

CHAPTER 4

SMALL BUSINESS TENANTS IN SHOPPING CENTRES

4.1 INTRODUCTION

It is increasingly recognised all over the world that small businesses, especially those with potential to grow, play an important role in the economic and social development of countries (Craig *et al.*, 2007:117; Crosby *et al.*, 2006:164; Nieman & Niewenhuizen, 2009:12; Wickham, 2006:39). Much employment is generated by small businesses and it is widely considered to be vital for competitiveness and economic growth (Caniëls & Romijn, 2005:591; Nieman & Niewenhuizen, 2009:14; Stokes & Wilson, 2010:152). It is from this understanding that the South African Government has since 1994 strived to create a favourable environment for small businesses as vehicles to address the challenges of job creation, poverty alleviation, economic growth and equity (Department of Trade and Industry, 1995:vii; Rogerson, 2004:765). The major role played by the government since then is through institutional restructuring, policy and regulatory reform that create a favourable environment for various institutions to work together and support small businesses in the country. If leases to small businesses in shopping centres were found to be inhibiting their ability to survive and to grow, it would be a cause for considerable concern that would be contrary to the Government's efforts.

Retail land uses constitute a significant part of the urban environment in all developed, as well as in a substantial and growing proportion of developing countries (Prinsloo, 2010:1). It is therefore important that careful consideration should be given to retail location. Retail location has long been considered as an important strategic business decision for a number of reasons (Yan & Eckman, 2009:24). Firstly, customers' store choice decisions are to a large extent influenced by accessibility of retail locations according to spatial interaction models, which indicate the relationship between a customer's perception of utility and

characteristics of a destination. Secondly, a sustainable competitive advantage through location strategy can be developed by retailers (Levy & Weitz, 2009:210). The most crucial measures of a location's and site's value are however, the number and type of people passing by. The site with the most pedestrian traffic therefore is often the best location for a business (Berman & Evans, 2010:287).

In South Africa, retailers, and in particular small business retailers, have a number of location options, ranging from unplanned retail locations such as CBDs to planned shopping centres. Small businesses have come to realise the advantages of locating their businesses in shopping centres. Shopping centres play a major role in attracting customer traffic to all the tenants because it is convenient for customers and, it provides an assortment of merchandise that in many cases exceeds that of the CBD (Levy & Weitz, 2009:201; Rajagpal, 2009:99; Roberts, Merrilees, Herington & Miller, 2010:598). Binding many stores under one roof creates a synergy that attracts more customers than if the stores were located in separate locations. In most cases, there will be a shopping centre only a short drive from home and parking is not such a problem as in the CBD.

Although planned shopping centres are an excellent site option for most businesses, they have some disadvantages. Firstly, the leasing fees in centres are relatively higher than those of some free-standing- and CBD sites. For small business this is especially troublesome because it can lower their eventual profits considerably. Secondly, shopping centres often limit retailers' flexibility in that landlords may require uniform hours and may specify the size and type of exterior design. Finally, competition within some shopping centres can be intense. It may be difficult, especially for small speciality stores, to compete directly with larger department stores (Levy & Weitz, 2009:201).

In spite of these difficulties, many small businesses found that the advantages of locating in shopping centres far exceed the disadvantages. The landlord however, has a huge impact on small business tenants in shopping centres. The objective of this research study is to explore this relationship and to determine what the level of perceived service quality is that small business tenants receive from their landlords in shopping centres.

In the previous two chapters, literature on services and service quality were analysed. Since the main objective of this research study is to investigate the service quality that small business tenants receive from landlords of shopping centres, this chapter will give an overview of shopping centres, small businesses in shopping centres and the relationship between tenants and the landlord.

4.2 INTRODUCTION TO SHOPPING CENTRES

The concept of the enclosed shopping centre became popular during the 1950s and early 1960s when business declined in many CBD's. During this time, shopping centres have become a popular way to build retail and it has since then dramatically reshaped retailing across the world (Carter, 2009:166; Kajalo & Lindblom, 2010:47). Shopping centres have perhaps been the most successful retail business concept of the last 50 years and have become the most powerful and adaptable machine for consumption that the world has ever seen (Beyard & O'Mara in Kajalo & Lindblom, 2010:47; Goedken, 2006:80). In fact, shopping centres also play a major role in customers' lifestyles and have become a community centre for social and recreational activities (Damian *et al.*, 2011:471; Howard, 2007:666; Lotz, Eastlick, Mishra & Shim, 2010:402; Meyer-Ohle, 2009:124; Miller, 2009:33; Mirel, 2008:31; Misonzhnik, 2011; Ng, 2003:449; Rintamäki, Kuusela & Spence, 2006:7; Terblanche, 1999:141).

The first shopping centres, as we know them today, were introduced in the USA during the 1950s and it has been estimated that there are currently almost 91 000 shopping centres in the USA, of which 1 100 are fully enclosed (Berman & Evans, 2010:281). Recently, shopping centre traffic and sales have however been declining in the USA and today limited resources are being spent on new shopping centre development. Since the mid-1990s, at least 300 older shopping centres in the USA, each with one or two anchor stores, have shut down (Levy & Weitz, 2009:202). Only five new shopping centres per year have opened between 2000 and 2005 and since 2006 no new enclosed regional malls have opened in the USA (Bodamer, 2011). During the past three years however, there have been numerous reports

that regional shopping centres in the USA have weathered the storm better than any of their supposed replacements, such as lifestyle centres (Bodamer, 2010; Bodamer, 2011; Misonzhnik, 2010; Misonzhnik, 2011).

The first completely covered shopping centre in South Africa was Hyde Park Corner, developed in 1969, and the first regional shopping centre was Sandton City that opened in 1973 (Cloete & Skinner, 2002:22). In contrast with the situation in the USA, South Africa has seen unprecedented growth in the demand for shopping centre retail space during the past 15 years, resulting in a significant shift in shopping focus from CBDs to suburban areas (Uys, 2009). In the five year period between 2006 and 2010, South Africa recorded the highest boom period ever in terms of shopping centre development, with the total amount of new retail space built over this period being an incredible 2,8 million square metres (Muller, 2009:21). From 2000 to 2005 1,4 million square metres of retail space was added to the market. Since 2007 alone, South Africa's total of shopping centres bigger than 30 000 square metres has surged by 50 percent, from 88 to 131 (Business Day, 2011a). Currently, South Africa has approximately 1 619 formal shopping centres, ranging from 1 000 square metres up to almost 150 000 square metres. These centres represent approximately 17 million square metres of an estimated 37 million square metres of all retail facilities (Prinsloo, 2010:1).

The declining market for some shopping centres in the USA may perhaps be all the more reason for shopping centre landlords in South Africa to improve their efforts in providing high quality services to their tenants. This research study may provide shopping centre landlords with the reality of how small business tenants perceive their services and may be an encouragement for them to pay attention to this important matter.

