name recognition or a strong regional store footprint. We will rely on this common understanding of the term rather than define it strictly. Our study is limited to the domain of start-ups.

We define prime retail space as retail space that is easily accessible by a high number of consumers. Rentals are generally high and competition for such space is fierce. Examples are airport retail malls, Johannesburg’s more popular shopping centres like Sandton City and The Mall of Rosebank, as well as districts like Melrose Arch. Marginal retail space is thought to be easily accessible by most start-ups and not worth further study.
2. Literature Review

Factors affecting access to prime retail space for start-ups

Enabling factors

*The competitive advantages of independent retailers*

Howard (1997) cited covenant strength as a key consideration in leasing decisions. Landlords want to lease space to tenants who will be successful. The more successful the landlord thinks a given start-up will be, the more he or she is willing to lease prime space to that start-up. Any competitive advantage the start-up can leverage will increase that start-up’s chances of leasing prime space.

Baron, Harris, Leaver, and Oldfield (2001) studied the UK’s independent food and grocery sector. Their research found that the provision of a “social shopping experience” was one of the key competitive advantages that could be developed. This is because owner-operators are typically on first-name terms with customers and can discuss product and service queries easily and naturally as they occur. Baron et al. noted that many consumers still placed a high value on the social aspects of shopping.

Rajagopal (2009) found that small retailers who established stores within close proximity of large shopping malls were successful in attracting customers from these large malls. In response, mall developers started incorporating these small retailers into their developments. Mall visitors were lured by the ethnic ambience and authenticity of these small stores, as well as their lower prices.
Kirkup and Rafiq (1994) also found that shopping centres needed smaller retailers and embryonic businesses. This was because these smaller businesses offered variety, local flavour and a potential source of differentiation from other shopping centres.

The Financial Mail (2007) described how retail developments in wealthy areas had a higher concentration of independent retailers. Certain of these developments went so far as to ban chain stores. This is because wealthy customers wanted unique and customised products and they demanded a level of service and individual attention that could only be satisfied by an owner-operated business. These wealthy customers were willing to pay a premium for this additional value. The Financial Mail also predicted that this trend was on the rise, coinciding with rising levels of wealth worldwide.

**Mall differentiation through small retailers**

Mejia and Benjamin (2002) found that shopping centres that differentiated themselves from their competitors were more successful. Furthermore, they found that such differentiation can be achieved through the non-anchor retail mix. Independent retailers were a key component of the non-anchor mix and were therefore needed by shopping centres looking to differentiate themselves.

**Expert owners**

Brush and Chaganti (1999) found that small retailers lacked the extensive organisational systems of larger retailers. However, they also found that such organisational systems were not needed when the owner had strong expertise and
background in the sector. When the owner was hands-on involved in the day-to-day running of the business, the business benefited directly from these expertise.

Furthermore, they found that retail businesses with strong human and organisational resources - like those provided by an owner with expertise and background in the sector – were likely to succeed. Strategy and other environmental factors played a secondary role. This suggested that owner-operators with a good knowledge of their industry were likely to be successful.

DeHoratius and Raman (2007) explored the design of incentive schemes for retail store managers. They found that such incentives schemes were of vital importance to the profitability of retail stores. However, they also found that the design of effective incentives schemes was difficult and that many multi-unit retailers had very poorly designed incentive schemes. Owner-operators do not need such incentive schemes given that they manage the stores themselves. As such, they are not subject to the negative effects of poor incentive scheme design.

**Detracting factors**

**Barriers to entry**

Porter’s (2008) “Five Forces” framework can be used to analyse the situation facing new retailers. The “threat of new entrants” into the market is one of the five forces. This threat is constrained by barriers constructed by the incumbents. Porter identified one such barrier as “unequal access to distribution channels”. Retail space is the distribution channel for all retail businesses. New entrants have unequal access to this
resource given that the incumbents occupy the vast majority of existing retail space. The incumbents have an even tighter grip on prime retail space, making entry very difficult for start-ups.

Porter (2008) also identified restrictive government policy as a barrier to entry. The controlling body in shopping malls is the landlord rather than the government. As such, we identify restrictive landlord policy as a barrier to entry. Such polices include the exclusivity clauses granted to powerful, larger tenants. These represent a substantial barrier to entry.

Collis and Montgomery (2008) identified physical assets – like a prime retail location – as a strategically valuable resource to a business, but only if it was controlled by the business and not other parties. The degree to which retail locations are controlled by incumbents is debatable.

However, the incumbent has certain economic advantages over challengers when it comes to renewing a lease. The incumbent has an established customer base at that retail location. It would take time for a challenger to build such a customer base. The incumbent’s investment in shop fittings is also a large, sunken cost (Wheaton, 2000). These factors make it economically more viable to an incumbent to offer a higher rental at the renewal of a lease, thereby increasing its chances of successfully renewing the lease. The landlord also has an existing relationship with the incumbent. The incumbent therefore has a degree of control over a prime retail location as a resource, even though it may be leased.
Gable, Topo, Mathis and Fisher (1995) considered entry barriers in retailing. They determined that the availability of store locations was a major barrier to entry for new retailers. Specifically, they found that substantially high barriers to entry existed for entrants wanting to locate in prime traffic locations or large regional shopping malls.

Gable et al. (1995) also found that much of the growth of larger, chain-store retailers was coming at the expense of smaller retailers. They noted that previously retailing was characterised by monopolistic competition, along with low entry barriers and the presence of many competitors who were small relative to the size of the market. This had changed. More recently, substantial exogenous barriers to entry had arisen and retailing had become far more concentrated.

**Start-ups are higher risk**

Kirkup and Rafiq (1994) stated that small retailers were highly vulnerable to failure. Furthermore, such failures created vacant space in the centre. Vacant space implied failure to shoppers. Vacant space was more noticeable in enclosed centres where it could hinder footfall and disrupt retail synergy. Overall, vacant space impacted negatively on the centre as a whole. This suggests that landlords should be wary of leasing space to start-ups.

Cherry and Gloster (1993) advised that, in the case of tenant bankruptcy, it was critically important for the landlord to terminate the lease before the tenant was declared bankrupt. The reason for this was that most legal systems afforded bankrupt entities some form of protection and this could compromise the landlord’s ability to re-let the retail space quickly. Because small businesses are regarded as high
bankruptcy risks, landlords are far more likely to terminate their leases early should they show any signs of distress.

**Leasing process for new shopping centres**

Kinnard and Messner (1972) noted that most shopping centre developers need substantial mortgage financing. Institutional mortgage lenders typically required that 60 to 70 percent of the total floor area of the development be under long-term lease to high-credit national or regional firms before financing was approved. These firms got first choice of the retail space and naturally took the prime space first. Small retailers and start-ups had to choose from what remained. This made prime space less accessible to start-ups.

Kirkup and Rafiq (1994) confirmed that early lettings to anchor tenants were critical since they helped the developer to attract funding.

Starr (1972) studied lease guarantee insurance for small retailers in the US. This was a program sponsored by the US government to guarantee rent payments by small retailers to landlords, even if the retailer defaulted. This effectively raised the credit worthiness of small businesses to the same as that of larger businesses and enabled the developer to use the small business lease as part of the 60 to 70 percent commitment to secure development finance. However, in recent times, government support for this program had ceased and lease guarantee insurance had become all but impossible to find for smaller retail businesses.
Recent changes in the retail industry hamper start-up retailers

Broadbridge (2002) surveyed retail managers. She found that the majority of participants worked long hours - between 50 and 90 per week. This was attributed to the nature and pace of change in retailing. Owners of start-up retail businesses often fulfil the retail manager function themselves.

Baker (1994) studied the effects of trading hour deregulation in Australian retail businesses. He found that the extension of trading hours increased the economies of scale of larger, chain stores. He argued that a trading hour deregulation policy was inequitable, favouring large retail chains at the expense of smaller businesses. Gradus (1996) confirmed that large-scale stores gained more from the extension of trading hours than small stores.

In a similar study, Nootboom (1983) noted that, in future, trading hours in retail business were likely to be extended further. This was to accommodate modern patterns of living, such as families where both the husband and wife worked and could not shop during traditional business hours.

Coca-Stefaniak, Hallsworth, Parker, Bainbridge and Yuste (2005) studied the recent moves into smaller convenience formats by supermarket chains. They found that small independent food retailers were usually located in more accessible locations than large supermarkets. These small retailers opened longer, more convenient hours. This advantage, however, was now being severely eroded by the expansion of supermarket chains into smaller, convenience formats.
Small retailers pay higher rents

Wheaton (2000) studied tenant mix in shopping malls. He found that smaller, less known retailers who depend on passing traffic would pay more than stores whose reputation, size or products tended to draw customers.

Pashigian and Gould (1998) studied the rents paid by anchor and non-anchor stores at malls. They found that anchors paid on average 72 percent less than non-anchor stores. By generating mall traffic, anchors created external economies by indirectly increasing sales and reducing promotion costs for smaller stores. Competition among mall developers internalised these spill over effects. Mall developers gave rent subsidies to anchors and charged higher rents to non-anchors who benefitted from these spill-over effects.

Start-ups also paid higher rents for another reason. O’Roarty, McGreal and Adair (1997) stated that most landlords accepted risk as a function of return. As such, low-risk, blue-chip tenants paid lower rents than high-risk start-ups.

The Financial Mail (2007) described the problem as especially bad in South Africa: “There is a structural problem in our retail landscape - in Europe 20% to 30% of retail space is occupied by major groups. In SA it is the other way around - 70%-80% of retail space is occupied by national chains. They have a disproportionate amount of negotiating power.”
**Lack of legitimacy**

Aldrich and Fiol (1994) found that many promising new start-ups never fulfilled their potential because the founders failed to develop trusting relationships with stakeholders. In the context of start-up retailers, it implies that many start-up retailers never acquire prime space because they are not able to convince landlords to trust them. Aldrich and Fiol suggested that start-ups make a significant effort to portray themselves as familiar and trustworthy.

**Restrictions and exclusive clauses**

Brown (1994) studied the restrictions and exclusive clauses introduced into centre leases by powerful anchor stores. These clauses effectively allowed anchors to determine the merchandise range, pricing policy, space allocation and precise location within the complex of the centre's other occupants. Non-anchor stores needed to be aware of the power wielded by anchors. Non-anchors who posed a threat to anchors could find themselves at a severe disadvantage when the anchors exercised the aforementioned clauses.

The Financial Mail (2007) reported that the Competition Commission of South Africa was investigating the exclusivity clauses granted to supermarket chains. It found that independent butchers, bakers and greengrocers were denied entry to malls due to these exclusivity clauses.
**Unknown brand**

Most start-ups, with the exception of franchises, enter the market under a new, unknown brand. Porter (1997) found that a well-recognised and accepted brand name was a major positive influence on customer store choice. This means that start-ups with an unknown brand name are at a major disadvantage relative to the stores with an established brand.

Dennis, Murphy, Marsland, Cockett, and Patel (2002) predicted that shopping malls that actively managed their brand image would reap the rewards in terms of customer numbers, sales turnover and rental income. Furthermore, they found that the brand image of the stores within a given mall contributed significantly to the brand image of the mall itself. It can be expected then that landlords may be reluctant to incorporate new, unknown brands into their malls for this reason.

**Other unknowns**

Kirkup and Rafiq (1994) explored the incorporation of start-up retailers into existing malls. One key consideration was that their contribution to the retail synergy was often unknown. Another was that they often have very unique requirements in terms of shop specification. All these factors increased of the costs of dealing with start-ups.

**Dependent on tenant mix**

Wheaton (2000) found that, unlike anchor stores, small retailers did not have their own drawing power. They relied on the centre management to create a tenant mix which would attract their target customer. Oftentimes, the centre management
adjusted this tenant mix, either purposefully or inadvertently, with far-reaching consequences for the small retailers in the centre. The small retailers were at the mercy of the leasing decisions made by centre management.

**Strategies used by start-ups to access prime retail space**

**Novel concept**

Watkin (1986) studied the competitive advantages of small retailers. He found that a focus strategy to capture a market-segment not well-served by larger firms was particularly successful. Start-up retailers looking to lease prime space may benefit from employing such a focus strategy.

