



A Work Project, presented as part of the requirements for the Award of a Masters Degree in Finance from the  
NOVA – School of Business and Economics.

Launching the most innovative shopping centre in Europe

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1023

A Project carried out on the Business Project course, under the supervision of:

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03/06/2016

## **Abstract**

Les Glories is a shopping centre in the city of Barcelona, owned by Unibail-Rodamco, which is being renovated and relaunched in two phases over the next year. The team was assigned the task of developing a communication and events plan in order to successfully relaunch and reposition the shopping centre. By the time of the final presentation the team had delivered a detailed plan with events to be implemented from July 2016 to May 2017, including both opening days' events. Moreover, a media plan containing the breakdown of costs and time used per channel was produced.

**Keywords:** Communication Plan; Events Plan; Budgeting; Timing

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## **1. Context**

### **1.1. Client**

The client is Unibail-Rodamco, a commercial property company specialised in shopping centres in European cities and in office space and exhibition venues in the Paris region. By the end of the second quarter of 2015 the group's portfolio was valued at €35.7 billion. The company owns 71 shopping centres across twelve European countries. In Barcelona, it owns four shopping centres, La Maquinista, SPLAU, Barna Sud and Les Glories. My group was assigned to work with the latest.

Les Glories is a mid-sized open-air shopping centre located in central Barcelona, just 2.5 km from Plaça Catalunya and right next to Agbar tower. It opened in 1995 and it was later acquired, in 1998, by Unibail-Rodamco. With a total GLA of 55.900 m<sup>2</sup> and 76 stores it serves a catchment area of 4.3 million people. In 2015 the number of visits amounted to 11.9 million.

### **1.2. Market overview**

The Barcelonan market for retail shopping is divided in 11 sub-zones. Les Glories is located in sub-zone 2, which corresponds to the north-eastern part of the city, which contains 537.853 inhabitants with an average income of €28.1 thousand. The neighbouring sub-zones 1 and 4, are also rather important since they are richer, younger, have more population density and Les Glories penetration levels are still considerable.

In general, it is a fairly consolidated market. The centre of Barcelona, which consists of Passeig de Gracia and the surroundings of Plaça Catalunya, offers a high-street shopping experience, ranking first in annual penetration. Moreover, spread across the city, a few shopping centres control their surroundings while trying to extend their reach, penetration and frequency of visit at the expenses of its competitors.

Regarding the competitors' analysis, Les Glories scores the sixth position in terms of annual penetration of all the shopping centres/areas in Barcelona. Ordering them by customers shared by the centre and its competitors, Diagonal Mar comes first. Also present in sub-zone 2 it just recently finished a process of modernization, it has a higher GLA, more stores, a rooftop, a larger hypermarket and more anchor stores.

Coming in second, La Maquinista, is the largest shopping centre in Barcelona, with 91.500 m<sup>2</sup> of GLA and 223 shops is considered by the Les Glories' management to be its main competitor. As already mentioned, La Maquinista is also owned by Unibail-Rodamco and by 2018 it will have completed an expansion process that will add an additional 39.000 m<sup>2</sup> to the total GLA.

The factors for disruption, specific to the Barcelonan market, are the continuous increase in tourist arrivals, especially from Asian countries, and the urban development of the north-eastern part of Barcelona, where Les Glories stands. Foreigners present a significant opportunity to increase shopping centres tenants' revenues but the centre of Barcelona will be hard to compete with in this segment.

Furthermore, the so called 22@ district and Poblenou have become the main focus of urban developers and the city council. Hotels are being built, companies are renting office space and families are moving in. It can definitely be said that the city is moving north-east and this represents a clear opportunity for Les Glories and for the other shopping centres which exist in the area.

### **1.3. Current client situation**

The shopping centre is undergoing a deep transformation process and it is currently only partially open due to the construction works. It will reopen in two phases and by December 2016 85% of 70.000 m<sup>2</sup> planned GLA will be operational with the remaining 15% coming into place in May 2017. By the end of the €130 million process the facades of the buildings and the

open-air areas will be completely renovated with a design that resembles an expensive shopping avenue with extensive use of glass and natural light. Furthermore, fashion will gain considerable importance with the inclusion of new fashion anchor stores.

Previously to the start of the construction works the shopping centre was considered to be outdated and unattractive. The customer profile, relatively to the benchmark, had a higher percentage of women, the average age and income was higher and the average household size was slightly lower.

Regarding the scenario of visit, customers coming from work had a higher relevance, due to the prevalence of companies situated in the surroundings. The preferred transport method was by foot and by public transportation. Customers originating from within 10 min of the shopping centre represented 80,8%, compared to the benchmark average of 48,6%. This fact can have as a possible explanation the inability of the shopping centre to compete beyond convenience. Moreover, only 25% of customers came for the shops, compared to 46% in the benchmark shopping centres. As a consequence, the average spending basket was of only €46, €35 less than the benchmark average.

Although we were not given access to the financial statements of the shopping centre it is safe to assume the shopping centre was performing poorly. For all the relevant indicators, including penetration, annually and quarterly, frequency of visit and average spending basket, the performance was poorer than the benchmark average. Currently, already with the construction works in progress the performance is even worse, since much of the shopping area is close.

