December 1998

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Ahmed Shabana
Texas A and M University

Maha El-Shinnawy
Texas A and M University

Sidne Ward
University of Missouri-Kansas City

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Ahmed Shabana
Maha El-Shinnawy
Lowry Mays College of Business
Texas A&M University

Sidne G. Ward
Bloch School of Business and Public Administration
University of Missouri-Kansas City

Abstract

Web-based electronic commerce has moved from the realm of the cyberspace avant-garde to becoming successful enough to attract attention from lawmakers as a potential source of revenue through taxation (Wiseman and Nichols, 1998). As we move into uncharted territory, the players, both individual and institutional alike, fall back on assumptions and modus operandi inherited from more traditional commerce ventures. In this paper, we focus our attention on the principal players, the virtual mall operator and the anchor tenants and the types of relationships that govern them as a first step towards a comprehensive model of electronic commerce for virtual mall and communities. Our initial findings indicate that the traditional shopping center with its ensuing relationships, may not be directly transferable to a virtual setting.

Introduction

Electronic commerce over the web has moved from being just an experiment by enthusiastic organizations and their customers to becoming an accepted method of conducting business. Common implementations of web-based electronic commerce include the institutional trade, using Extranets or private secure networks, as well as the consumer or "retail" marketplace. Electronic retailers are mushrooming across the web selling everything from traditional merchandise to more exotic, and sometimes even illegal, goods. In a quest to reach more potential customers and taking cues from the traditional retailing industry, vendors also join virtual malls and communities. These commercial entities blindly transfer the traditional merchandising concepts to a web-based environment.

Anchor Tenancy

Anchor tenancy is one such central concept that is being transferred. Anchor tenants in traditional malls are typically large, national or regional chains or department stores. One of the benefits of having anchor tenants is that they tend to lease retail space in large chunks. A couple of anchor tenants, by themselves, can in fact generate enough revenue to make a shopping center a viable, if not necessarily profitable, enterprise. At the same time, shopping center operators take into account their retail space requirements and the long-term relationship that it often entails and offer preferential lease rates to attract and retain anchor tenants. Anchor tenants are also beneficial to the shopping center as they are often responsible for attracting a substantial portion of the patrons. They perform this role as they tend to have larger advertising budgets, frequent sales, and promotional events. The positive effect of such cross-patronage between anchor and non-anchor tenants is well documented in the literature (Eppli and Shilling, 1995). Moreover, the prominent role that the presence of anchor tenants play in the financial health and viability of shopping centers becomes evident in situations when a shopping center loses one or more anchor tenants. In one study, Gatzlaff et al. (1994) determined that the rental rates of non-anchor tenants declined by an average of 25% in direct response to a shopping center's loss of an anchor tenant. Such reduction in rent is necessary to partially compensate the remaining tenants for the loss of customer traffic and, therefore, of cross-patronage. It is important to point out that shopping center operators and owners place such a significance on the cross-patronage generated by anchor tenants that they commonly include a continuous operating clause in their leases. The intent of such clauses is to prevent an anchor tenant from closing down operations and, therefore, indirectly damaging the viability of smaller merchants in a shopping center. In fact several shopping centers have successfully gone to court to force anchor tenants to reopen their doors, even though such continuous operating clauses were not part of the lease and the rent had been paid (Kaufman, 1991, Hamilton, 1991).

The Virtual Mall Setting

How do such merchandising concepts and relationships transfer into a virtual mall or community setting? Does the whole concept of anchor tenancy have a place in a virtual community? The preferential treatment of a single tenant goes against the egalitarian nature of the inherited Internet culture. While such concepts are primarily rooted in equality among individual users and not institutional entities such as anchor tenants, Internet purists can argue that, in fact, a web presence makes an institution a net-citizen like any other members of the electronic community with the same rights and privileges. The size of an advertising budget should not purchase prominence. The fact that web-based commerce has flourished so much is perhaps an indication that the commercialization of the Internet has been completed and that such utopian notions of electronic egalitarianism have been set aside as a historical footnote.