Megicks (2001) studied competitiveness in the UK’s independent retail sector. He found that the performance of a given independent retailer was closely correlated with the level of strategic activity undertaken by that retailer. Such strategic activities included merchandising, marketing, incentives, local involvement, specialist positioning, etc.

In a follow-up study, Megicks (2007) noted the positive effects of store operations and product uniqueness on performance. He found that small shopkeepers who understood how to compete in their markets and distinguished themselves from their competition were successful.

**Franchising**

As discussed previously, Porter (1997) found that a well-recognised and accept brand name was a major positive influence on customer store choice. The brand of the
franchisor is often well-known in the market and the franchisee benefits tremendously from this.

Bates (1995) pointed out that it is commonly believed that franchise start-ups have lower failure rates than independent start-ups. Risk-averse landlords can therefore be expected to choose a franchise business over an independent business in order to lower their risk.

Bates (1995) compared the survival rates of independent and franchise small business start-ups. He found that independent businesses were more profitable and had better survival prospects than franchised businesses.

In a follow-up study, Bates (1998) found that a person entering self-employment by purchasing a franchise unit from a previous owner was riskier than a person starting from scratch. Furthermore, he found that the statistics describing the survival rates of franchisees were often fragmentary and misleading. In particular, units owned by the franchisor and new units opened by established firms with existing units had higher survival rates. These units were often included in the statistics describing new franchisee success rates, thereby skewing the results.

Castrogiovanni and Justis (2007) disputed Bates’ results. They argued that his results could not be accepted because of the disproportional “survivor bias” in his sample. This led them to conclude that it is inappropriate to regard franchised start-ups as riskier than non-franchised start-ups.
Stanworth, Purdy, Price and Zafiris (1998) found similar survival rates across franchised and non-franchised businesses. Castrogiovanni, Justis and Julian (1993) argued that it was dangerous for aspiring business owners to make decisions based on the average survival rates of franchised businesses. This is because survival rates varied widely from franchise to franchise. By implication, landlords should also avoid making such average-based decisions.

Clearly there is no consensus in the literature regarding survival rates for franchised and non-franchised businesses.

**New retail developments**

Brown (1999) noted that, during boom times, the perception of excess returns for shopping centre developers often produced an oversupply of retail space. Many of these newly-built shopping centres were marginal because they were built by inexperienced developers. Various studies have revealed the requirements for a successful shopping centre:

Eppli and Schilling (1996) considered the importance of location to shopping centres. They found that the size of the centre relative to its competition was a better indicator of success than location. Furthermore, they found that the dominant shopping centre in a given area drew a disproportionate market share at the expense of sales at smaller, surrounding centres.

Ordway, Bul and Eakin (1988) studied the factors influencing the success of shopping centres. They found that the cliché “location, location, location” did not necessarily
hold when it came to the performance of a shopping centre. Other factors, like poor design or positioning, could reduce the benefits of a good location.

A leaked Stanlib (2009) report detailed the mistakes made by the developers of what they considered to be the top ten worst shopping centres in South Africa. Realestateweb (2009) singled out smaller tenants in these shopping centres as the hardest hit. The majority of these centres were built during boom times by inexperienced developers.

**Tenant selection criteria**

**Tenant mix**

Bruwer (1997) summarised much of the literature relating to tenant mix. Successful shopping centres generally had a complementary tenant mix. Each store related to the others and they all worked together to satisfy the needs of shoppers. Furthermore, an ideal tenant mix was a balanced diversification of shops offering a wide range of products and services. This mix created a specific image for the centre and maximised the sales potential for the centre. Shops should be laid out logically to create a pleasant shopping environment. Such a mix would generate the maximum return on investment. As such, tenant mix is likely the most important tenant selection criteria for shopping centre landlords.

Bruwer (1997) claimed that filling a vacancy with a tenant that would not survive would not benefit the centre. Landlords who operate by this principle will not behave opportunistically and exploit inexperienced start-ups. However, they would need to
make a subjective judgement on whether any given tenant would survive. A start-up would therefore have to convince the landlord of the viability of the business.

Brown (1993) mentioned that many developers, retailers and planners believe that direct competition is best avoided or at least kept to a minimum. A carefully managed mix of contrasting shops was preferable to the uncertain outcome of free market forces.

Miceli (1998) found, however, that in certain circumstances, competition between tenants in a shopping mall could be good for the landlord. This was because competition between similar stores increased traffic. This had a positive spill-over effect on other stores in the centre, as well as the competing stores. Thus the landlords could collect higher rents from all the stores as a result of the increased traffic and sales.

Kirkup and Rafiq (1999) recommended that smaller centres have a specialist tenant mix. Specialisations included fashion, food, motor, etc. This was because a full range of shops could not be accommodated in a smaller centre. Smaller centres also needed to compete with larger, regional shopping malls. Kirkup and Rafiq found that shoppers were attracted by the broad variety of shops found in larger malls. However, if a smaller centre could offer greater variety within a chosen specialisation, that centre would be able to attract shoppers with a specific interest in that specialist category. Start-ups retailers often focused on such specialist categories, meaning that they were appropriate tenants for smaller-sized centres.
Success criteria

Lussier (1996) studied the factors contributing to the success or failure of start-up retail businesses. Of the fifteen variables tested, only six proved to be significant. They were (p. 86):

- **Recording keeping and financial controls:** Businesses that did not keep updated and accurate records and did not use adequate financial controls had a greater chance of failure than firms that did.

- **Planning:** Businesses that did not develop specific business plans had a greater chance of failure than firms that did.

- **Professional advisors:** Businesses that did not use professional advisors had a greater chance of failure than firms using professional advisors.

- **Product/service timing:** Businesses that selected products/services that were too new or too old had a greater chance of failure than firms that selected products/services that were in the growth stage.

- **Economic timing:** Businesses that started during a recession had a greater chance of failure than firms that started during expansion periods.

- **Age:** Younger people who started a business had a greater chance of failing than older people starting a business.

Lussier’s model was 80% accurate in predicting that success and failure of the firms he surveyed. Landlords are expected to apply some of these same criteria when screening start-ups.
Conclusion

Various factors acted as enablers allowing start-ups to access prime space. These included any competitive advantages possessed by independent retailers. One such advantage was that independents were often owner-run and were able to provide a better “social shopping experience” to customers. Malls also looked to differentiate themselves from each other by leasing to small tenants with unique concepts. Small retailers with owners who were experts in their field often benefit tremendously from these expertise.

Start-up retailers were up against a variety of detractors. The literature revealed that small retailers faced enormous barriers to entry. Start-up retailers were also highly vulnerable to failure, increasing the likelihood of undesirable vacant space within shopping centres. Large retailers got first pick of prime space within new centres and small retailers paid higher rents. Small retailers lacked legitimacy, making it difficult for them to win the trust of stakeholders such as landlords. Restrictions and exclusive clauses granted to larger retailers also inhibited small retailer access to prime space. Many start-ups had an unknown brand and this could impact negatively on the image of the mall. Many small retailers also had unique and individual requirements in terms of shop specification. Catering for such requirements increased costs for landlords. And finally, small retailers lacked their own customer drawing power. As such, they were entirely dependent on the anchors and tenant mix to attract their customers. This dependence was a risk for them.
The strategies employed by start-ups to access prime space included creating a novel retail concept. Another was franchising, leveraging the better known brand of the franchisor. However, it was unclear as to whether franchised start-ups were less risky than non-franchised start-ups. New retail developments were often a target for start-up retailers, although this strategy was high risk given that the success of a new mall was not guaranteed.

Tenant mix appeared to be the primary selection criteria used by landlords. The literature also revealed various predictors of start-up retail business success (planning, advisors, economic timing, age, record keeping and financial control and product/service timing). It is expected these predictors influence the leasing decisions of landlords.

In summary, the detracting factors related to start-up access to prime space far outweighed the enablers, suggesting that most landlords would be wary of leasing prime space to start-ups. However, the existence of several strategies and enablers implied that access to prime space was possible for start-ups who leverage these strategies and enablers. Criteria predicting start-up success existed and it would be expected that landlords consider these criteria together with environmental factors such as tenant mix when making leasing decisions regarding start-ups.
3. Research Questions

Research questions are used where a topic is new or under-researched and the literature does not provide any likely solutions to the research objectives. Propositions are appropriate when the researcher proposes what the findings are likely to be. Hypotheses are used when statistical hypothesis-testing procedures will be used (GIBS, 2010).

The topic in question is under-researched and the literature does not give any clear indication of what the results would be. As such, we used research questions rather than propositions or hypotheses.

Research Question 1

*How accessible is prime retail space to start-up retailers and what are the factors that influence this?*

Research Question 2

*What strategies are used by start-ups to gain access to prime retail space?*

Research Question 3

*What criteria are important to landlords who lease prime retail space to start-up retailers?*
Conclusion

By answering these three research questions, the research objective of exploring the accessibility of prime retail space to start-up retailers from the perspective of the landlord was met.
4. Research Methodology

Methodology

It was clear the no solid theory existed to answer the research questions. Saunders, Lewis and Thornhill (2009) recommended an inductive approach for such research topics. An inductive approach requires that the researcher develop a feel for the dynamics of the situation and understand the nature of the problem. A new theory is then formulated from this data. This is the opposite of the deductive approach where an existing theory is tested against data.

Dana and Dana (2005) confirmed this view by advocating a deductive design for testing pre-formulated hypothesis where variables have already been defined. A qualitative, inductive design was more appropriate for yielding new theories where the subject’s interaction with the environment was of importance.

A deductive approach also imposes the researcher’s values by pre-determining which variables are worth measuring and which questions to ask in a survey. An inductive approach leaves the researcher more open to what emerges from the data (Dana & Dana, 2005). Such “openness” is important for this topic.

Furthermore, the inductive approach was superior for this topic because it avoids the tendency of the deductive approach to find a cause-effect link between variables without understanding the way in which people interpret the context. Developing such an understanding of the context is a key strength of the inductive approach. The inductive approach also bypasses the rigid methodology associated with the deductive
approach. Such rigid methodology does not permit any alternative explanations of the findings to emerge (Saunders et al., 2009).

In summary, the inductive approach is suited to understanding why something is happening, while the deductive approach is suited to describing what is happening (Saunders et al., 2009). The objectives of this study were understanding rather than description. We seek a deeper, holistic understanding of the topic. From this understanding, we seek to build new theory.

Exploratory research aims to find out what is happening in a given situation. It also searches for new insights and assesses existing phenomenon in new light (Robson, 2002). The purpose of this research was therefore exploratory, rather than explanatory or descriptive. One of the principle methods of conducting exploratory research is to interview subject experts (Saunders et al., 2009). Expert interviews with leasing decision makers was therefore appropriate for this topic.

**Unit of Analysis**

The unit of analysis was leasing decision makers representing prime retail locations.

**Population**

The population was all leasing decision makers representing prime retail locations.
Sample Size

Given that context was important, a smaller sample of qualitative or subjective data was needed to construct different views of the relevant phenomena (Easterby-Smith, Thorpe, & Jackson, 2008).

Dana and Dana (2005) stated that qualitative research need not have a large sample. They recommended that the researcher concentrate on a small sample group to retain the richness of the description. However, a limitation of this approach was that while it yielded high internal validity, external validity may be limited. That said, lack of external validity was not necessarily wrong. Mook (1983, p. 379) summarised: “misplaced pre-occupation with external validity can lead us to dismiss good research for which generalisation ... is not intended or meaningful”.

The researcher was guided by the data and continued interviews until “theoretical saturation” was reached (Saunders et al., 2009). It was at this point that interviews with new respondents yielded no new insights and seemed to be a repeat of past interviews. Ten interviews were conducted before theoretical saturation was reached.

Sample Method

Non-probability, purposive sampling was used. This means that the researcher selected samples that were believed to be best-suited to answer the research questions and meet the research objectives (Saunders et al., 2009). Samples were drawn from leasing decision makers representing prime retail space in the Johannesburg area. The researcher knew many of the prime retail locations in the Johannesburg area and selected appropriate samples from this set.
Snowball sampling was also used. It was difficult to gain access to many of the desired interviewees. Interviewees were therefore asked to refer the researcher to other leasing decision makers at the end of the interview. This gave the researcher increased access to desirable interviewees.