#### **1.4. The Business Project challenge**

The new Les Glories shopping centre will require an appropriate marketing plan in order to reap the benefits from the €130 million investment. The management team needs to define the positioning of the shopping centre, the target segments and which strategies to employ to profit

from each one. The new infrastructure and the new tenants will increase the attractiveness of the shopping centre while providing a differentiated offer from La Maquinista, also owned by Unibail-Rodamco, and thus, avoiding some cannibalization. The purpose of the marketing strategy should be to minimize this effect to the maximum possible extent while maximizing revenue for Les Glories.

Furthermore, it is needed to develop an events plan for the entire period around the grand openings. Specifically, a detailed description of the proceedings and the daily schedule, where all the planned activities such as the institutional event need to be described.

The main challenge is developing a theme which adds coherence and attractiveness to the entire re-launching process and to manage expectations correctly. This last point is crucial since the project has a high degree of complexity due to the existence of two openings instead of one. The necessity to generate awareness to opening number one cannot in anyway generate frustration to the guest who come to the shopping centre and find some stores and some areas still closed.

Additionally, a communication plan is also necessary in order to communicate the desired positioning, to generate awareness for the grand openings and to eventually increase the number of visitors. The media plan will require a precise timeline and budgeting. The channels need to be selected through a cost-benefit analysis and access when and for how long to activate them.

Lastly, Les Glories has currently a rather limited social media presence and it should be improved in order to complement the physical shopping experience. To do so it is required to identify potential influencers, like fashion bloggers, and search ways to integrate them in the communication plan.

## **2. Reflection on the work done and individual contribution**

### **2.1. Problem definition**



The starting point of our project was a meeting held with our team and two marketing managers from the shopping centre. The meeting took place in the beginning of February and by that time the management team had already defined the positioning, including the target segments and the customers promises.

The three customer segments targeted were the local city inhabitants, the workers of the surrounding district and foreigners, either living in the city or visiting. Furthermore, three customer promises were selected. Firstly, Les Glories is to offer an experience beyond high-street shopping. Using its renovated open-space to resemble the former but making use of all the amenities available in a shopping centre to provide an overall better experience.

The second customer promise relates with the city of Barcelona. It has the objective of making the shopping centre part of Barcelona's soul by making use of its architecture, art, gastronomy and the open-space to leverage on the warm sunny weather.

Lastly, Les Glories should become a hotspot to meet up in town by making the most out of its strategic location and transforming it into a social place where Barcelonans and foreigners can gather and socialized through organized events and activities. The entire positioning was considered to be defined and out of the scope of the project with no possibility to change any aspect of it.

However, the communication and the event plan were still in the early part of the process. After the first meeting the team elaborated a proposal which was delivered to Les Glories management team on the 25<sup>th</sup> of February. On this document we defined the scope of the project which consisted of the development of a coherent communication and events plan, with a detailed timeline and budgeting.

The objective was to develop a document to be presented to the top management by the end of the project were it was clear the benefit of each initiative to the shopping centre, using key-

performance indicators such as awareness, retail and digital traffic, etc., and therefore justify its cost and evaluate the effectiveness of the entire project. Furthermore, the number of the budget was made available to us, hence, we needed to come up with a plan which total cost was below the number given.

On this document we would have to answer to the following key questions: how to increase frequency of visit over all the targeted customer segments; how to integrate creative events in the communication plan; how to reach the next generation of shoppers, who are looking for an authentic, multisensory retail experience that encourages self-expression and social interaction.

## **2.2. Methodology**

### **2.2.1. Hypothesis**

By the end of our project we wanted to have three hypotheses validated in order to effectively create value for the client. Firstly, the activities that belong to the events plan need to have positive impact on the KPIs selected for each target group. Secondly, the channels we selected need to be successful on communicating to the target customer groups. Lastly, the influencers we listed need to be capable of generating considerable digital traffic.

### **2.2.2. Analysis**

#### **2.2.2.1. Events plan**

##### **2.2.2.1.1. Research**

The development of the events plan started by retrieving information from the shopping centre management about past events and initiatives implemented in Les Glories. We aimed at finding out if they were successful and hear the opinion of the management of why they were or why there were not. One example could be the low impact of after-work events which according to the management is highly successful in Spanish cities like Madrid but so far have not achieved

meaningful results in Les Glories' restaurant dedicated area or generally speaking, in the city of Barcelona.

Furthermore, it was also provided to us a document containing extensive research on the market with its different sub-zones and respective key indicators, the current customer profile of Les Glories and its performance in each segment compared to its competitors. An important finding was in regards to the segment of guests who come with kids, which is significantly lower compared to the benchmark average of shopping centres in Barcelona.

Additionally, research was conducted, mostly web based, of past initiatives which were used in the same context or in a different one but could potentially be adapted. There is a reasonable amount of useful information available on the web of past shopping centres' openings and initiatives usually performed in such spaces to attract specific target groups. Activities used to promote other brands, products or events, could also be used as source of insightful information to find out what is new, trendy and could serve as inspiration for our own ideas.

One of the initiatives that received the best feedback from the management team had its origin on this type of research. The Glories Relief initiative will consist of a giant wall of falling paint, between opening one and opening two, which will cover the unfinished buildings, the wall that separates the area which is already opened from the one which is not and some other decoration objects. In this case, a similar initiative had been developed as a form of street art and we incorporated this information in order to solve an important issue.