With the growing number of shopping centres, shoppers tend to be more selective. Shoppers in general are more likely to support centres that are more attractive and have a wide variety of stores and merchandise (El-Adly, 2007:937; Teller & Reutterer, 2008:130). If shoppers therefore prefer a specific shopping centre, the tenants will be more successful and they will tend to stay in the shopping centre. Shopping centres have indeed become a

prominent feature and an integral part of the modern urban landscape that today exist in towns and cities of widely divergent cultures and economies (Cloete & Skinner, 2002:2). One reason for this is that customers, in response to increasing time scarcity, have begun performing more than one activity at a time. This translates into multi-purpose shopping and one-stop shopping and accounts for the success of shopping centres (Carpenter, 2008:5; Martin, 2009:49; Reimers & Clulow, 2009:543).

4.3 DEFINITION OF A SHOPPING CENTRE

A range of definitions have been developed for shopping centres. A commonly used definition states that a shopping centre is “a group of retail and other commercial establishments that is planned, developed, owned and managed as a single property, with on-site parking provided” (Berman & Evans, 2010:280; Goedken, 2006:80; Levy & Weitz, 2009:199; Pitt & Musa, 2009:40). A definition by Haque and Rahman (2009:170) describes a shopping centre as “basically a clean, protected place, where several businesses (retail, leisure and entertainment) are gathered in self contained, roof-over space with single location parking, designed so that people could both shop and spend time in a pleasurable atmosphere”.

4.4 TYPES OF SHOPPING CENTRES

Various types of shopping centres may be distinguished in relation to functional, locational and physical criteria. Although South African shopping centres are in many respects similar to shopping centres in the USA and Europe, there are some differences, especially regarding the type of key tenants, the number of smaller shopping centres and the continued importance of the CBDs (Foreman, Skinner & Cloete, 2002:55). A distinction between the different types of shopping centres from a South African perspective will first be done according to their size criteria (Table 4.1) and location criteria (Table 4.2). This is done by primarily using the latest South African classification by Prinsloo (2010). Thereafter the different types of shopping centres will be briefly discussed.

Table 4.1: Size criteria of different types of shopping centres in South Africa

Type of centre	Size of centre (m ²)	Number of stores	Size of land (ha)
Small free standing and convenience	500 -5 000	5-25	0,15 – 1.5
Neighbourhood	5 000 – 12 000	25 - 50	1.5 – 3,6
Community	12 000 – 25 000	50 – 100	3,6 – 7,5
Small regional/ Large community	25 000 – 50 000	75 – 150	7,5 - 15
Regional	50 000 – 100 000	150 – 250	15+
Super regional	Bigger than 100 000	More than 250	
Lifestyle	17 000 - 50 000	50 – 125	4,5 – 12+
Value/Strip	10 000 - 50 000	20 – 40	3 – 12+

Source: Prinsloo (2010:8-44)

Table 4.2: Location criteria of different types of shopping centres in South Africa

Type of centre	Average radius of primary trade area	Median travel time to the centre	Access requirements
Small free standing and convenience	1 – 1,5 kilometres	2 – 3 minutes	Suburban street or minor collector road
Neighbourhood	1,5 - 2 kilometres	4 – 9 minutes	Major collector road
Community	2,5 – 3 kilometres	6 – 14 minutes	Major arterial road
Small regional/ Large community	3 – 5 kilometres	10 – 16 minutes	Major suburban arterial road linking to a highway
Regional	5 - 8 kilometres	14 – 20 minutes	Major arterial road, usually a provincial road linking to a national road
Super regional	10+ kilometres	24 – 30 minutes	Major arterial road, usually a provincial road linking to a national road

Source: Prinsloo (2010:9-38)

4.4.1 Small free standing and convenience centres

These facilities aim at satisfying the local needs of the residents within one or two adjacent suburbs. It can comprise of a single building or a number of buildings located in close proximity to each other to provide a single destination (Prinsloo, 2010:8).

These centres can consist of one tenant or a number of very small tenants. An express convenience function is mostly offered by these centres (Prinsloo, 2010:8). Small free standing and convenience centres are usually located on collector streets in suburbs.

The tenant mix normally consists of an anchor tenant that is usually smaller than 1 000 square metres. Anchors typically can include a café, superette, Woolworths Food or other smaller grocery stores such as Kwik Spar or Pick-'n-Pay Family. Other tenants are convenience retailers including a pharmacy, deli, butchery, video store, hairdresser, dry cleaner, liquor store, florist and a hardware store.

Over the past 5 to 10 years, the popularity of small free standing and convenience centres has mainly been due to more and better supermarket/grocery/food offerings. Small food anchors like Woolworths Food have moved into these types of centres to improve the attractiveness, to increase the trade area and to offer a specialised product (Prinsloo, 2010:8).

4.4.2 Neighbourhood centres

This retail facility is aimed at the suburban level with a larger impact than the local convenience centre. These centres usually service the surrounding neighbourhood within a two kilometre range for people living or working in the area (Berman & Evans, 2010:285). Neighbourhood centres can also play an intercepting role for passing traffic to other suburbs (Prinsloo, 2010:12). The three most critical aspects with regard to these centres are the following:

- a reputable, good, attractive and well known food anchor;
- the provision of sufficient parking; and
- a very good micro location offering easy access for residents from the surrounding suburbs.

Neighbourhood centres intended for the suburb(s) in the immediate vicinity, are usually located on major collector roads in suburbs or township areas offering high visibility and accessibility to passing traffic.

Neighbourhood centres are typically anchored by a supermarket and designed for convenient shopping. This centre focuses on convenience-oriented goods and services (Berman & Evans, 2010:285). The anchor tenant is usually larger than 1 400 square metres with the typical tenants being Spar, Pick-'n-Pay, Checkers, Shoprite or Woolworths Food. The preferred supermarket is in most cases a reflection of the socio-economic profile of the residents in the surrounding suburbs. In many cases the food offering is complimented with stores like Fruit and Veg City and Everfresh. Other tenants in neighbourhood centres are convenience retailers such as a pharmacy, butchery, video store, hairdresser, dry cleaner, liquor store and a hardware store. Other tenants could include specialised stores, small clothing stores, restaurants and takeaways, as well as services like medical and banking facilities (Prinsloo, 2010:12).

Examples of neighbourhood shopping centres that are part of this study are Madelief Centre with 5 971 square metres of retail space and 29 stores, Montana Corner with 7 386 square metres of retail space and 36 stores, Moreleta Plaza with 7 934 square metres of retail space and Waverley Plaza with 10 992 square metres of retail space, and 52 stores.

4.4.3 Community centres

The role of a community centre is to satisfy the need for shopping facilities between that of a neighbourhood centre and that of a regional centre. The community centre has a larger catchment area and services more households. These centres are larger than a

neighbourhood centre and are anchored by a discount department store and may have additional anchors than what the neighbourhood centres have (Levy & Weitz, 2009:200).

The definition of a community centre is often not precise and are often defined the same as neighbourhood centres and small regional/community centres.

Community centres are offering a wider tenant mix than a neighbourhood centre. These centres however, are not large enough to offer a full range of comparative tenants. Community centres are located on main arterial roads which are accessible from a number of suburbs located in the area. The site typically offers high visibility to passing traffic and accessibility to the residents in the area (see Table 4.6). Between 60 percent and 70 percent of the customers of community centres visit these centres on at least a weekly basis where they spend between 60 – and 80 minutes at a time (Prinsloo, 2010:16).