Although the samples were taken from the Johannesburg area, the research findings are expected to be applicable beyond Johannesburg; likely to the entire South Africa and quite possibly internationally.

**Research Instrument**

The research instrument was the qualitative, in-depth interview. Saunders et al. (2009) recommended qualitative interviews where it was necessary to understand the reasons behind the decisions taken by participants, or to understand their attitudes and opinions.

Robson (2002) recommended in-depth interviews to discover the dynamics of the situation and to seek new insights. In-depth interviews allowed the researcher to “probe” the answers of the respondents. Respondents were asked to explain or build on their responses. These opportunities added significance and depth to the data. The researcher was led into discussion areas which were not originally under consideration, but were related to the research questions and objectives.

In-depth interviews have no predetermined list of questions, but they do have a clear idea of the aspects of the topic that should be explored. The respondent was given the opportunity to talk freely about events, behaviours and beliefs relating to the topic.
area. These interviews are referred to as “non-directive” or “informant interviews”. This is because the respondent’s perceptions guided the interview (Robson, 2002).

Dana and Dana (2005) recommended a flexible interview design which is in constant evolution. Given that the researcher attempts to understand phenomena based on field research rather than imposing existing categories or hypothesis, new questions must constantly be formulated. The researcher is also free to formulate each question based on the respondent’s personal experiences and willingness to answer.

Specifically, the idea was not to ask each respondent the same set of questions, but rather to allow each respondent to explore those aspects of the topic the he or she deemed important. This allowed the researcher to build a rich understanding of the topic by integrating views from many different perspectives. Moreover, if a theme had been fully explored and saturated in previous interviews, the respondent was encouraged to explore new themes.

The researcher made use of an interview guide. This interview guide listed all the relevant themes known to the researcher. It was used to guide the interview when necessary. The interview guide is provided in appendix A.

More sensitive themes (like small retailers subsidising anchor tenants, personal sureties, etc.) were explored toward the end of the interview. If these themes were addressed too early in the interview, the interviewee could become overly defensive for the entire interview (Saunders et al., 2009). The researcher also intended to build
rapport with the interviewee during the interview. This would make it easier to explore sensitive themes toward the end of the interview.

In summary, loosely structured, evolving interviews were conducted in order to build a global picture (Dana & Dana, 2005).

Data Collection

Interviews were scheduled with all participants. The interviews were conducted in person. Each interview lasted about one hour. The interview was conducted at the interviewee’s place of business. All interviews were recorded where the respondent agreed to this.

Data Analysis

Interviews were analysed as they were collected in order to develop a framework to guide further interviews. Yin (2003) believed this was a better approach than gathering all the data upfront without any analysis in between.

Notes were taken during each interview. The interviews were then summarised in the form of a mind map and analysed using categorisation. Categories and sub-categories were introduced into the summary at this point. The categories were derived directly from the data. Categories were assigned to various units of data from the interview summaries in order to expose relationships.

Each individual summary was then merged into the master summary after the interview was conducted. During this process, categories were changed. Some were eliminated and others were merged under more generic names. New categories
emerged out of those which became too heterogeneous. This emergent structure aided the further organising and analysis of the data. The interview summary was then distilled into a final set of categories and themes. Frequency analysis – counting the frequency of certain events or explanations (Saunders et al., 2009) – was used to show the number of respondents discussing each theme. This technique was used to gauge the relative importance of each theme.

From this set of emergent categories and themes and their inter-relationships, testable propositions were developed for the major themes. Such propositions are sometimes referred to as “testing hypotheses”, but they are very different to statistical hypotheses (Saunders et al., 2009). This was done by comparing the insights of each of the respondents who discussed that particular theme. The propositions were tested rigorously against all the data gathered. Where contradictions were found, the proposition was either dropped or amended. By testing such propositions across the data and seeking to understand negative cases, alternative explanations emerged and the researcher was able to form valid conclusions. What emerged were testable propositions, consistent with all the interview data, for the major themes identified.

Saunders et al. (2009, p. 508) described analytic induction as the “intensive examination of a strategically selected number of cases so as to empirically establish the causes of a specific phenomenon”. Analytic induction was used in order to transform the testing propositions into explanatory models. The theory base was also a key input into this transformation process. These models were then tested by applying them to the various interview cases in which the phenomena were explored. Often the explanation needed to be refined, but sometimes the phenomena needed to
be narrowed. When all the relevant cases appeared to confirm the model, it was regarded as valid.

The qualitative data analysis techniques generated thick description together with direct quotes from the respondents about their attitudes, beliefs, thoughts, intentions, actions and experiences. This formed the basis for the creation of the explanatory models.

**Limitations**

Three of the respondents were referred by a single earlier respondent. There is a risk that these three respondents held similar beliefs and attitudes toward the topic, thereby skewing the results. However, all three respondents and the person who referred them were employed by different organisations. The researcher believes this risk is minimal.

Retail and the economy in general are cyclical. During bad times, new retailers may enjoy improved access to retail space. During good times, the opposite may be the case. This study was conducted in a poor economic climate for most retailers and landlords. Unfortunately a longitudinal study was not feasible.

A further limitation arises due to the selection of the sample. Many landlords were unwilling to grant the researcher an interview. There may be a link between the willingness to assist a researcher in completing a research project and leasing prime space to start-ups – the “underdog effect” (Kim et al., 2008) comes to mind. This study runs the risk of considering only the “nicer” landlords.
No distinction was made between malls and other retail spaces such as high streets or restricted-access spaces such as service providers within office parks. The study runs the risk of over-generalising by lumping these distinct retail categories together.

Although the researcher himself had some experience as a start-up retailer, the study runs the risk of being too “kind” to landlords by not triangulating the results with input from start-ups and other role players.

**Conclusion**

The study adopted an inductive approach given that no solid theory existed to answer the research questions. The in-depth interview was the primary research instrument. Interviews were conducted with ten landlords who managed prime space. The interviews were analysed using categorisation and the relationships between categories were studied. From these emergent categories, testing propositions were derived. These testing propositions were rigorously tested against the data. Finally, analytic induction, together with input from the theory base, was used to formulate a set of explanatory models.
5. Results

Background on interviews

Ten respondents were interviewed. At the end of the first interview, the respondent expressed concern that the interview would be broadcast on the local investigative journalism programme “Carte Blanche” (Electronic Media Network, 2008). This was despite repeated assurances prior to the interview that confidentiality and anonymity would be maintained. The researcher also felt that the respondent was reserved and unwilling to express opinions. Such unwillingness to express opinions was a severe threat to the validity of this study.

The researcher then decided to stress that recording was optional before subsequent interviews. The respondent was requested to ask that the interview not be recorded if he or she felt even remotely uncomfortable, or if the recording would affect their answers in any way whatsoever. Four of the respondents requested that the interview not be recorded. It was clear that they were very relieved that the interview was not being recorded. One of the respondents mentioned a Competition Commission of South Africa investigation into shopping mall leasing practises (Planting, 2007). The respondent suggested that this may be the reason that the four respondents did not want to be recorded.

The lack of recordings and transcripts made the analysis more difficult. Techniques such as frequency analysis (Saunders et al., 2009) could not be used. However, the researcher believes that the respondents were more open and honest. This improved
the depth and reliability of the data. Unfortunately it limited the direct quotes used to substantiate the testing propositions to those from the recorded interviews.

The interviews were confidential and anonymous, but the respondents’ titles and a description of their organisations are listed below. The shopping centres were classified according to the South African Council of Shopping Centres’ classification standards (Prinsloo, 2010).

1. Leasing manager at super-regional centre
2. Leasing administrator at small regional centre
3. Leasing administrator at private retail property company
4. Asset manager at listed property investment company
5. Owner of private property investment company
6. Director at listed property fund management company
7. General manager of regional centre
8. Leasing director at private retail property company
9. Director at private retail property company
10. Leasing consultant at private retail property company

**Summaries and categorisation**

A sample of a categorised interview summary mind map is provided in Appendix B (page 106). The final interview summary is shown in Appendix C (page 107). The colour coding identifies the respondent that discussed the particular theme. The final set of categories and themes are listed below. The number of respondents discussing each theme is also provided.
Table 1. "Business" category themes and respondent counts

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lease application requirements</td>
<td>10</td>
</tr>
<tr>
<td>Novel concept</td>
<td>8</td>
</tr>
<tr>
<td>Subjective evaluation of viability</td>
<td>5</td>
</tr>
<tr>
<td>Existing stores</td>
<td>5</td>
</tr>
<tr>
<td>First store</td>
<td>4</td>
</tr>
<tr>
<td>Higher rentals to compensate for risk</td>
<td>3</td>
</tr>
</tbody>
</table>

Table 2. "Entrepreneur" category themes and respondent counts

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professional services (architects, designers, etc.)</td>
<td>8</td>
</tr>
<tr>
<td>Credit record</td>
<td>6</td>
</tr>
<tr>
<td>Landlords use gut instinct to assess entrepreneurs</td>
<td>5</td>
</tr>
<tr>
<td>Landlord takes personal interest in helping entrepreneur</td>
<td>5</td>
</tr>
<tr>
<td>Growth problems</td>
<td>5</td>
</tr>
<tr>
<td>BEE issues</td>
<td>5</td>
</tr>
<tr>
<td>Commitment to business</td>
<td>3</td>
</tr>
<tr>
<td>Inexperience in retail frustrates landlords</td>
<td>3</td>
</tr>
<tr>
<td>Landlord empathises with entrepreneurs</td>
<td>2</td>
</tr>
<tr>
<td>Lack of management skills</td>
<td>2</td>
</tr>
<tr>
<td>Don't understand full impact of location choice</td>
<td>2</td>
</tr>
<tr>
<td>Misled by brokers</td>
<td>2</td>
</tr>
<tr>
<td>Theme</td>
<td>Count</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Personality match to type of business</td>
<td>4</td>
</tr>
<tr>
<td>Must understand the industry</td>
<td>3</td>
</tr>
<tr>
<td>Hands-on involvement</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highly geared</td>
<td>2</td>
</tr>
<tr>
<td>Often invest everything they have</td>
<td>1</td>
</tr>
<tr>
<td>Unrealistic expectations</td>
<td>1</td>
</tr>
</tbody>
</table>

Table 3. "Landlord" category themes and respondent counts

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal surety</td>
<td>6</td>
</tr>
<tr>
<td>Renewals</td>
<td>6</td>
</tr>
<tr>
<td>Tenant performance requirements</td>
<td>4</td>
</tr>
<tr>
<td>Open to risk</td>
<td>3</td>
</tr>
<tr>
<td>Flexible</td>
<td>3</td>
</tr>
<tr>
<td>Partnership with tenant</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vengeful if tenant acts in bad faith</td>
<td>3</td>
</tr>
<tr>
<td>Need to maximise returns</td>
<td>2</td>
</tr>
<tr>
<td>Process-driven</td>
<td>2</td>
</tr>
<tr>
<td>Don't set tenant up to fail</td>
<td>2</td>
</tr>
<tr>
<td>Want good small tenants</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 4. "Industry" category themes and respondent counts

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tenant mix</td>
<td>10</td>
</tr>
<tr>
<td>Tenant sourcing process</td>
<td>8</td>
</tr>
<tr>
<td>Tough industry</td>
<td>6</td>
</tr>
<tr>
<td>Recent changes make it difficult for individuals</td>
<td>6</td>
</tr>
<tr>
<td>Inexperienced developers</td>
<td>5</td>
</tr>
<tr>
<td>Market conditions</td>
<td>5</td>
</tr>
<tr>
<td>Franchising</td>
<td>4</td>
</tr>
<tr>
<td>Competition between centres</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure</td>
<td>3</td>
</tr>
<tr>
<td>Exclusivity clauses</td>
<td>3</td>
</tr>
<tr>
<td>Numerical management techniques (trade density, etc.)</td>
<td>3</td>
</tr>
<tr>
<td>Local industry is world class</td>
<td>3</td>
</tr>
<tr>
<td>Constantly evolving</td>
<td>2</td>
</tr>
<tr>
<td>Fairness</td>
<td>2</td>
</tr>
<tr>
<td>Poor centre management</td>
<td>2</td>
</tr>
</tbody>
</table>

Testing Propositions

These testing propositions, grouped by research question, are listed below. Evidence in the form of direct quotes is provided in cases where the interview was recorded. In many cases, the evidence goes beyond the testing proposition. This is done in order to present a rich view of the data to the reader.