#### **2.2.2.1.2. Idea Creation**

The second part of the process was the idea creation. Using as a starting point the customer promises that were developed by the management, the characteristics of the three target customer segments selected and the current relative performance for each, the information we

had gather from the web and from the shopping centre management and the limitations imposed, we started developing the activities.

The consistency with the customer promises was of the utmost importance since its absence would compromise the communication strategy due to the confusion generated among the potential guests. Furthermore, it was asked us to develop strategies and activities which were specifically target at one of the defined customer segments. To do so it was essential to take into account the characteristics of their behaviour and why has Les Glories failed in the past to effectively provide them with attractive initiatives.

Finally, in order not to run the risk of suggesting events which would be considered to be old fashion and repetitive we also took into consideration if similar events had already been implement in Barcelona. The objective was to find ideas and concepts recently used in other parts of the world, or in different contexts, and adapt them to Les Glories reality, instigating a perception of freshness and originality.

By the end of the process we had a set of activities which could be grouped in the following categories: sports, art, food, fashion and technology. Thorough fact-sheets were created for every event with precise descriptions, including the space of the shopping centre to be used, the customer group being targeted and the strategy behind it, the execution and the marketing cost, some measures of the potential benefits and a timeline of implementation.

They would either be implement in the days of the openings, in the period before opening one, starting in July 2016, and in the period between openings. The time period after opening two was considered out of the scope of the project, and even though some events could continue being implemented, they were not accounted for in our budget. Some of the initiatives were to be activated daily, weekly, monthly or occasionally, for a certain period of time.

For both the grand opening days, a detailed hourly schedule was produced including all the events planned for the day and its description. The institutional event was decided to be on the first opening since it is the most relevant one, representing 85% of the shopping centre being reopened.

Moreover, a theme for the grand openings was developed. This was a crucial component to add coherence and consistency to the entire plan and improve the effectiveness of the communication plan by unifying everything in just one message. The theme selected was “Travel” since it made possible to integrate the different categories of events which were related with the different customer promises. Within the main theme we created four different components: food, art, Christmas and future.

As an example, the street-food market which is related with the component of food would explore different gastronomies of the world and would allow the participants to travel from one country to another by just tasting a difference dish available in one of the other stands.

Regarding the component of art, the implementation was thought to take form by the use of temporary outdoors exhibition of sculptures which have origin in distinct geographies and their characteristics could easily be observed and recognized.

Furthermore, the Christmas element had to be included due to the timing of the first opening, which is expected to be in early December. The Christmas experience, which will include a Christmas tree, Christmas stands, a fire show and light experience, will explore the different traditions of Christians around the world, related to this specific time of the year.

The component of “future” will try to leverage on the environment surrounding the premier of the movie Star Wars: Rogue 1 and offer the possibility, through the use of virtual reality, to travel into the future when man will walk the surface of other planets and observe its landscapes.

### **2.2.2.1.3. Validation**

Validation of our initiatives was the step that followed to conclude the events plan. With that objective two sources were used to achieve a reliable evaluation. The first was the expertise of the management which was consulted in a regular basis in order to incorporate their feedback, improving our initiatives or discard unfeasible options. This was extremely important due to a bounded rationality problem since none of the team members is either Barcelonan or even Spanish.

The second source of validation, were the focus groups we conducted with two different target groups, locals and foreigners. Unfortunately, it was not possible for us find workers in the 22@ district of Barcelona willing to participate in our focus groups. With the information we received from the procedure we ranked the activities, excluded the worst performing, and improved the remaining with feedback obtained. Moreover, one of the ideas suggested in one of the focus groups was also incorporated and subject to the management appreciation.

### **2.2.2.2. Media Plan**

#### **2.2.2.2.1. Research**

The second major part of our final deliverable was the media plan. The sources used to acquire the necessary information were two, external and internal. The external ones consisted mostly of group members' friends and family who work in marketing departments of multinationals operating in the area of Barcelona, which we assumed would benefit from the same charged values for marketing activities as company of the size of Unibail-Rodamco. Additionally, much of the values which are charged by internet companies like Facebook and Google, are public and could easily be accessed. The internal sources consisted of values and references given by the management of shopping centre. The latest was considered to be the most reliable source

but unfortunately it could not be extended to all the activities we had planned, and thus, some of the values used for the budgeting had their origin in external sources.

Regarding the effectiveness of each channel in communicating to the target customer segments, we investigated the recent trends of increased use of social media and other online channels. Moreover, using the same external and internal sources we gained access to the expected number of customers reached with each channel.

#### **2.2.2.2.2. Creation**

A major consideration for our project was the fact that the first opening will fall in the holiday season of 2016. During such a period the demand for advertisement space, especially in traditional offline channels, increases dramatically and so do the costs. Competing with consumer goods companies such as Apple, which pay exorbitant fees for gigantic billboards placed in Plaça Catalunya, is simply out of reach. Therefore, the breakdown of communication efforts and spending would have to favour the online channels more than usual. However, offline channels still represented 72% of costs. Despite of not being the type of channel most commonly used, the difference in costs still meant a higher percentage in the end.