The anchor tenants are mostly large supermarkets bigger than 2 500m², consisting mostly of Spar, Pick-‘n-Pay Family, Pick-‘n-Pay and Shoprite/Checkers (or combined with a Woolworths Food store). The anchors are supported by smaller speciality stores that typically include a pharmacy, butchery, video store, hairdresser, dry cleaner, liquor store and a hardware store (Levy & Weitz, 2009:200; Prinsloo, 2010:16). Although to a limited extent, national clothing stores, boutiques and shoe stores are also included in the tenants mix. Restaurants, takeaway food stores and services like medical facilities, banking and a limited number of office tenants make up the rest of the tenants in these centres.

Examples of community shopping centres in Pretoria that are part of this study are Glenfair Boulevard with 16 800 square metres of retail space and 45 stores, Jakaranda Shopping Centre with 19 000 square metres of retail space and 54 stores, Mayville Mall with 21 000 square metres of retail space and 44 stores, Quagga Shopping Centre with 23 428 square metres of retail space and 56 stores and Waterglen Shopping Centre with 12 296 square metres of retail space and 45 stores.

4.4.4 Small regional shopping centres/Large community shopping centres

These shopping centres' role and function are mainly to satisfy the needs of the broader community and to offer a better tenant mix than the community centres. Most of these centres do not necessarily fulfil a true regional role, but rather that of a larger community facility. Some of these centres can also address the needs of a specific market segment. The tenants mix is wider and competes on both ends against community- and regional centres.

This retail facility offers a wide variety of stores, is bigger than a community centre and is at a better location with a wider tenant mix, but is not yet in the category of a regional centre.

These centres have good regional accessibility and the site offers high visibility to passing traffic and easy accessibility to the residents in the community/region.

Anchor tenants of a small regional/large community centre are one large supermarket (bigger than 4 000 square metres) with the typical tenants being Pick-'n-Pay and Shoprite/Checkers. Occasionally, one centre can have up to two food anchors. Convenience retailers are also part of the tenant mix with major national clothing anchor stores like Edgars, Woolworths and Mr Price, boutiques and shoe shops. Other tenants include restaurants, take away food stores, entertainment such as cinemas and services such as medical and banking facilities as well as limited office functions. The focus of the tenant mix is on comparative shopping in clothing and household items.

In most cases, these centres fulfil the needs of the community as well as that of a wider catchment area, because of the variety of stores available.

Examples of small regional centres/large community centres in Pretoria that are part of this study are Mall at Reds with 58 500 square metres of retail space and 118 stores, Wonderboom Junction with 40 000 square metres of retail space and 79 stores, Wonderpark

Shopping Centre with 62 950 square metres of retail space and 119 stores and Zambezi Mall with 50 000 square metres of retail space and 85 stores.

4.4.5 Regional centres

The role and function of these centres are to satisfy the needs of a large primary and secondary catchment area. These centres are often supported by a strong workforce in the immediate vicinity. Regional centres offer a wider entertainment component to attract people, especially during the evenings and for children during holiday periods. These centres also act as a catalyst for the establishment of a mixed use node with retail facilities, office firms, hotels, residential development and entertainment. These areas then develop into strong nodal areas (Prinsloo, 2010:25).

This is a large retail facility offering a wide variety of stores, sufficient parking facilities and a significant entertainment component. Regional centres are typically located near a major arterial road, usually a provincial road linked to a national road offering very high accessibility and visibility.

Regional centres can vary greatly in size and in many cases, two large supermarkets (larger than 3 500 square metres each) or one large supermarket of 8 000 square metres, are the anchor tenants (Berman & Evans, 2010:283; Pitt & Musa, 2009:43; Prinsloo, 2010:25). Typical anchor tenants will be Pick-‘n-Pay, or Pick-‘n-Pay Hyper, Shoprite/Checkers, or Checkers Hyper. A wide range of convenience retailer, clothing anchor stores such as Edgars, Woolworths, Mr Price, Foschini and Truworths, boutiques, shoe stores, restaurants, food court areas, entertainment such as cinemas, electronic games/games arcades and other services such as medical facilities, banking, cell phone service centres and office functions make up the rest of the tenant mix. The focus of the tenant mix is on comparative and destination shopping specifically in clothing and household items.

Examples of regional centres in Pretoria that are part of this study are Brooklyn Mall, with 81 830 square metres of retail space and 159 stores, Centurion Mall with 105 000 square

metres of retail space and 217 stores and Kolonnade Shopping Centre with 72 736 square metres of retail space and more than 155 stores.

4.4.6 Super regional centres

The role and function of these centres are to provide retail facilities for the whole metropolitan area, a large region, as well as national and international tourists (Berman & Evans, 2010:284; Levy & Weitz, 2009:201; Pitt & Musa, 2009:43; Prinsloo, 2010:29). These centres offer a very wide tenant mix, entertainment, services and the latest retail concepts. Super regional centres are a very large retail facility offering the widest possible variety of stores, an appealing shopping atmosphere, open and under cover parking facilities with a large entertainment component. Customers typically come as far as 15 to 70 kilometres to take advantage of the full range of merchandise and services offered by the major stores (Evans, 2010:284; Levy & Weitz, 2009:201; Pitt & Musa, 2009:43).

Super regional centres are situated in close proximity of a major arterial road, usually a provincial road linked to a national road offering very high accessibility and visibility.

These centres are characterised by the widest possible tenant mix with at least six anchor tenants that include groceries, clothing (all the national clothing brands), household goods (a wide variety of comparative home- and décor stores) and entertainment (cinemas, electronic games and exciting/fun facilities). The main focus of this type of centre is a wide range of entertainment facilities, and to provide the latest trends in all retail products and categories. New retail concepts are normally tested and first implemented on the super regional level (Prinsloo, 2010:30).

An example of a super regional shopping centre in Pretoria that is part of this study is Menlyn Shopping Centre, with 118 253 square metres of retail space and 300 stores.

4.4.7 Lifestyle centres

Lifestyle centres is an emerging retail location that are gaining popularity over traditional enclosed shopping malls, especially in the USA (LaSalle, 2006:2; Levy & Weitz, 2009:204; Little, 2006:35; Wright, 2003:24; Yan & Eckman, 2009:29). A Lifestyle centre is an open-air, pedestrian-friendly project located near affluent residential neighbourhoods that includes at least 17 000 square metres of retail space occupied by upscale national chain speciality stores and restaurants. A heavy emphasis is placed on design and landscaping, giving the lifestyle centre a village square or Main Street atmosphere (Little, 2006:35; Reimers & Clulow, 2009:544). The design of these centres allows customers to have a distinct shopping experience by walking around in an open-air plaza with individual storefronts in sight and street furniture available. These outdoor retail settings are providing an ambiance that encourages customers to feel more relaxed and enjoy their shopping experience (LaSalle, 2006:2; Levy & Weitz, 2009:204; Miller, 2009:32; Yan & Eckman, 2009:24-25).