Research Question 1

How accessible is prime retail space to start-up retailers and what are the factors that influence this?
Landlords are divided on the question of start-up access to prime space

Overall, the researcher felt that four respondents were positive with regards to a start-up’s ability to lease prime retail space. The other six respondents were deemed to be negatively disposed.

“If you want to be on the chicken run, the high street, good space, and particularly in the malls, you’re going to find it extremely difficult.”

Start-ups are high risk

All respondents stated that the risk of start-up retailers defaulting on rent payments was far greater than it was for established retailers.
“Yes, of course, it’s a hell of a lot safer taking an organisation with a track record than giving a new guy a chance, for sure. There’s no question about it.”

“If they have a choice between a start-up and an established business, they’ll take the established business any day of the week.”

“Track record over the past number of years always shows that new retailers come and go very quickly.”

Two respondents said that being offered a higher rental by a start-up for a given retail location would not influence their decision. These respondents were of the opinion that paying a higher rental would only increase the start-up’s chances of failure.

**The consequences of tenant failure are high for landlords**

Three respondents commented on the high cost of handling tenant bankruptcies in terms of legal fees, loss of rental income, etc.

“If a new tenant goes under and he falls into arrears, or whatever it is, they’re losing rental, their legal costs, they’ve probably had to pay a commission to an agent to put that tenant in. If that guy fails in six months, they go through all those costs again, maybe for another tenant. They don’t want to do that.”

“The last thing that you want to do is be changing tenants all the time. So you really don’t want failures.”
Two respondents made reference to laws that favoured tenants and prevented the landlord from taking decisive action against defaulting tenants. Such decisive but illegal actions include disconnecting electricity and locking the tenant out of the premises.

One respondent discussed the effects of vacant space on tenant mix. In the majority of cases, vacant space has a negative effect on the centre as a whole. Landlords should make their best effort to re-lease such space as quickly as possible. However, in certain locations (such as taxi ranks), it makes little impact.

“If it’s a shopping centre, you don’t want an empty shop. If it’s a taxi rank, it actually doesn’t matter. It actually makes no difference.”

_Small retailers pay disproportionately more than larger retailers_

Three respondents cited this as a problem for start-ups. One respondent noted that this was a world-wide problem, not just a local problem.

“And that’s a bit of a problem generally and it not’s here. We do quite a lot overseas. There’s no different, no, no different. It’s the same everywhere. It’s a bit of a problem, that our large retailers – and again that’s worldwide – are paying too little and the balancing act comes in terms of the overall average you get and to get those averages up, the rentals for some of the small guys are unfortunately too high. Big problem, it puts them under enormous “druk” right at the beginning.”

Another respondent described the larger retailers as very tough negotiators.
Having a novel concept increases a start-up’s ability to access prime space

Five of the respondents raised the novelty of the start-up’s concept as a key factor. Even those that were negative overall on a start-up’s ability to lease prime retail space conceded that a strong, differentiated concept could make all the difference. The implication was that normal selection criteria could be relaxed if the concept was novel enough.

“A new business getting into Cresta is going to struggle, no doubt about it. It got to be so unique, so different. It’s got to be all of those good things for a Cresta to consider that tenant to come in.”

“We like new concepts, we like things that are different. At the end of the day, that’s a win-win scenario. It brings something new to the malls, as well as makes it a lot more interesting and widens the pool of people, in terms of tenants out there.”

Three of the four respondents who felt that start-ups were able to access prime retail space were leasing decision makers for shopping malls in affluent areas of Johannesburg. These respondents stressed the importance of a unique concept and looked to start-ups as a way of differentiating their malls from others.

Start-up retail businesses have a high personal impact on owners

Four respondents described starting a retail business as “tough”. Three believed that recent changes in the retail industry were to blame for this. These changes include longer trading hours and holiday and weekend trading. The implicit assumption by all
respondents was that new retail ventures are started by individuals rather than teams, and that these ventures require constant supervision.

“She phoned me up, she said she wants a rent reduction. I said “Why?” She said “I can’t work these trading hours, so I’m going to shorten the hours so I need a rent reduction. I was, I gave her such a blast, I gave her such a blast. I said “I could see the type, you’re just not cut out for this, just not made of the right metal. Will you please give the keys back to the person you bought it from, whimper home and go and sleep. Because you’re not made for this. Go home.””

Two of the respondents mentioned that start-ups are often unable to afford managers. This means the owner ends up working the shop’s full trading hours, a difficult task.

“Malls, particularly, they have very, very long trading hours. They trade almost 365 days a year. Extremely long hours. And for an individual or a guy starting a business to then employ managerial staff to take over from him is tough. So what you find is guys start out and they are gung-ho for the first two months and then they actually get burnt out. You haven’t got time to go to the dentist. You just, you haven’t got time to take a dump. Because that shop, a shop is like a prison, there really are serious handcuffs having a shop.”

“In the old days when shops traded from ... and didn’t trade on Sundays and traded half of Saturday, the sole proprietor could make it. But today it’s tough. And you can’t really often afford management. Those extra hours. And the extra staff.”
Having existing stores increases a start-up’s ability to access prime space

Five respondents stated that they would always choose tenants with existing stores over those with none.

“The percentage chance of an additional outlet of an established organisation succeeding is massively greater than a start-up business, of any kind. And these guys play the percentages.”

“And also if you phone into the big owners and you say you’ve got an existing shop, and it’s working, then they’ll also look at it.”

Four said that start-up retailers should not waste their time looking for prime space for their first store. Start-ups should first seek secondary space. When they have established one successful store, they should consider prime space.

However, the respondents were evasive when asked to explain what distinguishes a start-up from an established retailer. They indicated that some level of name recognition was important.

Two respondents told stories of retailers who opened poorly performing additional stores which ultimately led to the failure of the entire chain. The stores performed poorly due to a combination of poor site choice and the owner’s inability to manage multiple stores.

Personal sureties were still required for start-ups opening additional stores. The respondents suggested that only when a retail chain had a national footprint, or at
least a strong regional footprint, would it be considered an established retailer. The key advantage to becoming an established retailer was that established retailers had full and equal access to prime retail locations.

**Personal sureties are almost always required**

Six respondents indicated that they would almost always insist on holding full personal surety in the case of start-up retailers. They also implied that personal sureties were commonplace in leasing.

“If we are going to take a chance on them, we’ve got to feel that they are taking a chance on their business. So it almost becomes standard.”

“I have had sureties from Johan Rupert, from Sol Kerzner, from both the Krocs on one document. They sign blind. Didn’t even look at it, signed up-side down.”

The respondents implied that start-ups who were not willing to sign personal sureties weren’t committed to their businesses.

“Why must I take your risk? You’re not prepared to take your risk, why must I take your risk? Forget it, go, bye-bye. There’s the door … You don’t want to take risk in yourself, now you’re asking me to do it? Listen man, why are you wasting your time? Get out.”

However, the respondents did suggest that they may not seek to enforce the surety if the business failed in certain cases. This decision depended on many factors. Oftentimes the legal process was expensive and simply made it not worth the landlord’s while.
“What is it for?” “Fifteen grand”. I said “How much have we spent on it?” “60”. I said “Where is the sense in this? The guy can’t even pay you fifteen thousand, how are you going to ever recover 60 grands of legal fees? You haven’t even gone to high court yet!”

Many failed tenants would have already lost most of their money in the failing business and would have nothing left.

“We’re far more pragmatic. You’ve crippled the guy already, just let him go … Why do you want to hurt him more? He’s genuine enough to come in, and say “I’m sorry, the thing is gone, you know, take me for what you can.” … That’s me personally.”

However, one respondent mentioned a well-known property company that had a policy of fully enforcing sureties, regardless of the cost.

The respondents seemed to be quite sympathetic to a tenant who had failed in spite of his or her best efforts, so long as he or she had been open and honest with the landlord.

“If it doesn’t work, you can’t take blood from a stone. And once a person is totally down and out and things like that … But if you see someone really put in their heart, soul, you know, worked it through and the thing just didn’t work for whatever reason, you’d leave it at that.”

“It’s not this massive plunge that you sink into, as long as we play ball with each other. If it not working, you come talk to us. We’ll start marketing it, we’ll try and get rid of
this. Again, no promises, it’s not a perfect science, but 90% of the time we’re able to do it.”

Three of the respondents expressed a personal desire to recover maximum damages from dishonest tenants.

“If a guy’s going to jerk my chain, I’ll be after him with a long knife. And I’ll tell him: “I’m coming after you with a long knife. And when I get you, I’ll cut your balls off!” “

“So I think in terms of following afterwards, you’d probably go strongly after those that lied to you the whole time.”

It also emerged that landlords have a legal obligation to mitigate. This means that landlords must make an effort to re-let the space left vacant by a defaulting tenant. The defaulting tenant is no longer liable for any rent payments that he or she should have made once the property is re-let.

“We have legal obligation to mitigate and to try find somebody else. By and large, we’re able to do that, not perfect, it doesn’t always happen.”

However, one respondent did caution that landlords would first seek to lease space over which they held no claim before they re-leased space under a lease in default. This could be a problem for tenants in centres with a lot of vacant space. It would also be difficult for tenants to prove that a landlord had not made a reasonable effort to mitigate.
However, given the choice between re-leasing to a new tenant and trying to recover rent from a defaulting tenant who had vacated the space, most landlords would elect to re-let to a new tenant and release the defaulting tenant from his or her obligation.

“He came to us and said things aren’t what he expected them to be. So what do we do? We pick up the phone, we phone the guys from McDonald’s and we say “Do you want more space?” And they grabbed it with both arms, by the way … He’s going to walk away from it, there’s not going to be a problem, he’ll close his doors one day, he may have to pay the extra month’s rent while they … he’s not going to take a huge bath.”

**Malls need to differentiate to compete**

Three respondents indicated that they were open to risk. When forced to choose between a relatively safe national tenant and a promising start-up, they may elect to lease to the start-up. The higher risk is offset by the chance that they could find a new, unique tenant.

“All the centres want new, unique, different. They all do, but … And it also depends on the owner. Retail continues to change, what’s in today is out tomorrow.”

“Retail is forever evolving, forever changing, and you’ve got to change with the market. You got to be able to add new things to your centre. Because competition from other centres is fierce. They continue adding new tenants to their centres. Things are popping up down the road which are competing with you, so you’ve got to compete to keep your customers in your centre, to keep them interested.”
One respondent said rather flippantly that her company could afford to take a few risks in order to find a unique tenant.

These same three respondents also indicated that they had given start-ups a certain degree of flexibility not afforded to other tenants. For example, they would grant a promising start-up some leniency regarding deposits, rental payments, etc.

**The new mall leasing process is biased against start-ups**

Two respondents described the process which is typically followed when new malls are leased. Centre developers first secure a lease from a major food retailer (Woolworths, Pick n Pay, etc.). National retailers (Mr. Price, Foschini, Nando’s, Famous Brands, etc.) are only willing to commit once such a lease is secured. Finance for the construction of the shopping centre is only approved after sufficient commitment from the nationals. Only about 10 to 20 percent of the total floor space remains for leasing to smaller businesses. The majors and national tenants will have already secured the prime space. Smaller tenants fight for what remains.

“We need to basically get five people around a table, and we’ve basically got the shopping centre in place. You know, you take the Foschinis have got 14 brands, Truworths have got how many.”

“The trigger to do a development is when your big box guys commit, or when you get three or four of them committing. So, sometimes, there’s incentives for people to get it going.”
Landlords subjectively vet the viability of start-ups

Two respondents justified the subjective nature of their leasing process by saying that they do not want to set their tenants up for failure.