The strategy implemented to assign the channels was to use cheaper or even free channels for initiatives of low relevance and for the ones with higher scale and importance, such as the ones related with the opening days, use traditional and more expensive channels in order to generate more noise.

Regarding the duration of the campaigns and of the usage of each channel, we followed the standard values for product launches, also taking into account the rank in importance of the activities. A complex excel file was developed contained the detailed media plan where it is possible to see the detailed breakdown of costs and a precise timeline of when the channels are activated with regards to each activity being advertised.

Lastly, the list of influencers that would be used in promoting the selected activities on social media were selected following an objective method since number of followers, which is the best measure for potential impact on the communication campaign, is a public figure. Moreover, the cost of hiring such agents is in most of the times public. A third factor used to select the influencers was their footprint in Barcelona and the compatibility with Les Glories customers promises.

#### **2.2.2.2.3. Validation**

Once again, validation was obtained in the form of feedback from experts. The shopping centre marketing managers have been working in the industry for several years. Hence, the costs estimate and number of costumers reached with each channel were revised together with the management team before being presented to the top management, making sure they were accurate and realistic. With regards to the overall strategy, and the cost breakdown between channels, it was in conformity with the industry practices, and thus, considered to be adequate.

### **2.2.3. Methodology**

#### **2.2.3.1. Research**

With regards to the research part of the process we developed a system approach where we related to the problems holistically and tried to take into consideration the different sources of information in order to visualise the whole picture. To the maximum possible extent, we used practical knowledge which made our project pragmatic and contextual.

Our data collection process can be evaluated in three components: objectivity, reliability and validity. In order to succeed in all three, we have used two instruments.

Firstly, we performed a triangulation of data, when possible. The first source of data were the meetings, the unstructured interviews and phone calls with the management of the shopping



centre. The second source were the documents provided by the company with market research and marketing costs. Lastly, the external sources which consisted of the web and other third parties not involved in the project.

The second tool was the creation and use of a KPIs framework which accompanied us through the entire project and, in this phase, forced us to have always present the objective of creating the maximum value for our client, through our initiatives. This could only be achieved if we were able to maximise those KPIs, like for example, awareness, digital and physical traffic, consistency with customer promises, revenue generation, among others.

With these two tools I believe we have achieved a certain degree of validity, which means that our data has integrity, since we have looked into the problem from different perspectives.

Regarding objectivity, the same cannot be said. We are dealing with rather qualitative sociological project and therefore our prejudices and preferences negatively affected the quality of our results.

Finally, due to the fast changing environment which we are dealing with, our results will only be reliable and replicable for a short amount of time. As already mentioned, a major concern of the data gathering process was to make sure we were collecting data that was still up to date and thus, reliable.

#### **2.2.3.2. Creation**

In order to efficiently and effectively produce quality ideas and activities we split the group in three sub-teams. The first team was assigned to work on the weekday events, which would mostly consist of events target at the workers customer segment, while the second team would work on the events to be implemented on weekends, which were targeting mostly locals and foreigners. A third team was responsible for coming up with the theme and the ideas for activities to be put in place on the days of the grand openings.

Moreover, the creative ideas were developed through the Taylor's five-step process. The first step was to prepared our ideas, through brainstorming among the different teams where feedback was incorporated. An incubation period followed where the ideas were shaped to fit the project purpose. The third step consisted of generating insight and matching our ideas with the client request. The fourth step aimed at evaluating the initiatives and discover their limitations. Lastly, an internal fine-tuning and further elaboration before presenting them to validation and feedback processes that would follow.

Throughout this process, the KPIs framework, which were provided us by the management team, was always present when we needed to make considerations and provide feedback to the other sub-teams. Moreover, at every internal meeting the main focus was not only to provide feedback and support, but also to guarantee a high level of consistency and coherence among all the parts and thus, minimize the shortcomings of working in small teams.

#### **2.2.3.3. Focus groups**

The focus groups were our main source of validation and thus, were fundamental for the credibility of our recommendations and to prove our hypothesis. This process was divided in five stages according to Nagle, B. and Williams, N. (2014). The first stage was to define the study purpose. The aim was to ask feedback to respondents in order to explore efficiency and efficacy of ideas.

The second stage was the conceptualization where we selected the population and the sample. The population consisted of the defined target customer segments namely, workers, locals and foreigners. However, the worker's population could not be addressed due to the lack of willing participants. Moreover, the sampling was not random but of convenience and each group was composed of 4 people. Two focus groups were performed, the first only with foreigners and the second only with locals. The sampling was deeply affected by the limitations we faced. The

participants belonged to the same age group and knew each other well. The only precaution which was possible to implement was regarding sex, since each sex group was on equal terms in both focus groups – two females and two males.

Stage three was related with facilitating the flow and the quality of information retrieved. We created consent forms, facilitation forms and answers sheets in order to make our work easier and to include in the focus group output an individual component. Furthermore, the facilitators, or moderators, were chosen given their experience on focus groups, which, fortunately, our team contained.

In the fourth stage we proceeded with analysis of feedbacks and answer sheets which were reported, the fifth stage, using a list of individual quotes, a description of the general feeling of the group towards each activity and the overall plan, a written rank of ideas and the final decision to implement or not.