The typical tenants that will be found in a lifestyle centre are:

- coffee shops;
- upper class restaurants;
- high fashion clothing shops;
- Woolworths and other national flagship stores;
- book shops;
- good quality home ware stores;
- music stores;
- furniture stores; and
- other speciality stores.

Examples of Lifestyle centres in Pretoria that are part of this study are Brooklyn Design Square, with 13 500 square metres of retail space and 35 stores, Lynnwood Bridge with 13 000 square metres of retail space and 29 stores and West End Life Style Centre with 23 stores.

4.4.8 Value/strip centres

The role and function of a value centre are to compliment the retail facilities that are not necessarily represented in large regional and super regional centres. These centres do not necessarily offer a full range of goods compared to other centres in the hierarchy. They are usually limited to specific product types. Only a few clothing stores are represented in this type of centre (Prinsloo, 2010:44).

Value/Strip centres normally complement other retail offerings in a particular node or sub node. These centres do not duplicate and compete with adjacent regional and super regional centres. The emphasis is on quality products at affordable prices. In some areas more than one value centre is found within the same node because of a variety of different products provided by different retailers (Prinsloo, 2010:44).

Most of these centres also offer a strong food/grocery component. The function therefore is destination and convenience driven. The value centres are mostly occupied by traders requiring large space and are destination oriented. Value/Strip centres are a collection of particular or complementary merchandise category dominant stores. The design and layout of the centre is open, with parking in front of the stores. The quality of the building is good but basic, with no extra frills (Prinsloo, 2010:44).

Some of the traders in these centres, such as Mr Price, Look & Listen and Incredible Connection are located in both shopping centres and in value centres. Sometimes a grocery store, and recently also hypermarkets, form part of the tenant mix. Value/Strip centres are in most cases complementary to traditional centres because of a different tenant mix.

There are basically two trends emerging from successful value centres, namely a location next to a regional centre, or a facility fulfilling a regional role like a Hyper store or Makro/Trade Centre. Alternative locations at highly visible and accessible locations along a main or national road prove to be more successful.

A value/strip centre could have the following type of tenants:

- specialised retailers occupying a large space, offering a wide variety of products at competitive prices, for example Incredible Connection, CD Warehouse, Hi-Fi Corporation, Sportsman Warehouse and Toys R Us (so called category killers);
- home improvement facilities like hardware, paint, furniture, tiles and interior decorating;
- a number of specific clothing stores like Clothing City and Shoe City;
- so-called factory shops;
- discounters;
- a grocery store (may vary from small to large space);
- a small component fast foods; and
- financial institutions.

For these centres to be successful, the most important requirement is to offer the right tenant mix. In the USA the equivalent of these centres are called “power centres” (Levy & Weitz, 2009:200; Pitt & Musa, 2009:43).

Examples of a value/strip centre in Pretoria that is part of this study is Montana Crossings with 20 508 square metres of retail space and Montana Value Centre with 30 stores.

4.4.9 Hyper centres

Hyper centres are providing supermarket facilities on a large scale. These centres also operate on a regional scale and were developed in the 1980s and 1990s. This concept is however not favoured by developer and retailers any more. This is now replaced with a “value/strip centre” where the hypermarket is one of the major tenants.

4.5 SHOPPING CENTRES AS INVESTMENTS

Shopping centres are built by developers and are sold to the institutional investment community. The core business of a shopping centre is therefore above all, an investment

(Musa & Pitt, 2009:198). Most of these institutions are life insurance companies and big pension funds (Pitt & Musa, 2009:46). In South Africa a great deal of the estimated 1 300 shopping centres are also owned by pension funds and life insurance companies (Muller, 2008:24). More recently, there has been a massive inflow of investment from listed property groups and private developers. The biggest mall owner in South Africa is the listed property fund Growthpoint Properties Limited who has total property assets worth R45 billion, that include regional shopping centres such as Brooklyn Mall (Pretoria), Brooklyn Design Square (Pretoria), a share in the Kolonnade Shopping Centre (Pretoria), Waterfall Mall (Rustenburg), Northgate Shopping Centre (Johannesburg) and 50 percent share in the V & A Waterfront (Cape Town) (Business Day, 2011). Old Mutual's property portfolio is worth R26 billion. Prime properties like Gateway Theatre of Shopping (Umhlanga), Menlyn Park (Pretoria), Montana Crossings (Pretoria) and Cavendish Square (Cape Town) are owned by Old Mutual. Liberty Life's property assets valued at R23 billion (including hotels and a few offices). Liberty Life's portfolio includes Sandton City and Eastgate Shopping Centre (Johannesburg). Hyprop Investments' portfolio is a substantial R17,90 billion, that includes shopping centres such as Clearwater Mall (West Rand) and Woodlands Boulevard (Pretoria) (Business Day, 2011). The Public Investment Corporation has an estimated R8 billion exposure in shopping centres (Muller, 2008:24). Private developers, such as Atterbury Property Holdings and Zenprop, have retail portfolios valued at around R7 billion and R4,50 billion respectively.

The aim of the owners of shopping centres is to secure a future stream of income in return for their capital investment. Retail property investments do offer long-term security and a reliable income stream to investors (Pitt & Musa, 2009:47; Singh, Bose & Sahay, 2010:59). The owners' main focus is therefore on making maximum profit for their investors. The quality of management in the shopping centres is an important factor that can affect the success or failure of the shopping centre and can have an influence on the profit for the owners. The shopping centre management should therefore optimise the return from the productive resource of the property, extend the productive life of the building and preserve and enhance the capital value of the centre (Musa & Pitt, 2009:198; Pitt & Musa, 2009:47).

In this way the owners seek to secure a future stream on the capital investment while also adding capital value to the investment. This quest of shopping centre management for maximum return on investment (ROI) for their owners, often serves as a spoke in the wheel when it comes to the service quality being offered to the tenants. In order to satisfy the owners, centre managers often try to cut costs when it comes to services offered to the tenants.

4.6 SHOPPING CENTRE MANAGEMENT

A shopping centre's success is dependent on the operation and management thereof. Shopping centre managers have the daunting task of identifying, understanding and meeting the ongoing needs of customers, tenants and the owners. Shopping centres' core business is however, not retailing, but the provision of a business place that includes retail space, facilities and services to the potential tenants. The core business of shopping centres is therefore to lease retail space for profit (Pitt & Musa, 2009:40). The non-core business of shopping centres is a supporting function to the core business and its tenants. This non-core business is not aimed at generating income, but at a cost ensures the effectiveness of the supporting function. This aspect of the non-core business of shopping centres is identified as managing the property and facilities (Pitt & Musa, 2009:40). For centre managers in a shopping centre to maximise the income stream, they have to optimise the operational costs. This would be the main challenge for shopping centre managers today.

Shopping centres are becoming more complex in terms of its size, type and characteristics and this complexity depicts the challenging role the management team face. From the onset, it is vital for the owner to establish excellent management teams in order to face these challenges. The reality is that all shopping centres have to compete with other shopping centres (Pitt & Musa, 2009:54) and it is therefore essential to pay attention to service quality.