“It sounds like we’re sticking our nose in other people’s business, it’s quite nasty, it’s not really fair, but sometimes you’d imagine we’re getting too involved, we almost vet their viability. So, okay, I’m not going to let premises to a sure loser, not for their sake, but also – let’s not be too altruistic about this – also from our of point of view.”

While they acknowledged that they may be over-stepping their mandate, they believed that their industry experience gave them better judgement than the average start-up retailer.

“I went to the asset manager and she said “No, too risky. He thinks he can afford it, but from our side, too risky.””

“I know this market, I know what streets work, I know what businesses work within that … We then assess whether it’s going to be a success. If it’s not going to be a success, we actually say “Sorry, we can’t help you”.”

One respondent described a hair-dresser who offered three times the rent the landlord was expecting for the shop in question. The respondent countered with an offer at one-third of the original offer, but never heard from the hair-dresser again.
Leasing to a start-up is a career risk for leasing professionals

Two respondents commented on the career risk associated with leasing space to start-ups ahead of established retailers. Tenant failures make leasing agents look bad in the eyes of their employer.

“If the guy in three months doesn’t make it, it comes down to me actually. I mean, I couldn’t have known, all his track record is fine, but I want to put a guy into a space for the owner I work for that will make it.”

“The problem is that if he goes out on a limb for someone, and it doesn’t work, they are going to say “Listen, you know, your sense of judgement is not great. The next one, we’ll decide, don’t you worry.””

Research Question 2

What strategies are used by start-ups to gain access to prime retail space?

Having a novel concept increases a start-up’s ability to access prime space

Five respondents thought that start-up retailers most often gain access to prime space by virtue of their novelty. The researcher got the general sense that landlords looked to start-up retailers as the primary means through which to differentiate their centres. However, one respondent did indicate that national chains were also good at introducing new concepts.
One respondent was sceptical of this strategy. The respondent believed that unless a start-up was extremely novel, it would first be required to establish itself in a secondary location first.

“There’s a mom and pop setup which was in its embryonic stage in some strip mall or some out of the way space that was successful and they see the potential. Then it’s not a start-up business any more .... By the time the malls are prepared to let them in, they have a level of development already.”

**Franchise business have increased access to prime space**

Three respondents believed that it would be easier for a new retailer to lease prime space if he or she was starting a franchise business.

“But that’s a way of getting in. Getting into a good site. But you pay for these things, hey, Wow.”

“If you had to go and approach Cresta as Cramers [start-up retailer] ... they would probably still say no. They’d say “Listen, we prefer a brand, a franchise or something, because there’s a higher success rate, or a high probability of success rate, for those types of concepts.”

They considered franchise businesses less risky, especially in the case of inexperienced retailers. One of these respondents suggested that running a franchise business was a good way to enter the retail industry. This respondent suggested that the franchisee may in future develop his or her own independent retail brand.
“A very good way of someone getting into it, and learning from it. Because at the end of the day once they’ve actually been through that and seen exactly how a larger setup runs properly and all the rest of it, you know, when it’s time to move on, they sell that and now they’ve got more capital and they can really, then be able to open up their own thing, so they could actually use the franchise experience as a learning experience.”

However, two respondents warned strongly against franchisors who offer little support. Their advice was that franchisees thoroughly research the franchisor to ensure that they provide adequate support. Both described cases where franchisees had lost everything after buying into a franchise that offered poor support, even though the store location was prime.

“The biggest problem with a franchise business is that most franchisors don’t support their franchisees.”

“I still believe that franchisors don’t give enough backing. You buy a franchise and then end up paying the franchise fees and you’re not getting the sort of support ... I’m shocked at the amount of support some of the guys give them ... Some of them are very good, and some of them just paying franchise fees for nothing.”

“You know they never even taught him how to, at the end of the day, cash-up and balance up. It was absolutely criminal, I tell you, we were ... you know, when we saw how this guy got taken and he lost everything. I mean it was crazy.”
“You know what? You’re useless to your franchisee. You might as well bugger off”.

He looks at me. I said “You’re not helping your franchisee, he’s fighting his own battle here. And you’re sitting here, not contributing one damn thing. The only thing you’ve contributed is negative. You might as well bugger off.”

Two respondents mentioned that they had been trying for a long time to get franchisors to co-sign leases with their franchisees, or at least share some of the risk with them. These efforts had been met with no success to date.

However, both respondents acknowledged the existence of a few good franchisors.

“They train up their people, they get them involved in the culture. You know, there’s a whole scenario there, they are in the family now. But a lot of the others unfortunately don’t.”

Four respondents mentioned that buying an existing franchise business located in a prime space was an easy way for a start-up to lease prime space. They considered such a start-up lower risk. However, all four mentioned that the new lease would restrict the buyer to operating the same franchise as the seller. The buyer would sign a new lease with the landlord and be subject to same screening criteria as any other tenant.

One respondent, however, mentioned that the law denied the landlord the right to unreasonably refuse to lease to the buyer. This was in order to protect the seller’s right to sell his or her business. This gave the buyer of a franchise business an advantage over non-franchised start-ups.
Landlords sometimes take a personal interest in start-ups, thereby increasing their access to prime space

Three respondents described how they had taken a personal interest in a particular start-up retail business and had provided assistance in various forms to the owner.

“There was no ways on earth that she qualified for premises. We gave her a little shop, we supported her, I think we even paid for her signage.”

All three respondents appeared to enjoy sharing these stories with the researcher. Two of the start-ups mentioned succeeded and one failed.

Each of the respondents cited some form of “personal connection” between themselves and the individual entrepreneurs as their reason for providing the assistance.

“I actually took a liking to the guy. He had a nice, open face, he was really a nice guy, and I could see that he had good ideas … I decided, you know what, if it doesn’t work, it’s not the end of the world, I could let this shop every day of the week, so I thought “Let me give him a chance.”

However, in all three cases, the direct costs associated with the assistance provided were negligible. The assistance was primarily in the form of the relaxation of certain rules and conditions to give the start-up retailer a chance. Under ordinary circumstances, the start-up would not have received such consideration. All three start-ups sought retail space in developments controlled by the respondents.
“I know that there are guys that when they see me actually thank me for what I did for
them. Let them in, knowing that where other landlords wouldn’t let them in. Because I
believed that they had a good product and that I thought that they would deliver, that
they were genuine enough to deliver. ... They were obviously passionate about doing it,
and then doing it right.”

One of the respondents also recommended that start-ups pitch their idea directly to
the leasing decision maker. The respondent suggested that the start-up find a way to
by-pass the decision maker’s agent, or to convince the agent to give the start-up direct
personal access to the decision maker. Such agents include leasing administrators and
brokers.

“It always helps if you’ve got a personal connection, or a personal intro, or something. I
mean, that certainly does help ... If you get to the decision maker – a lot easier, a lot,
lot easier”

“It really is a people game.”

**Incubation increases a start-up’s access to prime space**

Two respondents described how it was possible for start-up retailers to lease
secondary space and then progress to prime space.

“For you to be successful and to just get into the market, rather open up in a medium
or a convenient [sic] type of centre with high feet, make sure you make it, and then you
go into the bigger centres.”
“Guy phones in, says it’s his first venture and I mention the rental to him. He says “The rental is too high, I can’t afford it”. I say “Listen, let’s try something in Ballito, which is down the road, the rental is more affordable, it’s high foot traffic. See if you can make it there and then we bring it into Westwood.”

One described how a certain retail development included a “flea market” for smaller retailers. Successful retailers from the flea market would have the option of leasing a proper shop within the mall once they had proven the viability of their businesses. The respondent also mentioned that certain malls had placed “carts” for smaller retailers in the walkways and courts of the mall. Similar opportunities for advancement were afforded to these cart retailers.

Another suggested that start-ups choose less prime areas where trading hours are more forgiving. This respondent suggested that the start-up put more effort into marketing and other promotional activities to compensate for the sub-prime location.

“You’ve got to do your time. So find a lesser important spot where you’re not under such close scrutiny, where the capital isn’t so big, ... So you are actually doing an apprenticeship where your outgoings aren’t so high, your shop fitting costs aren’t that big, your hours of trading are a bit limited ... So there is a place for start-ups to do their apprenticeship.”

**Start-ups often seek prime space in new developments**

Four respondents mentioned that start-ups often sought space in new developments. However, three were very critical of inexperienced developers who built malls that
delivered poor returns to their owners. These inexperienced developers made a variety of mistakes.

“There are a lot of developers, architects that are very inexperienced in retail, they may be great at developing townhouses and things like that, but there’s certain flows that you’ve got to have within a shopping centre ... Sometimes you go to these ones, and you have a look, and it’s the “spreadsheet shopping centre”. Terrible.”

“The most important thing in retail is that someone walking down must have line of sight to the shops. If they can see you, they’ll come to you. If they don’t see you, they don’t come back. Once they’ve past, they’re gone. So line of sight is the most important factor. When we walked through Maponya Mall even before it opened, we took a map, a plan, and we just put crosses. We said “Okay, these are going to fail”. It was so obvious. Whoever went in there, it was like a recipe for failure. You missed seeing that particular shop.”

They also suggested that it was difficult to tell how well a mall would do until it was actually opened to the public. A good indicator, however, was the track record of the developer. If the developer had a good track record, the mall stood a better chance of succeeding.

“Everything says the centre will be successful, we’ve done this and this research, but ultimately you won’t really know if it will be successful.”

Two respondents warned that start-ups were taking unnecessary risks by opening in a new mall. They suggested it was safer to find space in an existing mall.
“Tannie Sarie’s deli, or whatever. You can see this lady put all her savings into it and she didn’t make it. From the owner, you can’t really say. I don’t know why that centre didn’t make it.”

“For a new guy to open a shop with a developing centre, I hope [name removed] will agree, but I think it’s a bit dodgy. From the tenant’s side, even if they give the space to you, you don’t really know what’s going to happen with the centre. Rather go into an existing centre that works.”

Research Question 3

What criteria are important to landlords who lease prime retail space to start-up retailers?

The testing propositions relating to this question are that each of the criteria below are important to landlords when leasing prime space to start-ups.

Novel concept

Seven respondents cited the novelty of the concept as very important.

Tenant mix

Seven of the respondents mentioned tenant mix as an important consideration when choosing tenants for a prime retail space in shopping centres.

“You won’t prejudice your tenant mix just because someone’s willing to pay you a lot more money. Your tenant mix in a shopping centre will be your number one driver of
who you put in there, to the point of where you’ll rather leave it empty than actually just put someone in for the sake of putting someone in.”

“It’s important, number one, that there is that mixture, number two, that they don’t tread on each other’s toes. Unless we’ve got the express consent of all parties, we don’t have the same kind of business in the same zone.”

Four respondents mentioned that they would be willing to make concessions on rent in order to get the correct tenant mix.

“In fact, you’ll compromise on rental in a shopping centre to get the right tenant mix”

One respondent suggested that successful retail developments need a mix of established and new brands.

“If there’s only the new brands, it doesn’t have the same appeal. If you look at any of my developments, you find there’s established brands next to brand new start-ups, okay.”

Known brand

Five respondents mentioned that having a known brand greatly increased the chances of a start-up getting prime space. Franchising was the easiest way for a start-up to do this. Introducing a foreign brand to the local market was another.

“In terms of a small business, that is probably the best way for them to get in, because they’re getting in under a brand.”
Specialisation

Three respondents described a specialisation strategy for certain retail developments under their management. Most notable was a shopping centre situated in a high-income area where the landlord was specifically looking for owner-run businesses. Aside from an anchor supermarket tenant, the vast majority of the space in this centre was leased to owner-run businesses.

Another respondent described how a certain shopping mall was specifically looking to attract international brands, primarily in the fashion space. The other respondent represented a company with a strong social objective.

“I’d like to think that one of the reasons we got involved in this was for, out of principle, not only just to make money. Of course that was a motive, but were also other motives... Our approach is responsible capitalism.”

Good cash flow and financial forecasts

Six respondents cited this as very important when leasing prime space to start-ups. The respondents described how they would scrutinize these forecasts together with the applicant to determine if they were realistic or not.

Clean credit record

Six respondents mentioned that applicants must have a clean credit record.
**Business plan**

Six respondents said that a good business plan would improve a start-up’s chances of leasing prime space. One respondent suggested that the more prime the space is, the better quality the business plan should be.