#### **2.2.3.4. Feedback implementation**

Feedback from the management team was the most important tool we had at our disposal to overcome the issues of bounded rationality. None of the group members is from Barcelona, none has ever worked in a project with a shopping centre and just two had a limited marketing background. The experience of the marketing managers in event planning and communication campaigns provided us with feedback which used to improve our ideas and, to some extent, validate them.

In order to fully take advantage of this resource, we had bi-weekly calls, monthly meetings and the delivery of four documents for their appraisal before the final presentation. Moreover, we developed a diary where we wrote down all the meetings, phone calls and presentations, including citations and main points of discussion. This last document also served the purpose

of helping managing the project internally and control client expectations by providing transparency to our work.

### **2.3. Recommendations to the company**

After having validated our events plan through the use of the focus groups and feedback from management team we proposed it to the client in the final meeting. The pre-opening activities will start on July 2016. As already mentioned, before the grand opening the focus of the initiatives will be on entertainment and food. A street food market should be implement in a monthly basis, targeting both locals and foreigners, by offering a diverse and original gastronomical experience. Furthermore, we suggested three activities related with the customer promise of becoming a hot spot to meet in town: pop-shops, after-work specials and outdoor sports broadcasting.

Regarding the grand openings, we chose the theme of “Travel”. For the first opening we developed four experiences to be integrated. The Star Wars experience, the Christmas experience, the High Relief and the Big Sign. With regards to the second opening the main activities planned were a recording of a MasterChef’s episode at Les Glories and a Flash Mob and dancing execution initiative.

In between openings the main focus of events will be related with fashion. The initiatives Shopping with a Blogger, the Fashion Night Out and the PhotoBox Glories will serve that purpose.

Regarding the budgeting and after developing our model, we considered that 7.5% of the total budget would be devoted to the hiring of the marketing/media agency, 35% to the media plan and 56% to the execution of the initiatives. Going deeper on the media plan, 72% of the total budget allocated to it, should be spent on the offline channels, 25% on the online channels and

the remaining 3% on influencers. The breakdown of the media costs per type can be found on appendix I.

#### **2.4. Concerns**

Regarding our methodology, there were three main limitations. Firstly, subjectivity in data research, analysis and idea creation was present, due to the nature of the data itself, and thus, the suggested ideas might be biased and anchored by personal experience and taste. Secondly, we could not find people working in Barcelona willing to participate in our focus groups and thus offer additional validation to our selected ideas specifically targeted at this customer segment. Finally, and still with regards to the focus groups, the tendency for a socially preferred opinion might have also caused a severe bias in our results. The confirmation bias and groupthink bias limit the variety of focus group responses and the outcome of the experiment might differ from reality.

Moreover, the external sources used to cost the events and the advertisement might have provided us with different numbers relatively to the ones charged to Unibail-Rodamco by the time of the implementation. The negotiation power, and thus the prices obtained, differs from company to company. Furthermore, the numbers we were dealing with were averages which might be far from the values charged in the holiday season, which will be the most relevant for Les Glories.

The last point worth mentioning is the competition response. The other shopping centres, not owned by Unibail-Rodamco, will certainly react to the new threat that Les Glories entails, and will offer competitive events and initiatives which will affect the success of our campaign. Since there is no information of what will be the response from the competition until they decide to advertise their events and campaigns the management of the shopping centre will have to be prepared for the need for eventual changes in the events plan. If the aggressiveness of the

response is higher than expected Les Glories might find itself in a dire situation. Therefore, the management should save a small percentage of the budget to preserve some freedom of action and respond effectively in case of aggression.

## **2.5. Individual contribution**

The main tasks I was assigned throughout the project were the research and development of events targeted at locals and foreigners and to be implemented on weekends, identifying influencers related with gastronomy and sports and costing of the events. Furthermore, I performed a partial role in the development of the focus groups' framework, specifically, which questions should be asked to the participants.

I believe I delivered quality outputs through the use of a methodical approach with careful attention to detail. The events which my sub-team suggested regarding fashion received good feedback from the management team and with the instruments that I had available I was able to provide a reliable cost estimate for the events which was crucial for the cost-benefit analysis performed. Moreover, despite my lack of experience in developing focus groups I was able to provide insightful recommendations, based on the literature, which increased the validity of the results.

Regarding the tasks which I was not directly involved, I was still able to contribute positively in our weekly meetings by providing constructive feedback and help in tasks that required urgency. Perhaps the main feature of my feedback was a higher degree of criticism which I believe it was necessary due to the characteristics of the project. Since we were not dealing with objective data, methodology becomes even more important and so does questioning our findings and suggestions. Moreover, due to the freedom of action given to us by the management team it was rather easy to fall into complacency and levity, which would significantly decrease the quality of our work, and thus, needed to be avoided.

### **3. Academic discussion**

#### **3.1 Possible links with your MSc field**

The following academic discussion has the objective of demonstrating the existence of real options coming from the redevelopment of urban land and in specific, shopping centres. Real options are one of the key topics in the field of corporate finance which is a component of my MSc in Finance.

Les Glories was built in 1995 in a sequence of private and public investment in the city of Barcelona following the Olympic games of 1992. In 1998 it was acquired by Unibail-Rodamco which is now implementing a project of expansion and renovation.