A comparison of the relationship between anchor tenants and the owners or operators in physical versus virtual malls and communities leads us to uncover some interesting differences. In "real" shopping centers, anchor tenants are perceived as a sine qua non for the initial development of any such commercial venture. Developers attempt to ensure one or more anchor tenancy contracts before breaking ground for the project. In fact, lenders often require committed anchor tenants before approving financing (Razzano,1986). As the shopping center takes shape, contractual obligations between the two parties ensure a prompt exchange of services, in this case retail space, in consideration for a financial compensation. The presence of this anchor tenant creates an added value to management as represented by increased patronage to the overall shopping center. A byproduct of this relationship is the higher rent and lower vacancy rates that management can expect from its non-anchor retail space. In fact, anchor tenants can be seen as purchasing a product, premium retail space, and paying for part of it in cash and the remainder by generating extra patronage to the shopping center. The shopping center management can then turn around and "resell" that patronage and the potential sales it might generate as a complete package to its non-anchor tenants.

The situation is very different in a virtual setting. Over the last few years, the cost of setting up a virtual mall or community has steadily gone down. While such an undertaking required advanced technology and a brilliant set of technical experts, customizable packages now offer virtual malls in a box complete with secure credit card processing activities. The initial barrier to entry, technological know how, has been removed only to be supplanted by a more permanent barrier, namely the customer base. What attracts anchor tenants to a virtual mall or community is not their geographical location or even their virtual address, as in a catchy domain name, but rather the established patterns of traffic and the demographics of the visitors. Virtual mall tenants are willing to pay premium amounts for access to this patron base. The more detailed the demographics of such a patron base the more valuable it becomes as anchor tenants can achieve pinpoint online marketing. Anchor tenancy itself is redefined in an online community. It is no longer defined as being a select tenant that gains extra exposure through more floor space, dedicated entry to the shopping center and an outside sign. An online anchor negotiates for and often gains industry exclusivity in that virtual community. In contrast, conventional shopping centers might be anchored by multiple department stores that in essence market and sell almost identical product lines to the same customer base. In a virtual setting, anchor tenants enjoy unhindered access to a fairly captive audience. Successful virtual anchor tenants include both providers of goods, such as books or music, as well as services such as travel agencies and content providers.

Anchor tenancy agreements in virtual malls and online communities are still in their infancy. Currently it is still perceived as supplementary income to the operators and not their primary means of revenue generation. Typically, revenue generation is based more on traditional advertising fees and membership dues from the community at large. Again this explains the present vast disparity in anchor tenancy costs. The costs range from basically free through reciprocal listing agreements to several hundred million dollars for a long term contract with the largest and most demographically stratified communities which have the most lucrative patron bases such as America Online. There is little doubt that such relationships will evolve as vendors get a chance to empirically assess the value of their anchor tenancy agreements. We will also start seeing a more direct involvement of such anchor tenants in the general marketing directions that such virtual malls and communities are taking to make sure that these directions remains congruent with their own marketing philosophies.

These vast differences in the two settings are indicative of the nature of the relationships between the virtual mall or community and the anchor tenant. In traditional merchandising the balance of power seems to initially tilt towards the anchor tenants, who can make or break the project. The contractual agreements can help redress some of this power imbalance. On the other hand, the same relationship taking place in a virtual community starts tilted in the opposite direction as the virtual community management owns the precious direct access to the customers and thus has leverage. Again, contractual negotiations can minimize the power disparity.

Future Research

This particular area of electronic commerce will see major developments in the near future and further research needs to be undertaken in order to pave the way. Traditionally we have looked at complimentarity and exclusivity as the two primary considerations in tenant selection. In the pursuit of an understanding of virtual mall tenant relationships and selection, we need to account for the mechanics of the technology, the types of transactions executed, and the overall consumer perception of permanence of anchor tenants.

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