The roles of the shopping centre management team include a thorough development of decision-making, managerial creativity and the art of management (Pitt & Musa, 2009:48). The management teams may differ from centre to centre, because every shopping centre

will seek and attempt to establish the right teams to face the challenges of their unique shopping centre in today's competitive environment. A joint partnership-based focus on business by all the parties involved thus seems to be important for successful shopping centre management (Howard, 1997:267). Shopping centres have to be managed just like any other business and a most precious asset of any business is its relationship with its customers and suppliers. To identify, understand and meet the ongoing needs of the customers, tenants and owners, is understandably the most consistent challenges for shopping centre management (Alter, 2008:34; Ashley, 2009:33; Pitt & Musa, 2009:48).

The shopping centre manager has a duty to ensure the success of the shopping centre. Three main aspects will be part of the operation and management of shopping centres, namely property, facilities and tenant mix (tenant mix will be discussed in the next section). It is important for the management to maintain and organise in particular the image and the physical facilities of the shopping centre. Aside from this, it is also important to retain the value of the property and optimise the operational cost (Pitt & Musa, 2009:49).

4.7 THE IMPORTANCE OF TENANT MIX

A shopping centre's marketing and financial success is dependent on many factors. Previous studies suggested tenant mix, the quality of location and accessibility, car-parking provision, internal layout, atmosphere that the facility provides, cleanliness, security, store layout and environment as among the main success factors (Haque & Rahman, 2009:179). Dornbusch (1992:9) and El-Adly (2007:946) stated that the hallmarks of a well-managed shopping centre include a clean, safe and attractive centre and, at the same time, a quality and diverse tenant mix. These factors in combination will have an influence on whether or not a developer/landlord will be successful in marketing the centre to both potential tenants and potential customers.

Among these success factors, it is widely recognised that the tenant mix of a shopping centre is most critical for all parties concerned – customers, retail tenants and the developer/landlord (Ibrahim & Galven, 2007:242; Misonzhnik, 2010; Musa & Pitt, 2009:198;

Teller & Reutterer, 2008:137; Warnaby, Bennison & Davies, 2005:894; Yiu, Xu & Ng, 2008:317). The term tenant mix refers to “having a variety of stores that work well together to enhance the performance of the entire centre as well as performing successfully as individual businesses” (Greenspan, 1987:29).

It is important for a landlord to decide on a unique identity for the shopping centre and to use this identity as basis for setting up a proper mix of tenants (Alexander in Ibrahim & Galven, 2007:241). Each tenant should be evaluated and the landlord should determine if the tenant would fit the tenant mix. A tenant plan, created through market research and lengthy investigations, will help place tenants in the accurate area of the shopping centre where they are expected to prosper (Plant, 2009; Yiu *et al.*, 2008:317). According to Ibrahim and Galven (2007:242) and LaSalle (2006:3), substantial representation among a wide range of tenant types should be a primary goal. The number and kind of stores are also linked to overall population needs (Berman & Evans, 2010:280). It is believed that tenant diversification is a great long-term investment strategy that will serve to absorb shocks when customer preferences abruptly change. The most important aspect for the owners of shopping centres and the tenants is undoubtedly traffic to the shopping centre and with the correct tenant mix, the landlord’s profit can be maximised. Chebat, Sirgy and Grzeskowiak (2009:2), Meyer-Ohle (2009:131) and Haque and Rahman (2009:179) also point out that with more and more shopping centres being opened, it is essential for landlords to differentiate what they offer to customers in order to stay competitive.

The most important element of survival for shopping centres lies with its tenants (El-Adly, 2007:946; Ibrahim & Galven, 2007:241). The tenants in shopping centres can be categorised into two types, namely traffic attractors and traffic users (Baey in Ibrahim & Galven, 2007:241). The traffic users within a shopping centre depend on the visitors drawn by the traffic attractors. These tenants are normally specialised shops such as jewellery stores, exclusive boutiques, small sunglasses shops and small business retailers such as curio shops. It is a general assumption that the smaller tenants’ survival depends on the success of the traffic attractors. A traffic attractor is typically the tenant that draws the human traffic to the shopping centre and controls the customer movement patterns within the centre (Ibrahim

& Galven, 2007:240; Mirel, 2008:29; Snyders & Cloete, 2002:364). Examples of these stores are usually large grocery stores such as Pick & Pay, Pick & Pay Hyper, Checkers, Checkers Hyper and Shoprite. Other traffic attractors can be large variety stores such as Woolworths and Game. These tenants are able to draw huge crowds to them, mainly because of their good reputation and because they have an extensive range of goods and services to offer.

These large and prominent stores within shopping centres are known as anchor tenants (Konishi & Sandfort, 2003:413; Levy & Weitz, 2009:200; Mirel, 2008:29; Pitt & Musa, 2009:44). An anchor store can be defined as “a store that increases, through its name’s reputation, the traffic of shoppers at or near its location” (Konishi & Sandfort, 2003:413; Levy & Weitz, 2009:200). For many years, it was an important aim for any landlord, to secure an anchor tenant’s lease, even before the space is available for occupation (Ibrahim & Galven, 2007:240). According to Damian *et al.* (2011:457), an anchor store is typically a unit integrated within a shopping centre with a mixed variety of stores, whose purpose is to significantly increase the centre’s appeal. Features that are typical of anchor tenants are that they are large (usually more than 600 square metres), are a national or international chain, has a strong brand (high awareness and positive response levels), contributes significantly to traffic flow into the centre (specifically generates footfall), has widespread appeal (it would trade successfully as a stand-alone unit) and usually enjoys a privileged position with regard to rent and service charges (Damian *et al.*, 2011:457).

Initially, anchors were typically supermarkets and department stores, but today’s anchors can be anything from full-service department stores, mass merchandising retailers and grocery stores, to movie theatres, restaurants, bookstores, electronic stores, upscale retailers and gourmet food and wine markets (Mirel, 2008:29). It is generally accepted that customers visit the shopping centre and that the particular anchor tenant’s presence will drive traffic to that site. This in turn helps to generate sales and profits for the other smaller independent tenants (Damian *et al.*, 2011:471; Ibrahim & Galven, 2007:242). Emphasis is also being placed on the anchor tenant’s role in creating movement patterns within the centre itself and the anchoring of zones in the centre (Snyders & Cloete, 2002:365).

Landlords are well aware of the fact that the realisation of a maximum return on their investment requires the presence of such a major tenant (Damian *et al.*, 2011:471; Ibrahim & Galven, 2007:242; Mirel, 2008:29). This is actually one of the reasons why anchor tenants are able to enjoy rents that are far less per square metre than the smaller independent retailers. Landlords are using this strategy to lure the well-established anchor tenants into their shopping centres (Levy & Weitz, 2009:200). The small retailers however, do not have much bargaining power and landlords mostly see no incentive to lower their leasing fees. The result is therefore, that small business tenants have to pay a much higher leasing fee per square metre than the anchor tenants (Damian *et al.*, 2011:471; Ibrahim & Galven, 2007:243).