By the time of the acquisition, the shopping centre, although relatively close to the city centre, was considered to be on the frontier of the city, and the area surrounding it consisted mostly of industrial parks and warehouses and thus, considered to be underdeveloped.

Since then, considerable office space has been created in the area and several companies have established themselves there. One of the icons of the city, the Agbar tower, which is right next to Les Glories and was inaugurated in 2005, is the perfect example of the increased importance of the area. Moreover, public projects such as the renovation of Plaça de les Glories Catalanes aim at incorporating the area even further into the city and foster real estate investment in the district.

The characteristics of the shopping centre allow it to greatly benefit from their surroundings being improved since it is heavily dependent on walk-in traffic. Although the option to expand was only exercised 18 years after the purchase of the shopping centre, and its benefits will take even longer to reap, there will still be a great deal of value created with this operation, despite its risks.

The traditional approach to value an up and running shopping centre is based on a capitalisation rate. To reach this capitalisation rate factors related with the location, demographics of the its catchment area, the building itself and occupancy features are taken into account. Moreover, a special attention is given to the anchor tenants since their tenure is higher and thus, increase the security of the investment. Additionally, if price information about shopping centres sold in the area is available this is also taken into account. Finally, the capitalisation rate is applied to the net annual income and we reach the value of the shopping centre. However, as it was the case for Les Glories, this might represent an undervaluation since option value is not taken into account. As general option theory states the option value increases with volatility and uncertainty which can be true for areas in the border between urban and agricultural areas and between developed and underdeveloped urban areas. However, McDonald (1998) concludes that through the use of “rules of thumb” such as hurdle rates and profitability indices the value of real options in investment projects is incorporated. He states that despite the high degree of subjectivity that comes with these measures it is often possible to capture at least 90% of a project’s option value. Hence, when option value is not highly representative a correct investment decision will be made, most of the times.

However, if by including real option pricing into the mix one can reduce the degree of subjectivity it will be possible to perform better investment decisions and reap its benefits, especially so for such an active group as Unibail-Rodamco. Moreover, if this strategy can be used and replicated consistently it can be a good opportunity for the group to grow in markets like Western Europe which are characterized by the high degree of consolidation and few investment opportunities.

### **3.2 Relevant theories and empirical studies**



There has been a considerable amount of theoretical research regarding delay option value of vacant land in urban areas and in the border between urban and rural areas. However, options of redeveloping and their timing to be exercised have been given little attention.

Titman (1985) explained why some urban lots in high rent areas, owned by investors who wish to maximise their returns, remain vacant while properties in the same area are developed. Due to the nature of the real estate investment, which is durable and illiquid, the owner opts not to build now and prefers to wait. The decision to defer the investment comes from the uncertainty on the future opportunities that will be made available as time passes. Moreover, the risk aversion profile will influence how the investor deals with risk and when does he chooses to exercise the option, or to sell it.

Capozza and Sick (1994) put together option theory and economic theory and develop an analytical model with 5 parameters to value urban land. Starting with the value of the agricultural land it is added the cost of conversion, the value of growth, the uncertainty premium and the accessibility premium. The value of growth and the uncertainty premium consist of the option value. A major take away from the study is that an increase in unsystematic risk leaves the price of urban lots unchanged but increases the agricultural prices. This is caused by the fact that unsystematic risk can be diversified away and thus, is not priced. While in agricultural land option value is significant and increases with total risk in urban developed land the option value is not significant.

Hull (2014) provides additional insight and suggests that value can be created by using a multi-stage process when developing land. Despite the lower upside potential, it offers protection to the investor from downside risk.

By the time of the acquisition Les Glories could have seen as an investment in an intermediate stage with an option to expand. Moreover, if the retail option proved not to be the best

alternative, a certain investment could transform the property into office or/and residential space, just like an undeveloped lot of the same size but with different costs.

Even if the likelihood of changing the property from retail space to anything else is considered to be negligible I believe there is still a strong correlation in value for both types of properties. Given the nature of the shopping centres in study, which are heavily dependent on walk-in traffic and thus, on the neighbouring area and its profile, it seems likely that changes in the demographics of the neighbourhood or other location bound features such as transport infrastructure would move the value of both types of properties in the same direction.

Furthermore, given that the rent prices were still far from the ones practiced in the city centre it could be argued that the potential for the urban growth mentioned in the papers above, existed, and thus, so did the option value.

The discrepancies on the total option value will come from the flexibility that a vacant lot possesses to transform itself compared to a developed land like a shopping centre. If the best option for both cases is similar, like for example building office space, the developed lot will benefit more if the building from scratch cost exceeds the transformation cost and the opportunity cost of the second alternative, which in the shopping centre case would be the forgone rents of its current tenants. However, if the cost of transformation is high, the best option for the developed land is not to transform and therefore, even if it benefits from increased cash flow in its current activities, it will not be able to pursue the higher rent opportunity.

Finally, competition also needs to be taken into account. The existence of other shopping centres or other similar vacant lots and their response to an expansion will asymmetrically affect the option value since the competitive dynamics are different.