Another respondent expressed frustration at the poor quality of the business plans submitted by many start-ups. Often times they were template plans downloaded from the Internet where the dollar signs hadn’t even been changed to rands. In many cases it was clear that the business plan hadn’t been written by the owner of the business. While this was not necessarily a bad thing, the fact that the owner didn’t understand it, or hadn’t even bothered to read it, was.

**Gut instinct**

Five respondents recalled incidents where they had relied on instinct to make leasing decisions.

**Look and feel**

Five respondents mentioned that they liked to get an idea of the look and feel of the new store. While this is very easy to do for retailers with an existing store, it is more difficult for start-ups. However, retail professionals can assist a start-up in producing drawings and “mood boards” that demonstrate their planned look and feel.

“And pictures are a good thing. So at times, in the centre, you’re looking for the way the shop fitting or the way the thing gets put together.”
**Hands-on owner**

Three respondents preferred start-ups where the owner would be on-site daily. Interestingly, these same three respondents were positive overall on a start-up’s ability to lease prime space.

**Conclusion**

The following testing propositions were developed:

**Question 1: How accessible is prime retail space to start-up retailers and what are the factors that influence this?**

- Landlords are divided on the question of start-up access to prime space
- Start-ups are high risk
- The consequences of tenant failure are high for landlords
- Small retailers pay disproportionately more than larger retailers
- Having a novel concept increases a start-up’s ability to access prime space
- Start-up retail businesses have a high personal impact on owners
- Having existing stores increases a start-up’s ability to access prime space
- Personal sureties are almost always required
- Malls need to differentiate to compete
- The new mall leasing process is biased against start-ups
- Landlords subjectively vet the viability of start-ups
- Leasing to a start-up is a career risk for leasing professionals
Research Question 2: What strategies are used by start-ups to gain access to prime retail space?

- Having a novel concept increases a start-up’s ability to access prime space
- Franchise business have increased access to prime space
- Landlords sometimes take a personal interest in start-ups, thereby increasing their access to prime space
- Incubation increases a start-up’s access to prime space
- Start-ups often seek prime space in new developments

Research Question 3: What criteria are important to landlords who lease prime retail space to start-up retailers?

The testing propositions relating to this question are that each of the following criteria below are important to landlords when leasing prime space to start-ups: Novel concept, Tenant mix, Known brand, Specialisation, Good cash flow and financial forecasts, Clean credit record, Business plan, Gut instinct, Look and feel and Hands-on owner
6. Discussion of Results

The results are discussed by theme. Each of the testing propositions developed is covered by an associated theme. Explanatory model(s) are derived for each research question.

Research Question 1

*How accessible is prime retail space to start-up retailers and what are the factors that influence this?*

Start-ups and risk

Clearly this is a very important factor given that all respondents mentioned it. This study confirms Kirkup and Rafiq (1994) view that start-up retailers are highly vulnerable to failure. This negatively affects a start-up’s access to prime space.

According to O'Roarty (1997), start-ups should simply be required to pay a higher rent to compensate for the additional risk. However, paying higher rent increases their chances of failure, as mentioned by two of the respondents. O'Roarty also warns landlords against accepting above-market rental bids from high-risk, inexperienced retailers. It seems that start-ups cannot “buy” their way into prime retail space.

A very interesting result is the contradiction between Bates (1995) and four of the respondents. The respondents believed that a start-up buying an existing franchise business was lower risk than a non-franchised business starting from scratch. Bates’ study revealed exactly the opposite. This suggests that landlords have also been misled by the largely false survival statistics published by the franchise industry (Bates, 1995).
The consequences of failure

Three respondents were wary of the costs associated with tenant failure. It appears that in the past, landlords would follow Cherry and Gloster (1993) recommendation to evict small tenants who show any signs of distress in order to avoid a possible lengthy bankruptcy. However, the two respondents mentioning this subject indicated that such decisive actions have been outlawed. It seems that the law now prevents these unfair practises by landlords. It would be interesting to investigate what further protection the law affords small retailers.

Kirkup and Rafiq (1994) discussed the disruption caused by vacant space in a shopping centre. One respondent confirmed the negative impact of vacant space on a centre. The respondent also confirmed that it was more of a problem for enclosed centres by saying that taxi ranks were largely unaffected. By leasing space to start-ups, landlords increase the risk that their centres will have vacant space. Furthermore, such vacant space could reflect poorly on the leasing agent and the landlord personally.

Industry structure

The respondents confirmed Pashigian’s (1998) finding that smaller retailers pay higher rentals. They also cited this as problematic. However, while many smaller retailers were highly emotional regarding this issue (Planting, 2007), the respondents seemed empathetic at best. A possible explanation for this is that it makes no real difference to them financially. As described by one respondent, smaller retailers pay more in order to bring the average rentals up.
Interestingly, a respondent with international experience disputed the Financial Mail’s (2007) view that the problem was worse in South Africa.

**Novel concept**

It was very interesting that three out of four of the respondents who thought that prime space was indeed accessible to start-ups represented malls in affluent parts of Johannesburg. This backs-up the comments made by the Financial Mail (2007) regarding the higher concentration of independent retailers in wealthy areas. Baron, Harris, Leaver, and Oldfield (2001) noted that independent retailers are typically on first-name terms with their customers. This would satisfy the wealthy customer’s demand for personalised service (Financial Mail, 2007).

**Personal impact on owners**

The respondents confirm Broadbridge’s (2002) findings that retail managers work long hours. Owners are subject to the same pressures as retail managers, but they also carry the additional burdens of ownership. The pressures on the owners of start-up retail business are therefore immense.

The anecdotal evidence provided by the respondents of tenants asking for reduced hours also confirms Baker (1994) and Gradus’ (1996) findings that extended trading hours benefit large retail chains disproportionately.

The respondents agreed with Nooteboom (1983) that trading hours would continue to extend in the future.
Existing stores

The respondents believed that a start-up with an existing store was far less risky than a start-up with no stores. It seems that the establishment of a store is a significant milestone for a start-up from the landlord’s perspective. It definitely has a positive impact on a start-up’s ability to access prime space.

Is a start-up still a start-up if it already has one store? Based on their comments, the respondents clearly think so. It seems that a start-up can transition into an established retailer somewhere between the fourth and tenth store. This threshold varies greatly between types of retailers.

Zimmerman and Zeitz (2002) identified the concept of a “legitimacy threshold” for start-ups. Below this threshold, a venture would struggle to survive and would likely fail. Ventures above this threshold would be able to acquire the resources they require to grow. They would also be able to achieve further gains in legitimacy.

This study suggests that retail start-ups face not one but two legitimacy thresholds. The first is the opening of store number one. Retailers who never manage to open a first store have clearly failed. Once a retailer has a first store, he or she enjoys increased access to resources such as prime locations and must use this access build further legitimacy by opening more stores. The second legitimacy threshold is becoming recognised as an established retailer. Once this is achieved, the retailer will enjoy full access to prime locations.
Personal sureties

It was interesting to find that landlords insist on full personal surety, but that they very often don’t enforce it. Furthermore, various asset protection mechanisms (such as trusts) can protect the assets of a tenant from a landlord seeking to claim on a personal surety (Carruthers, 2007). None of the respondents raised this concern. It seems that landlords insist on personal surety, but they do not establish whether it will be effective. They are also unlikely to enforce it.

Zott and Huy (2007) studied symbolic management by entrepreneurs. They theorised that an entrepreneur’s actions have both an intrinsic and a symbolic value. The intrinsic value of a personal surety is the ability for the landlord to recover rent directly from the entrepreneur should the business fail. The symbolic value is the entrepreneur’s deep commitment to the business. By signing a personal surety, the entrepreneur is risking everything. The results of this study suggest that the symbolic value of a personal surety far outweighs its intrinsic value to landlords.

Competition between malls

The respondents who indicated that they were willing to take a chance on a start-up appeared to be under pressure to find stores with novel concepts. These respondents were balancing two opposing forces, as described by Kirkup and Rafiq (1994). They needed to differentiate their malls by incorporating more small retailers. This is because small retailers provide variety, local flavour, etc. However, they also wanted to minimise risk. Small retailers are highly vulnerable to failure, so they increase the
landlord’s risk. The greater the pressure to differentiate, the more the landlord is willing to tolerate the risk associated with small retailers.

**The new mall leasing process**

The respondents confirmed the findings of Kinnard and Messner (1972) and Kirkup and Rafiq (1994). These findings were that shopping centre developers rely on early lettings to high-credit, national chains to access funding for the construction of shopping centres. These chains demand rental discounts in exchange for their early commitment. They also enjoy first choice of the retail space, ahead of smaller retailers. This process is structurally prejudiced against small retailers and is a significant hurdle.

**Vetting by landlords**

Landlords appear to be over-stepping their mandate when they make a subjective judgement on the prospects for success of a start-up business. Free marketeers would argue that if a tenant is willing to pay the rent asked, then that should be all that matters. Failure should be accepted as part of the process. However, given the high costs of tenant bankruptcy (Cherry & Gloster, 1993; Kirkup & Rafiq, 1994), landlords are incentivised to pick tenants that will succeed. It can be expected then that landlords will select tried and tested concepts. Ironically, this prevents innovative, new retailing concepts from emerging. Landlords rely on such new concepts to differentiate their malls (Kirkup & Rafiq, 1994).

This tightly controlled market appears to maximise rental returns in the short-term. In the longer-term, it prevents new concepts from emerging. Retailing trends shift and
shoppers are continually evolving (Wheaton, 2000). If retailing does not evolve alongside shoppers, they will spend less, thereby lowering returns for both retailers and landlords. This is a strong argument against Brown’s (1993) view that the uncertain outcomes of free market forces are to be avoided in retailing.

**Career risk for leasing professionals**

A possible explanation for this is that tenant failures in retail are highly visible due to the stigma attached to vacant space. Leasing professionals who back a start-up which ultimately fails then shoulder a disproportionate share of the blame.

**Conclusion**

*Start-up-specific factors influencing landlord decision making*
Figure 2. The “factors and drivers” model explains the start-up-specific factors influencing landlord decision making with regards to start-up access to prime retail space.

The layered pyramid shape of this model implies that landlords first concern themselves with the lower layers before even considering the upper layers. The two layers in the pyramid are “risk” and “novelty”. Risk is the lower layer because landlords first consider risk when leasing prime space to start-ups. If they are comfortable with the level of risk, they then consider novelty. If the start-up is too risky, no amount of novelty will result in a successful lease application.

The model goes further to describe “existing stores”, “impact of failure” and “commitment” as the key drivers of risk. More “existing stores” equates to lower risk. The “impact of failure” refers to the consequences of vacant space and the costs of re-
leasing. The “commitment” to the start-up by the entrepreneur is judged subjectively, but the strength of the personal surety also plays a part. The degree to which novelty is important is driven primarily by competition with other malls. In situations of low competition, novelty matters less.

A critique of this model is that novelty inherently carries a risk component – a really novel concept is risky (Lussier, 1996). As such, the “risk” in this model is actually “non-novelty related risk”. However, it is likely that landlords don’t consider “novelty-related risk” as “risk”. None of the respondents mentioned anything about very novel concepts being risky, they just accepted that risk as part of the package. If a very novel concept works, the landlord reaps massive rewards in terms of a much improved competitive position relative to other malls. If it fails, that risk was always inherent in the novelty factor.

**External factors influencing start-ups**
Figure 3. The “external factors” model describing the external factors influencing a start-up leasing prime space

This model identifies four key external factors influencing a start-up looking to lease prime space:

- "Vetting by landlords" implies that landlords subjectively assess the start-up’s prospects for success.
- "Personal impact" describes the impact leasing prime space is likely to have on the owner’s personal life. This includes working long hours and being required to be present in the store virtually at the time.
- "New mall leasing process" describes the discrimination faced by small businesses seeking to lease space in new developments.
- "Industry structure" describes the higher rentals paid by small businesses as well as the exclusivity clauses wielded by larger retailers.
Categorisation of start-ups according to risk and novelty

Figure 4. The “start-up categorisation” matrix categorising start-ups according to novelty and risk

The four categories in this matrix are described below:

- **Expanders (low risk, low novelty):** Such start-ups already have at least one successful store and are expanding.