It is on the other hand, important for landlords to realise that the different tenant categories (anchor stores and small independent businesses) are interdependent on attracting customers to the shopping centre. The anchor stores will attract most customers to the centre while a proportion of smaller retail tenants will add variety and help build a differentiated image to attract customers. It is evident that the success of individual tenants and the success of a shopping centre as a whole are interdependent and enhanced by the cumulative synergy generated by the tenant mix (Damian *et al.*, 2011:471; Carlson, 1991:15; Ibrahim & Galven, 2007:242; Jones, 2007:42). It is also important that shopping centre management needs to adapt and change their tenant mix strategy in response to external forces and, that they should bear in mind that the ongoing maintenance of a centre's market positioning and image will most likely require periodic incremental changes (Warnaby *et al.*, 2005:895). To ensure the overall success of shopping centres, it is also important that landlords realise the significance of rendering good quality service to all their tenants and, maintaining a good relationship with them.

4.8 THE LANDLORD-TENANT RELATIONSHIP IN A SHOPPING CENTRE

Shopping centres include a complex network of internal and external relationships that can impact on the operations and working environment of the centre (Roberts & Merrilees, 2003:1095; Whyatt, 2008:317; Yu & Ramanathan, 2008:879). The most important and most

critical of these relationships is the one between landlords and the tenants. This is also the relationship that is perhaps most loaded with potential conflict (Pharr, 2010:10). An interesting aspect of shopping centres is that their success is dependent on the success of the tenants. It can therefore be argued that shopping centres can be seen as a joint business of tenants and owners. It only makes sense then, that the relationship between landlords and all the tenants (big anchors and small businesses) should be a high priority.

In this regard, Howard (1997:267) suggests that a partnership approach among all the tenants and shopping centre management is key for the success of the centre, as collaboration in the relationships provides mutual benefits and synergies. In order to work jointly together for the mutual benefit of both parties, it will be important to develop good communication and trust between them to overcome these conflicts (Alter, 2008:34; Bodamer, 2010:6; Roberts & Merrilees, 2003:1095; Roberts *et al.*, 2010:607). In a study by Roberts and Merrilees (2003:1098) they found that a positive relationship does impact on a landlord's performance, but landlords see this impact as less significant than what the tenants thought it to be. This is in line with Perendergast, Marr and Jarratt's (1996) findings that in general, landlords rated their own performance much higher than what the tenants did.

Roberts *et al.* (2010:607) also found that landlords must realise that there is also benefits for them if trust is part of their relationship. Apart from greater harmony, there are also performance consequences of higher levels of trust, namely a higher rate of lease renewal by retail tenants. Roberts *et al.* (2010:608) feel strongly about the fact that the level of service quality provided by landlords is the most powerful way of enhancing brand attitudes and, if they want to increase the level of favourable perception of overall service quality, they need no improve the level of service quality. This would amongst other things, contribute to better relations between landlords and tenants and, increase the profits for the shopping centres.

In the opinion of Dean and Lee (1998:42), maintaining tenant satisfaction and goodwill have become as important to property management as rent collection. It is of particular

importance for landlords to ensure that their tenants stay with them, as the costs of attracting new tenants are much higher than the costs of keeping the present tenants (Ashley, 2009:34; Matzler & Hinterhuber, 1998:26; Roberts *et al.*, 2010:609). “Suburban shopping centres were the most successful retail establishments of the twentieth century.” This is the view of Carter (2009:165) and it is therefore understandable that landlords in shopping centres will have to be proactive in the area of service quality. According to Ashley (2009:35), Dogge, Dogge and Smeets (in Appel-Meulenbroek, 2008:44) and Roberts *et al.* (2010:608), satisfied tenants are more committed, making them more loyal to the landlord and are not likely to move to other premises.

One reason why so many landlords seldom keep the promise of quality service to their tenants is that it is often difficult to quantify. As a result, although they intend to make service quality a top priority, they never really know how well the objective of service quality is being achieved (Gray, 1992:48). Property managers, landlords and asset managers in the real estate industry are acknowledging the value of measuring and benchmarking the level of service quality as a technique for retaining tenants at their properties. Measuring service quality can help landlords to identify the areas that can provide them with a competitive edge and those areas that need to be improved upon (Gray, 1992:48). This research study will attempt to give landlords a service quality measurement tool to measure their tenants’ perception of service quality received from them.

4.9 LANDLORD-TENANT CONTRACT OF LEASE

The definition of a contract of lease is “an agreement entered into by the parties when the one party called the lessor, makes the use and enjoyment of property available to the other, called the lessee, in return for the payment of rent” (Jacobsberg, 2009:1; Marnitz, 2002:420). The subject matter of the lease is not the leased property itself, but the use and enjoyment thereof. The lease is therefore the contract that controls the relationship between the landlord and the tenant (Crosby, Hughes & Murdoch, 2006:164).

The relationship between the lessor and lessee is governed by the contract or by Common Law. In terms of the Common Law the lessor's (landlord's) obligations are:

- to warrant against substantial or material defects;
- to make the premises available to the lessee;
- to allow the lessee undisturbed use and enjoyment of the property (warrant against eviction);
- to maintain the leased property; and
- to pay the taxes levied against the property by any authority.

In terms of the Common Law the lessee's (tenant's) obligations are:

- to pay the leasing fee;
- to use the leased premises in a proper manner; and
- to restore the leased property on termination of the agreement to the lessor in the same condition as it was received , fair wear and tear excluded.

For shopping centres, with its variety of tenants all seeking to do business with the public, proper lease arrangements are vital for successful operation. The tenants will on the one hand be competing with each other and on the other hand should be strengthening and complementing each other (Marnitz, 2002:425). Leases between landlords of shopping centres and their tenants generally have provisions affecting all aspects of the occupation. These can include the leasing fee, the liabilities of repair and insurance, the ability to assign (sell the business) and sublet the premises to other tenants or to break (terminate) the lease before the expiry date (Crosby *et al.*, 2006:164). It is therefore clear that lease terms can have an impact on the ability of a tenant's business to develop and grow. The lease terms can inhibit or facilitate certain aspects of day-to-day operation and substantially affect cash flow for the tenant's business.