### **3.3 Implications for theory and future research**

It is clear that through the recycling of the findings of the mentioned papers regarding vacant lands one cannot state that shopping centres benefit from the same high option value. However, I believed there are strong signals that point in this direction and further empirical research should be pursued.

The object of study should be shopping centres which possess similar characteristics to Les Glories, which I believe will provide the highest option values, and thus, the highest underpricing and best investment opportunities. These characteristics are the building itself, which basically consists of different buildings separated by streets and I assumed could potentially be transformed into office space or exhibition centres with little to medium effort.

Moreover, the difference in rents from the city centre to the neighbouring district of the shopping centre should be relevant meaning that the potential for additional urban growth exists. Finally, the presence of relevant unsystematic risk that cannot be diversified by local players but a group like Unibail-Rodamco can, and which increases the option value, should also be tested.

## **4. Personal reflection**

### **4.1 Personal experience**

#### **4.1.1 Key strengths & weaknesses observable during the project**

Throughout the project I was able to consistently deliver quality output and meet internal deadlines. Moreover, I believe I have contributed to a pleasant and productive work environment which was key to maintain the motivation high and hence, produce quality results. The key strength which I believe was made evident during the project is the constant pursuit of a holistic view of an issue. Although it might be considered inefficient by the ones who look to perform tasks quickly, the use of this type of perspective, which tries to consider all aspects and factors, allows for a greater added value created in a project of this nature. Furthermore, it

might even save time and resources, if performed correctly, since it avoids errors and futile work. The reason behind it might be due to the fact that I was the team member with least work experience and thus I am still closer to the type of thinking used in academic affairs as opposed to a more practical approach. It follows that I was the team member asking the most questions, making sure precaution was taken and some aspects were not ignored.

If this academic approach to issues helped the project become more coherent and insightful it also limited me when performing simpler tasks. The lack of experience and knowledge in the marketing field and thus, the lack of a mental guideline which could be applied to the tasks needed to be performed exacerbated the problem and lead to me requiring more time, relatively to my team members, to complete similar work. However, this did not have any negative implication for the project or my teammates workload since I was aware of this limitation and simply worked more time and produced outputs with equal quality.

#### **4.1.2 Plan to develop of your areas of improvement**

I believe there are two areas of potential improvement which can influence the quality and the success of team projects in which I will take part. Firstly, adopt a more professional approach with regards to team mechanics. In this project I often refrained from providing additional criticism, which would had been beneficial for the development of the project, in order to avoid being obnoxious. I think through a careful choice of words that limits the amount of emotion involved in this type of situations, and through a complete domain of the subjects, I could have offered more constructive criticism while maintaining a pleasant work environment.

Secondly, develop technical skills related with building slide decks and presenting in front of an executive board. These last points I plan to have improved as my work experience grows and especially because I will be given them particular attention and effort.

#### **4.2 Benefit of hindsight: What added most value? What should have been done differently?**

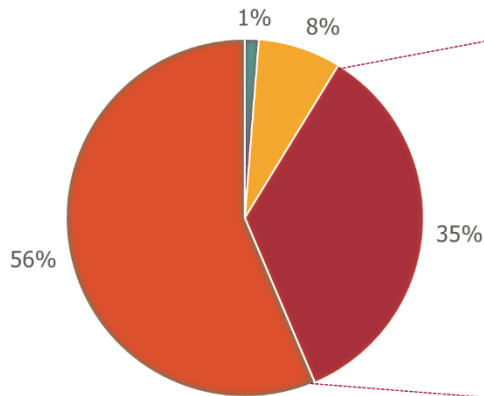
The areas our project added most value were the ones where most insight was placed and where we looked at the problems using a holistic perspective which was different from the management team view of the issue since we have different backgrounds and less “tunnel vision”. Some of our recommendations clearly did not add any value and were therefore just an educational tool for ourselves. However, we did succeed in presenting the above mentioned different perspective in some matters and I am certain we have shown original and useful concepts. It was in this more conceptual component that I added the most value and I also believe it was where the project added the most value.

Looking back, I would have pushed to reduce the scope of the project, forgoing the more practical approach while still making feasibility considerations, and focus on providing more insightful conceptual recommendations. This type of work cannot be easily performed by the management team due time constraints and attachment to the current way of doing things. Furthermore, it would perfectly fit my skill set and personality.

## Appendix I

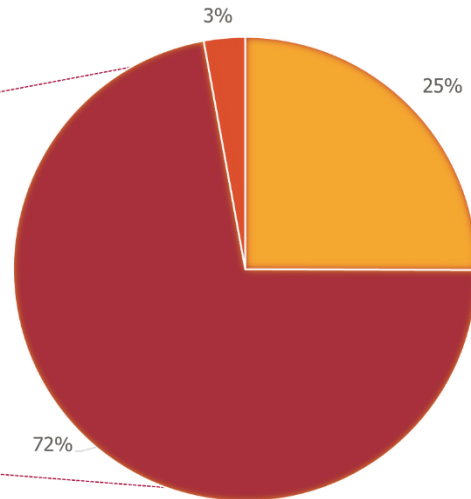
### TOTAL PROJECT BUDGETING

- Left-over Budget
- Agency cost 7,5%
- Budget allocated to media plan
- Costs Initiatives