- **Outposts (high risk, low novelty):** Examples include well-known franchises establishing stores owned by new franchisees.

- **Exotics (low risk, high novelty):** Examples are foreign retailers establishing a store in the local market.

- **Snowflakes (high risk, high novelty):** Unique concepts, but highly vulnerable to failure. Aptly named snowflakes because of their uniqueness, but also for their tendency to “melt away”. Examples are start-ups with new concepts. The first McDonald’s store was a snowflake, as was the first Starbucks store.
It may be useful for shopping centres to plot all their tenants on such a matrix, start-ups and established retailers included. It gives a visual representation of the balance between risk and novelty in the centre. This will give an indication to the landlord of which kinds of start-ups may be appropriate additions to the centre.

![Tenant Plot Matrix](image)

**Figure 5. An example of a tenant plot on the “start-up categorisation” matrix**

**Research Question 2**

*What strategies are used by start-ups to gain access to prime retail space?*
Novel concept

According to the respondents, having a novel concept was the primary means through which start-ups gained access to prime space. As Mejia and Benjamin (2002) found, landlords do not seek novelty for novelty’s sake, but rather to differentiate their own shopping centres. This need to differentiate aligns the interests of start-ups and landlords.

Franchising

The respondents made it clear that franchising is a very effective strategy for start-ups to gain access to prime space. However, Bates’ (1995) work suggests that landlords are wrong to choose franchise start-ups over non-franchise start-ups. His study found that failure rates in young franchise start-ups were higher than for independent businesses.

It could be that landlords are blinded by the familiarity of franchise stores. Franchise start-ups are certainly able to put a far more “tangible” case forward given that they can easily incorporate photos and branding elements into their lease applications. Franchise start-ups can even invite landlords to visit existing stores belonging to other franchisees. Bates’ (1995) research suggests that while all of this impresses landlords, it has little impact on start-up survival. He suggests that the costs associated with the franchise organisational form may be too high (joining fees, royalties and marketing fees) and that franchise businesses could possibly attract a less “resilient” type of entrepreneur. Landlords should consider all these factors.
It is interesting to note the warnings of two of the respondents against franchisors who provide poor support. It suggests that some landlords are aware of the pitfalls of franchising. Unfortunately it is difficult for the landlords to know whether a franchisor will provide adequate support to a potential franchisee, but finding out this information may be very worthwhile for decision making purposes (G. J. Castrogiovanni et al., 1993). The attempts by the two respondents to get franchisors to co-sign leases with franchisors is an attempt to enforce greater accountability on franchisors.

**Personal interest**

The stories of landlords assisting start-ups with whom they developed a “connection” suggests that subtle human dynamics plays an important role in leasing decisions.

Starr and MacMillan (1990) found that social processes were very important in securing resources for start-ups. They found that these resources were secured by social contracting using social assets such as “liking”, “trust” and “friendship” among others. This allowed the start-up to acquire resources at a lower cost than rational economic exchange would permit.

When entrepreneurs get landlords personally interested in their businesses, they are securing resources in exactly the way Starr and MacMillan described. Start-ups should seek to fully understand these social processes and use them to maximum advantage.

Another possible explanation for this is the “underdog effect” (Kim et al., 2008). This is a human tendency to support someone else attempting to accomplish a difficult task.
Start-up retailers certainly fall into this category. Of course, landlords need to have direct contact with these “underdogs” in order to make a personal connection. As recommended by one of the respondents, start-ups would be well-advised to make personal contact with landlords wherever possible.

**Incubation**

By leasing a cart in a mall or a stall in the flea market area of a mall, start-ups establish a relationship with the landlord. They also have access to the very same customers as the other retail tenants. This allows them to develop a very clear idea of whether or not their business could sustain the rents demanded in the prime areas of the mall. This lowers their risk and makes them leading candidates in the eyes of the landlord should they wish to lease a shop in a prime area.

However, as retail becomes more experience and less product driven, retailers who are not able to control the customer experience will be relegated to selling commodities (Pine & Gilmore, 1998). It is difficult to control the customer experience from a cart or a stall. For retail concepts with a strong experiential component, incubation is not appropriate.
Conclusion

Figure 6. The “primary strategies” model describing how most start-ups access prime space

This simple model describes the four primary strategies used by start-ups to access prime space. “Franchise” appears in red because of the contradiction between the landlords and the literature.

Research Question 3

What criteria are important to landlords who lease prime retail space to start-up retailers?

The respondents mentioned the various criteria they used to select retail start-ups. These were a sub-category of “Lease application requirements” in Table 1 (page 36). It is reasonable to assume that the more important criteria were mentioned by more
respondents than the less important criteria. This allows us to rank the criteria in order of importance (see the left-most column in Table 5). An equal ranking means the same number of respondents mentioned this criteria.

Comparing these criteria to Lussier’s (1996) start-up retailer success variables yields some interesting insights:
Table 5. Linkages between the respondents’ selection criteria and small retailer success criteria (Lussier, 1996)

<table>
<thead>
<tr>
<th>Respondents’ Selection Criteria</th>
<th>Lussier’s Success Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Novel concept</td>
<td>• <strong>Product/service timing</strong></td>
</tr>
<tr>
<td>1. <strong>Tenant mix</strong></td>
<td>• <strong>Use professional advisors</strong></td>
</tr>
<tr>
<td>2. Good cash flow and financial forecasts</td>
<td>• <strong>Has business plan</strong></td>
</tr>
<tr>
<td>2. Clean credit record</td>
<td>• <strong>Economic timing</strong></td>
</tr>
<tr>
<td>2. Business plan</td>
<td>• <strong>Age</strong></td>
</tr>
<tr>
<td>3. Known brand</td>
<td>• <strong>Sufficient capital</strong></td>
</tr>
<tr>
<td>3. Gut instinct</td>
<td>• <strong>College education</strong></td>
</tr>
<tr>
<td>3. Look and feel</td>
<td>• <strong>Has partners</strong></td>
</tr>
<tr>
<td>4. Specialisation</td>
<td>• <strong>Parents are business owners</strong></td>
</tr>
<tr>
<td>4. Hands-on <strong>owner</strong></td>
<td>• <strong>Is minority</strong></td>
</tr>
<tr>
<td>5. Marketing plan</td>
<td>• <strong>Marketing skills</strong></td>
</tr>
<tr>
<td>5. Track record / experience</td>
<td>• <strong>Industry Experience</strong></td>
</tr>
<tr>
<td>5. Under-capitalised</td>
<td>• <strong>Management Experience</strong></td>
</tr>
<tr>
<td></td>
<td>• <strong>Attract and retain staff</strong></td>
</tr>
<tr>
<td></td>
<td>• <strong>Record keeping and financial controls</strong></td>
</tr>
</tbody>
</table>

**Notes:**
• Items in bold, underlined in the right hand column are significant variables in Lussier’s study, the other variables were found to be insignificant.

• “Tenant mix” and “specialisation” were deleted from the left hand column because these criteria are not start-up-specific. They are discussed on page 84.

• The variables “Attract and retain staff” and “Record keeping and financial controls” were deleted because they are not observable to landlords at tenant selection time.

The various linkages are discussed below:

1. Novel concept - Product/service timing link: Lussier found that products and services that were too old or too new failed. Landlords are therefore correct in avoiding start-ups with old concepts, but none of the respondents mentioned the higher risk associated with concepts that were too new. Lussier’s findings suggest that landlords are wrong to look for new concepts. They should instead look for concepts in the growth stage, not too old or too new.

   Landlords are also correct in rating this criteria highly – its corresponding variable in Lussier’s study was significant.

2. Business plan link: Landlords are correct to value business plans highly. This was a significant variable in Lussier’s study.

3. Known brand – Marketing skills link: Lussier’s study suggests that landlords place too much emphasis on this insignificant variable. This links to the respondents’ preference for franchised businesses.

83
Other links: The other links originate from poorly-ranked criteria. The associated variables were also found to be insignificant in Lussier’s study.

The comparison of Lussier’s (1996) variables and the landlords’ selection criteria reveals that the criteria that landlords use for start-up selection could be improved.

Tenant mix

The results confirm Brown’s (1993) view that the majority of developers, retailers and planners believe that direct competition in shopping malls is best avoided. The respondents all believed that tenant mix – a collection of contrasting yet complementary shops – was the best way for a landlord to extract maximum value from a retail development.

One respondent suggested that a good tenant mix consists of established and new brands. The established brands attract shoppers and the new brands provide excitement. While this makes intuitive sense, the researcher found no literature to support this claim. A deeper search of the literature at the marketing-level should be done.

Specialisation

The respondents described numerous smaller centres that had established a specialist tenant mix in order to compete effectively with larger centres. This approach was recommended by Kirkup and Rafiq (1999). Start-ups should be aware of the specialist mix in all small centres they consider leasing space in. They should also be wary of
leasing space in a centre without a specialisation, given that such centres are known to
compete poorly with larger nearby centres (Kirkup & Rafiq, 1999).

Conclusion

*Alignment of environmental and start-up-specific evaluation criteria*

Figure 7. The “sweet-spot” model highlights the ideal alignment of start-up-specific
and environmental evaluation criteria

This model differentiates between the criteria over which start-ups have control (start-
up-specific criteria) and those over which they do not (tenant mix and specialisation).
It says that a start-up will have a good chance of leasing prime space when these three
criteria align. The criteria are described below:
- **Specialisation (environmental):** The start-up must fit the specialist image of the centre. Hardware stores are unlikely to be considered for tenancy in a specialist fashion mall.

- **Tenant mix (environmental):** The start-up must contribute positively to the tenant mix. Landlords are unlikely to allow direct competitors into the same centre within close proximity.

- **Start-up-specific criteria:** This includes having a good business plan, a growth concept, etc. They are described in the “start-up criteria” model below.

### Start-up criteria

![Criteria Spoke Model](image)

**Figure 8.** The “criteria-spoke” model identifies key criteria used by landlords when evaluating start-ups
This model identified eight key criteria that landlords use to evaluate start-up businesses. It highlights “Growth concept” and “Business plan” as the most important factors given that they are empirically correlated with start-up success.

**Conclusion**

By research question, the models that were derived are:

**Question 1:** *How accessible is prime retail space to start-up retailers and what are the factors that influence this?*

- **Factors and drivers model (Figure 2, page 72):** Explains the start-up-specific factors influencing landlord decision making with regards to start-up access to prime retail space.
- **External factors model (Figure 3, page 74):** Describes the external factors influencing a start-up wanting to lease prime space.
- **Start-up categorisation matrix (Figure 4, page 75):** Categorises start-ups according to novelty and risk.

**Question 2:** *What strategies are used by start-ups to gain access to prime retail space?*

- **Primary strategies model (Figure 6, page 80):** Describes the primary strategies used by start-ups to access prime space.

**Question 3:** *What criteria are important to landlords who lease prime retail space to start-up retailers?*
• **Sweet spot model (Figure 7, page 85):** Highlights the ideal alignment of start-up-specific and environmental evaluation criteria.

• **Criteria-spoke model (Figure 8, page 86):** Identifies key criteria used by landlords when evaluating start-ups.

Furthermore, it makes sense to integrate the “factors and drivers” model and the “sweet spot” model to describe more fully the landlord’s “decision stack”:

![Decision Stack Diagram]

**Figure 9. The "decision stack" model highlighting the building blocks of landlord decision making with regards to leasing prime space to start-ups**

“Novelty” and “risk” are taken directly from the “factors and drivers” model. They are factors under the direct control of the start-up and form the upper layers of the pyramid. “Tenant mix” and “specialisation” are drawn from the “sweet spot” model. They are environmental factors and form the bottom layers. The layered pyramid
shape implies that if the start-up is disqualified by one of the lower layers, it makes no
difference how well it satisfies the upper layers – they are irrelevant. The
environmental factors form the bottom layers because they should be considered first.
7. Conclusion

Findings

The study finds that prime retail space is not easily accessible to start-ups. However, it also provides a deeper understanding of the context in the form of a set of explanatory models for the phenomena observed. Armed with this information, start-ups can modify their approach and vastly improve their access to prime space.