A commercial lease is however, a long and complex document that details how the premises may be used and where the relationship between the tenant and landlord is set out. It can thus be daunting, especially for small business tenants, to negotiate a lease. According to Jacobsberg (2009:1), the following clauses to the leasing contract should be considered before committing to the contract:

- **The usage clause:** a lease in a shopping centre will usually only allows the tenant to use the premises for a specified purpose. In some cases, the tenant may be restricted to trade under a particular brand name. Landlords are normally unlikely to be flexible when it comes to this clause as the viability of the shopping centre depends on having a good tenant mix.
- **Merchant Association contribution:** most shopping centres have a Merchant Association. This is a group that represents the tenants and deals with matters such as parking, use and maintenance of general areas, the marketing of the centre, and so forth. A tenant may be obliged to contribute a monthly amount (generally a proportion of turnover) towards the administrative expenses of this body.
- **Refurbishment of the tenant's store:** the tenant will normally need some time to install shop fittings and equipment before the shop can be opened and, it is unlikely that the tenant will earn an income during this period. The landlord may agree that no rental, or at least a reduced rental, be paid during this period. The landlord may however ask the tenant to finish the shop fittings and open the shop within a reasonable period of time.
- **Compulsory trading hours:** Most landlords will insist that tenants keep their stores open for a minimum number of hours per day and a minimum number of days of the week. The tenant will have to take into account the cost of keeping the business open and in particular, paying staff to work these hours, even though it may not be profitable to do so.
- **Cession and sub-letting:** it is very unusual for landlords to permit joint occupancy of premises by different businesses. This is related to the issue of tenant mix as the landlord want to retain control over the number and types of businesses in a shopping centre. If sub-letting is allowed, a tenant will need the landlord's consent in advance.

- **Option to renew:** tenants would want to renew their lease, especially if the business is successful. An option to renew is very common in retail leases, but the landlord will naturally only consider allowing the tenants to renew if they have been meticulous about paying rent and meeting other obligations during the initial period of the lease.

Landlords may be prepared to negotiate on certain terms of leases, but they can normally afford to be flexible only up to a certain point. Jacobsberg (2009:1) advises that small business tenants in particular employ an appropriate professional to help them through the process of negotiating a lease. The terms of many retail leases are detailed and complicated and the advice of an attorney with the necessary experience is essential.

Before small businesses in shopping centres are discussed, it is necessary to define a small business and briefly look at the most important constraints they are facing.

4.10 DEFINITION OF SMALL BUSINESS

Unemployment is one of the most important challenges faced by the government of South Africa. This has been made worse by the fact that over the last two decades, the formal economy (especially mining) has been shedding jobs and many workers were retrenched. Furthermore, every year hundreds of thousands of new job seekers (the vast majority of them youth) join the army of the unemployed.

It is accepted worldwide that the development and growth of small, micro and medium enterprises (SMMEs) can play an important role in turning this situation around. Policies and programmes to support the development of SMMEs are therefore an important part of the democratic government's programmes to create a better life.

A strategy was outlined in a White paper by the Department of Trade and Industry (the lead department for SMME development) entitled: "A National Strategy for the Development of

Small Business in South Africa (May 1995)”. A year later, the National Small Business Act was passed by Parliament, which provided a way for the institutions to implement this strategy. Small businesses include a wide variety of business types that are independently owned, operated and financed. The definition of small business varies between countries. The most common criterion used to distinguish between large and small businesses is the number of employees. Other criteria include sales revenue, the total value of assets and the value of owners’ equity (Hatten, 2003:5). In South Africa, the National Small Business Act No. 102 of 1996 defines a small business as:

“A separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or subsector of the economy mentioned in column one of the Schedule (see Table 4.3 on the next page) and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria mentioned in columns three, four and five of the Schedule (see Table 4.3) opposite the smallest relevant size or class as mentioned in column 2 of the Schedule” (National Small Business Amendment Act, 2003).

Table 4.3 is presented on the next page.

Table 4.3: Classification of small businesses in terms of National Small Business Amendment Act, Act 26 of 2003

Sector or subsector in accordance with the Standard Industrial Classification	Size of class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Agriculture	Medium	100	R 5.00 m	R 5.00 m
	Small	50	R 3.00 m	R 3.00 m
	Very small	10	R 0.50 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Mining and Quarrying	Medium	200	R39.00 m	R23.00 m
	Small	50	R10.00 m	R 6.00 m
	Very small	20	R 4.00 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m
Manufacturing	Medium	200	R51.00 m	R19.00 m
	Small	50	R13.00 m	R 5.00 m
	Very small	20	R 5.00 m	R 2.00 m
	Micro	5	R 0.20 m	R 0.10 m
Electricity, Gas and Water	Medium	200	R51.00 m	R19.00 m
	Small	50	R13.00 m	R 5.00 m
	Very small	20	R 5.10 m	R 1.90 m
	Micro	5	R 0.20 m	R 0.10 m
Construction	Medium	200	R26.00 m	R 5.00 m
	Small	50	R 6.00 m	R 1.00 m
	Very small	20	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Retail and Motor Trade and Repair Services	Medium	200	R39.00 m	R 6.00 m
	Small	50	R19.00 m	R 3.00 m
	Very small	20	R 4.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Wholesale Trade, Commercial Agents and Allied Services	Medium	200	R64.00 m	R10.00 m
	Small	50	R32.00 m	R 5.00 m
	Very small	20	R 6.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Catering, Accommodation and other Trade	Medium	200	R13.00 m	R 3.00 m
	Small	50	R 6.00 m	R 1.00 m
	Very small	20	R 5.10 m	R 1.90 m
	Micro	5	R 0.20 m	R 0.10 m

Table 4.3 continues on the next page.

Table 4.3: Continued

Sector or subsector in accordance with the Standard Industrial Classification	Size of class	Total full-time equivalent of paid employees Less than	Total annual turnover Less than	Total gross asset value (fixed property excluded) Less than
Transport, Storage and Communications	Medium	200	R26.00 m	R 6.00 m
	Small	50	R13.00 m	R 3.00 m
	Very small	20	R 3.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m
Finance and Business Services	Medium	200	R26.00 m	R 5.00 m
	Small	50	R13.00 m	R 3.00 m
	Very small	20	R 3.00 m	R 0.50 m
	Micro	5	R 0.20 m	R 0.10 m
Community, Social and Personal Services	Medium	200	R13.00 m	R 6.00 m
	Small	50	R 6.00 m	R 3.00 m
	Very small	20	R 1.00 m	R 0.60 m
	Micro	5	R 0.20 m	R 0.10 m

Source: National Small Business Amendment Act No. 26 of 2003

4.11 THE ROLE OF SMALL BUSINESSES IN SHOPPING CENTRES

Small businesses require suitable locations to do business in (Crosby *et al.*, 2006:164). It is common knowledge that location is one of the most important factors behind business competitiveness. Small businesses therefore seek space in shopping centres, which they see as good locations for their businesses because the site with the most pedestrian traffic (like shopping centres) is often the best location for a small business (Berman & Evans, 2010:287).

Small businesses often give character and uniqueness to a shopping centre and are indeed essential to the success of a shopping centre (Haber, 2009; Ibrahim & Galven, 2007:243). Developers and landlords of shopping centres admit that they need variety in their tenant mix because they do not want one shopping centre end up looking like the next one (Plant, 2009; Whittemore, 1992:53). In their research, Chebat *et al.* (2009:2) found that shopping

centres with a variety of different stores are likely to be more favoured by customers than centres with less store assortment. According to Ibrahim and Galven (2007:243) and Haber (2009), another advantage that small tenants have over larger stores, is the fact that they are more sensitive and more flexible in providing for the ever-changing needs of the customers. Another important fact to remember is that small business retailers yield higher rentals per square metre as compared to anchor tenants in the same shopping centre (Ibrahim & Galven, 2007:243).