### MEDIA PLAN BUDGETING BREAKDOWN

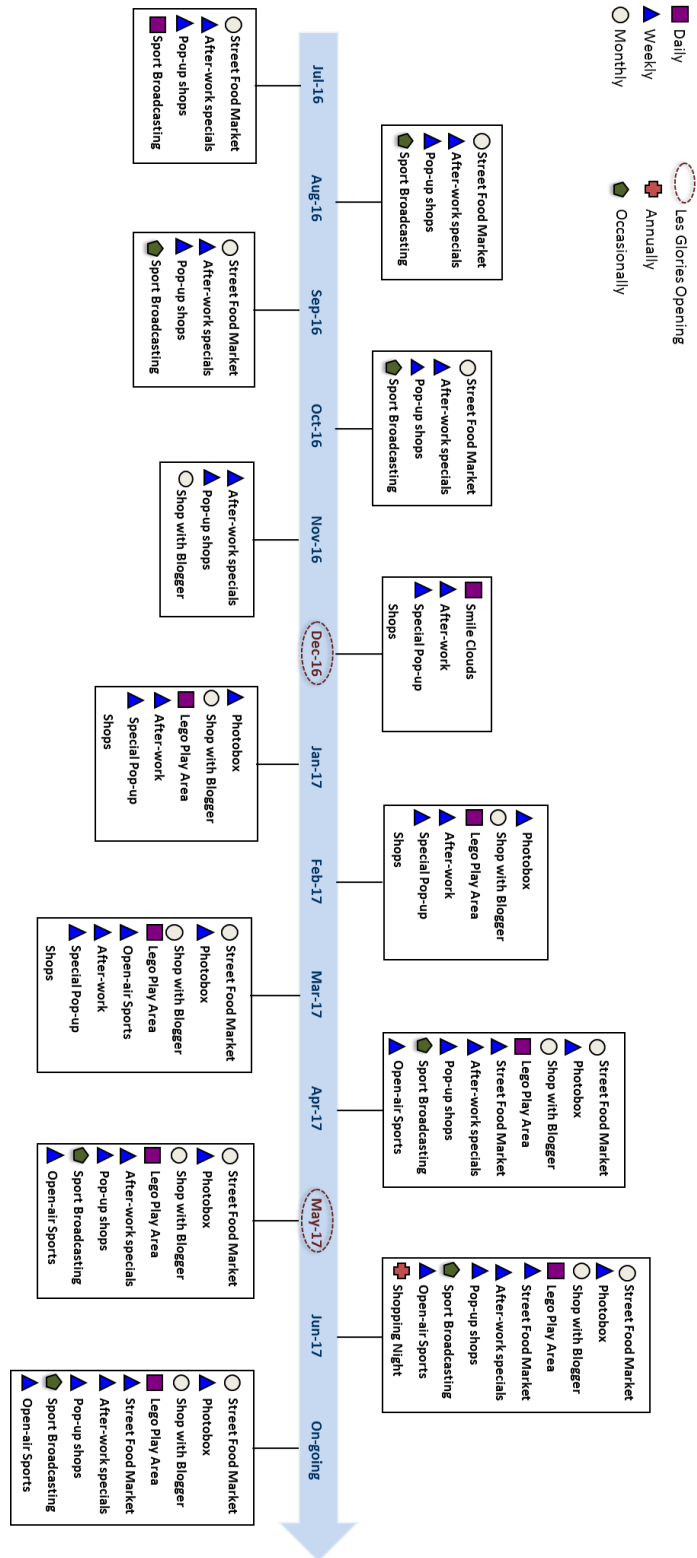
- Online
- Offline
- Influencers



Channel Description	Value	% of Media Plan
<b>Video advertisement (Social Media)</b>	<b>€ 33.650</b>	<b>19%</b>
YouTube _ 1st Watch	€ 12.000	
YouTube - TrueView	€ 6.000	
Facebook	€ 4.350	
Spotify	€ 8.000	
Instagram	€ 3.300	
<b>Link promotions (Apps, Websites, etc.)</b>	<b>€ 10.000</b>	<b>6%</b>
Interstitial	€ 3.600	
Banner	€ 1.400	
Billboard	€ -	
BrandDay	€ 5.000	
<b>Owned Media</b>	<b>NM (*)</b>	<b>-</b>
Facebook	NM	
Instagram	NM	
Les Glories App	NM	
Periscope	NM	
Snapchat	NM	
YouTube	NM	

Channel Description	Value	% of Media Plan
<b>Image Advertisement</b>	<b>€ 115.200</b>	<b>66%</b>
Mupis	€ 10.000	
Print Newspaper	€ 16.000	
Flyers	€ 1.200	
Metro Stair Displays	€ 20.000	
VR Bus Panels	€ 10.000	
Oculus Promoter	€ 8.000	
Billboard (City Centre)	€ 50.000	
<b>Audio Advertisement</b>	<b>€ 10.286</b>	<b>6%</b>
Europa FM	€ 3.429	
40 Principales	€ 3.429	
FlaixFM	€ 3.429	
Others	€ -	
<b>Promotion</b>	<b>€ 5.000</b>	<b>3%</b>
Fashion	€ 3.200	
Work	€ 1.100	
Sports	€ 700	

# Appendix II



## Appendix III





## References

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