The first model developed is the “factors and drivers” model (Figure 2, page 72). This model explains that start-up-specific factors influencing landlords when marking leasing decisions regarding start-ups. This model identifies risk and novelty as two key factors. Furthermore, it proposes that novelty is only relevant when the landlord is comfortable with the level of risk related to leasing prime space to the start-up.

The model goes further to describe the drivers of these two factors. Risk has three drivers. The first is the number of existing stores (more stores equates to lower risk). The second is the impact on the landlord if the start-up fails (the consequences of vacant space, costs of re-leasing, etc.). The third is the tenant’s commitment to the start-up (measured by the strength of the personal surety and other, subjective factors). The degree to which novelty matters to landlords depends on how much competition they face from other malls to attract shoppers. The more competition there is, the greater the landlord’s need to differentiate. In order to differentiate, the landlord needs start-ups with novel concepts.
The “external factors” model (Figure 3, page 74) describes the four key external factors influencing a start-up seeking to lease prime space. The first is vetting by landlords. This means that landlords use their personal, subjective judgement to assess the start-up’s prospects for success.

The second is personal impact. It describes the impact leasing prime space is likely to have on the owner personally. This includes working long hours and being required to be present in the store virtually at the time.

The third is the new mall leasing process which refers to the structural discrimination faced by small businesses seeking to lease space in new developments. Larger retailers get first choice of space because the financiers of shopping malls require their commitment before funds are made available for construction.

The fourth factor is the industry structure. It refers to the higher rentals paid by small businesses as well as the exclusivity clauses wielded by larger retailers.

The “start-up categorisation” matrix (Figure 4, page 75) categorises start-ups according to novelty and risk. Four distinct categories emerged. They are the “expanders” (low risk, low novelty), the “outposts” (high risk, low novelty), the “exotics” (low risk, high novelty) and the “snowflakes” (high risk, high novelty). Tenants for a given shopping centre can also be plotted on this matrix. This gives the landlord a visual representation of the balance between risk and novelty in the centre.

The “primary strategies” model (Figure 6, page 80) describes the four primary strategies used by start-ups to access prime space. The first is having a novel concept.
The second is attracting the personal interest of the landlord such that he or she will bend the necessary rules in order to give the start-up access to prime space. The third is incubation whereby a start-up first leases secondary space in order to prove its concept before advancing to prime space. The last strategy is franchising – landlords preferred to lease prime space to a franchise rather than a non-franchise start-up. However, some controversy surrounds this strategy given that researchers have found no conclusive evidence to suggest that franchised start-ups have higher survival rates (Bates, 1995; G. Castrogiovanni & Justis, 2007; Stanworth et al., 1998).

The “sweet spot” model (Figure 7, page 85) was also developed. It highlights the interplay between start-up-specific evaluation criteria (such as having a growth concept, business planning, etc.) and environmental criteria such as the specialisation of the centre and tenant mix. In situations where start-up-specific evaluation criteria, specialisation and tenant mix align, the start-up has a good chance of being able to lease prime space.

The “criteria-spoke” model (Figure 8, page 86) identifies key criteria used by landlords when evaluating start-ups. It emphasises the “growth concept” and “business planning” criteria given that studies have shown that these criteria are associated with business success (Lussier, 1996).

The most significant finding was the landlord “decision stack” model (Figure 9, page 88). The layers in the stack are – starting from the bottom – specialisation, tenant mix, risk and novelty. Start-ups are evaluated against the stack from the bottom up. If the
start-up is disqualified by one of the lower layers, it makes no difference how well it satisfies the upper layers – they are irrelevant.

**Recommendations**

**Start-ups**

Based on the “factors and drivers” model (Figure 2, page 72), start-ups should focus on risk and novelty in their applications for prime space. Furthermore, start-ups should focus on satisfying the landlord’s concerns regarding risk before emphasising the novelty of their concepts. Start-ups must also address the three drivers of risk in order to shape the landlord’s perception of risk.

Start-ups must be aware of the factors mentioned in the “external factors” model (Figure 3, page 74). Of particular concern is that landlords will subjectively vet the viability of the start-up, even though they may not be qualified to do this. Start-ups must be prepared to assist the landlord in understanding their businesses so that the landlord can be satisfied that the business is viable.

When start-ups search for prime space, they should look for alignment in the factors identified in the “sweet spot” model (Figure 7, page 85). Only when conditions for specialisation, tenant mix and start-up-specific evaluation criteria are met will the start-up be eligible to lease prime space. Start-ups seeking prime space under circumstances where all these conditions are not met are wasting their time.
Start-ups should also be keenly aware of the criteria identified by the “criteria-spoke” model (Figure 8, page 86). Landlords will be judging them by these criteria and they should seek to manage impressions related to these criteria.

The “decision stack” model (Figure 9, page 88) is also useful for start-ups. They should consider how landlords will evaluate them against this stack when they apply to lease prime space. Stressing the novelty of their concept is a waste of time if the specialisation of the centre disqualifies them outright.

**Landlords**

As highlighted by the “primary strategies” model (Figure 6, page 80), franchised start-ups are not necessarily less likely to fail than non-franchise start-ups (Bates, 1995; G. Castrogiovanni & Justis, 2007; Stanworth et al., 1998). Landlords need to carefully consider their stances with regards to start-up franchises. They need to make a greater effort to understand which franchises are likely to succeed and which not. This study has identified the level of support provided by the franchisor as an important criterion. Landlords should consider this in their leasing decisions.

The “criteria-spoke” model (Figure 8, page 86) enumerates the various criteria used by landlords to evaluate a start-up. However, studies suggest that many of these criteria are not predictors of start-up success (Lussier, R.N. 1996). Landlords should place more emphasis on those that are. “Growth concept” and “business planning” are the only two criteria associated with start-up success.
Furthermore, the data revealed that landlords search for novel concepts rather than growth concepts. Studies have shown that start-ups with concepts that are too new or too old are likely to fail ([173 Lussier, R.N. 1996]). As such, landlords need to be aware of the risks associated with selecting concepts that is too novel. They should instead search for growth concepts.

The landlord “decision stack” model (Figure 9, page 88) forms the basis for a decision making framework for leasing decisions regarding start-ups. It was clear from the data that landlords have no real framework for leasing decision making, regarding start-ups or otherwise. By adopting a framework, landlords will become more consistent in their decisions and they will also improve their odds of leasing to successful start-ups.

It also emerged from the data that inexperienced, junior leasing professionals are often tasked with dealing with start-ups. By giving them a formal framework, they would be better equipped to reject the obviously flawed start-ups and bring the more promising ones to their leasing committee meetings for further discussion. This would lower costs and improve quality.

Landlords seldom communicate their decision making criteria to start-ups. If start-ups knew what they would be evaluated on, they would be able to package and prepare that information in an easily accessible format for landlords. Instead, start-ups are left in the dark while landlords attempt to analyse the start-up with limited information. Again, if a framework similar to the “decision stack” model (Figure 9, page 88) were adopted and communicated to start-ups, information flow would be improved, leading to better decision making.
Future research

The potential research agenda is long and varied. A quantitative study regarding the distribution of prime retail space across retailers of various sizes and age would be interesting. All of the models derived need to be tested quantitatively.

Furthermore, the relationship between risk and novelty with regards to start-ups and prime retail space should be studied further. An empirical study of shopping malls which plots their tenants on a risk-novelty scale could yield fascinating results. The development of a risk-novelty index for shopping malls would enable further quantitative testing. The link between such an index and mall performance could be explored.

The study has ignored the distinction between malls and non-malls. Leasing decisions for malls are typically under the direct control of a single decision making body, while non-malls (such as high streets) have many leasing decision makers. It would be of interest to investigate these differences.

A study similar this but focusing on start-ups could also yield very interesting results, especially if successful start-ups are compared to unsuccessful ones. Case study research into this field could also yield some deeper insights and serve to either confirm or refute some of the findings of this study.
References


Johannesburg: GIBS.


leid=1399


Appendices

A. Interview Guide

Figure 10. Interview guide
B. Interview Summary

Figure 11. A sample interview summary (intentionally illegible in order to protect confidentiality and anonymity)
C. Categorisation

Figure 12. The categorisation mind map (intentionally illegible in order to protect confidentiality and anonymity)
## D. Shopping Centre Classifications

### Table 6. Classification and hierarchy of retail facilities in South Africa (Prinsloo, 2010)

<table>
<thead>
<tr>
<th>Type of Centre</th>
<th>Size of centre (m²) (GLA)</th>
<th>Trade area</th>
<th>Access Requirements</th>
<th>No. of households</th>
<th>Population</th>
<th>Socio-economic groups</th>
<th>Ave Radius (km)</th>
<th>Median Travel time (minutes)</th>
<th>Main tenants</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CORE CLASSIFICATIONS</strong></td>
<td></td>
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</tr>
<tr>
<td>Small free standing and convenience centre</td>
<td>500 – 5 000 5-25 stores</td>
<td>Serves part of a suburb</td>
<td>Suburban street</td>
<td>LSM 1-5, (&lt;10 000)</td>
<td>&lt;40 000</td>
<td>All LSM groups</td>
<td>1 – 1.5</td>
<td>&lt;3</td>
<td>Café/Superette, few convenience stores</td>
</tr>
<tr>
<td>Neighbourhood centre</td>
<td>±5 000±12 000 25-50 stores</td>
<td>Centrally located for a group of suburbs</td>
<td>Major collector roads</td>
<td>LSM 1-5, (20 300-47 000)</td>
<td>±135 000</td>
<td>All LSM 4-10</td>
<td>2</td>
<td>4-9</td>
<td>supermarket, convenience, some small specialised stores</td>
</tr>
<tr>
<td>Community centre</td>
<td>±12 000±25 000 50-100 stores</td>
<td>Strategically located to serve a suburban community</td>
<td>Major arterial road</td>
<td>LSM 1-5, (44 000-103 000)</td>
<td>±295 000</td>
<td>All LSM 4-10</td>
<td>3</td>
<td>6-14</td>
<td>large supermarket, convenience, small national clothing, restaurants &amp; takeaways, services</td>
</tr>
<tr>
<td>Small regional/ Large community centre</td>
<td>±25 000±50 000 75-150 stores</td>
<td>Specific sub region of city (can be large self contained community, i.e. Chatsworth)</td>
<td>Major suburban arterial road linking to a provincial highway</td>
<td>LSM 1-5, (90 000-209 000)</td>
<td>±600 000</td>
<td>All LSM 4-10</td>
<td>5</td>
<td>10-16</td>
<td>large supermarket, 1 or 2 large clothing anchors, Strong national tenant comparison goods component, boutiques, restaurants, entertainment, services</td>
</tr>
<tr>
<td>Regional centre</td>
<td>±50 000±100 000 150-250 stores</td>
<td>Large region of city/or whole city/rural towns</td>
<td>Major arterial road usually a Provincial main road linking to a National road</td>
<td>LSM 1-5, (180 000-420 000)</td>
<td>±1 200 000</td>
<td>All LSM 4-10</td>
<td>8</td>
<td>14-20</td>
<td>large supermarket, (even 2) or hyper, 3 or more large clothing, small clothing stores and boutiques, entertainment, restaurants, services, convenience</td>
</tr>
<tr>
<td>Type of Centre</td>
<td>Size of centre (m²)(GLA)</td>
<td>Trade area</td>
<td>Access Requirements</td>
<td>No. of households</td>
<td>Population</td>
<td>Socio-economic groups</td>
<td>Ave Radius (km)</td>
<td>Median Travel time (minutes)</td>
<td>Main tenants</td>
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</tr>
<tr>
<td>Super regional centre</td>
<td>&gt;100 000</td>
<td>Large region in city and surrounding areas/Tourists</td>
<td>Major arterial road usually a Provincial main road, linking to a National road</td>
<td>±623 000</td>
<td>±217 500</td>
<td>LSM 6-9, (106 000-250 000) LSM 10-10+, (44 000-101 000)</td>
<td>10+</td>
<td>24-30</td>
<td>as at regional but more emphasis on entertainment and variety</td>
</tr>
</tbody>
</table>

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