Although landlords of shopping centres realise the importance of accommodating small independent businesses in their centres, it is still argued today that they are at a competitive disadvantage regarding several issues. Kinnard and Messner (1972:21) state that since at least 1960, there has been documentary evidence in support of the claim that small retailers in shopping centres are discriminated against when it comes to prime retail locations in shopping centres. Fickes (2002:20) admits that small tenants “may be getting squeezed out of better centres here and there”. Even if a small business gets hold of a space in a shopping centre, their difficulties do not stop there. The fact that small tenants pay a much higher leasing fee per square metre than the anchor tenants is often the cause of inter-tenant tensions that impact on the overall relationship between disaffected tenants and landlords (Roberts *et al.*, 2010:599). Crosby *et al.* (2006:183) also point out that, although small business tenants get different leases in comparison with larger tenants, it does not necessarily mean that their leases are appropriate to their needs. It does not mean that a lease that suits one small business tenant will also suit another small business tenant. They may have different needs with regard to the length of a lease and also the flexibility to exit their leases early by way of assignment, subletting or a break. Because the needs of small business tenants differ, an appropriate outcome will hinge on the individual tenant’s ability to appreciate their business needs and to negotiate effectively (Crosby *et al.*, 2006:183).

Another potential conflict area between small business tenants and landlords is to centre promotions. The small tenants often perceive that they are excluded from promotional ventures that focus primarily on the larger anchor stores (Roberts *et al.*, 2010:599).

Alter (1999:61) argues that small independent tenants often fail due to a deficiency in areas such as business knowledge, money, customer service, and merchandising or marketing. While no landlord can ensure that all tenants succeed, Alter (1999:61) suggests that learning to help tenants avoid these all-too-familiar problems and can help to increase turnover.

4.11.1 Lack of business knowledge

Although small business tenants may be very knowledgeable about their particular field, they may not be shrewd businesspeople. Holmes (2006:1) concurs fully with this and says that “statistics reveal that 90 percent of small business failures are due to a lack of knowledge or skills on the part of the entrepreneur”. In a study done by Crosby *et al.* (2006:183) for instance, they found that many small business tenants are not aware of the implications of leases and take little appropriate advice prior to signing leases. Their priorities, especially when it comes to lease negotiations, are dictated by immediate operational needs and little consideration is given to future and longer-term requirements. They found that in most cases, small tenants will not address issues such as the type of lease, assignment, subletting and breaks.

4.11.2 Inadequate finances

Together with a lack of business skills, a lack of capital is among the major reasons for the high failure rates among small businesses (Lotz & Marais, 2007:694; Strydom & Tustin, 2004:1). These aspects make it more difficult for small businesses to face competition and as a result, they have a high mortality (Makatiani, 2006:1). This holds especially true for small business tenants in shopping centres as they are faced with high leasing fees. According to Carswell (2008), these leasing fees of small business tenants can be up to ten times the amount per square metre than what the anchor tenants pay. Although this disparity between the rents paid is justified by the fact that anchor tenants are magnets for the smaller tenants and provide them with high foot traffic, they often simply do not have the sales to meet the leasing fees (Carswell, 2008). Another drawback for small business tenants is the

fact that they normally secure short-term leases that provide built-in mechanisms for increasing the leasing fees whenever deemed necessary by the landlord (Fickes, 2002:20).

It is also critical that the tenant and landlord understand how the new store will be financed and what it will take to actually run it. Often, small start-up tenants may not understand that their work is not complete and their worries less, once the store opens. They often do not have adequate cash to cover their first six to twelve months in business. Sometimes they are unprepared for the fact that they may not make money immediately (Alter, 1999:62). Small business tenants that are independently owned and managed, usually with a relatively low volume of sales have no “big brother” company to carry them through tough economic times. As a result they are inevitably the first to close their door under financial pressure (Uys, 2009).

4.11.3 Inferior customer service

Small business tenants do not always understand how crucial good service quality to their customers can be, or they may not have the knowledge on how to achieve good service quality. Lack of experience in this regard may be one of the most pressing problems (Hatten, 2003:23).

4.11.4 Poor merchandising

Small tenants do not have the research capacities of large, national chain stores, but they should not neglect the demographic and market research needed to pinpoint their customers (Alter, 1999:64).

While landlords and shopping centre managers cannot make up for limited business savvy or finances on a small tenant’s part, it is certainly possible to help tenants by taking a proactive approach.

Alter (1999:64) suggests the following on how landlords and small tenants can help themselves:

- Firm qualification procedures should be put in place by landlords. Prospective tenants have to give landlords a business plan, including their current financial statements. Landlords should familiarise themselves with the tenant's business and feel comfortable that the small tenant can be successful.
- Landlords must make sure their prospective tenant fits the tenant mix in the shopping centre. They have to take a close look at their new tenant's placement in the centre, and their compatibility with the other users.
- Landlords should be a source of information and be resourceful towards tenants. Landlords should provide their tenants with good customer service.
- Landlords should share information with their tenants about industry norms and standards, retailing and marketing.
- If possible, landlords should provide additional marketing opportunities for tenants within the centre.
- Landlords could develop training programmes on customer service, loss prevention, and merchandising for the small tenants and their employees.
- Landlords should encourage communication with the tenants by visiting their stores and talking with them about problems that they might experience.

In spite of all these suggestions and assistance offered to help small tenants in shopping centres, the reality often looks totally different. Quite often the landlord is victimising and bullying the small business owners in shopping centres, especially with regards to the lease agreement (Barios, 2007; Carswell, 2008; Cockram, 2002:43; Nieman, 2000:12; Roberts *et al.*, 2010:599). Landlords seldom budge on any clauses or fees when it comes to small businesses. They are treating small tenants with an attitude of "take it or leave it".

Nieman (2000:12) indicates that the following clauses in most lease agreements are discriminatory and not small business-friendly:

- Trading hours are enforced without consideration of the cost or limited manpower. Quite often merchants' associations are run and dominated by the anchor tenants and it is here where shop hours and other rules are often introduced.
- The landlord must approve shop fronts and fittings. Often these are ridiculous expectations from the centre architect for the sake of aesthetics, and thus ignoring that beauty is in the eye of the beholder.
- Businesses cannot be sold without the prior approval of the landlord.
- Lease agreements cannot be transferred to another party without prior approval of the landlord. Quite often a small tenant wants to cancel their lease and finds another tenant but then the landlord refuses to release the entrepreneur from his or her obligations.
- Enforcement of electronic point of sales systems with the right of direct access to information by the landlord. With this clause landlords ignore the right to confidentiality.

4.12 CONCLUSION

In this chapter insight was given on the landlord, tenant and the leasing contract in general from a South African perspective. This chapter also emphasised the difficulties that small business tenants are faced with when dealing with landlords, especially in comparison to big anchor tenants.

This chapter concludes the literature review on service quality, small business tenants and the relationship between landlords and tenants in shopping centres. The literature review was of particular importance in determining the critical factors of service expected in shopping centres by customers in general and small business tenants in particular.

In the next chapter the research methodology used in this research study will be described.