

# A COMPARISON OF THE PRICING POLICIES BETWEEN MANUFACTURERS' RETAIL APPAREL OUTLETS AND TRADITIONAL RETAIL STORES

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## **Overview**

Today, outlet centers that promise discounts of 20 to 70% are located in almost every section of this country. Recently, some reports in the press have questioned whether or not outlet centers are still offering customers the best prices; however, most of those investigations were based on a small number of price checks. This research study analyzes pricing differences for identical products found at outlet centers and regional malls.

In this study, 686 items of merchandise were randomly selected at manufacturers' outlet stores in three southeastern states. The researchers then attempted to locate identical merchandise in nearby regional malls. Four hundred and fifteen of those products were found.

Generally, the research found that apparel merchandise in outlet centers was 24% lower than identical merchandise found in regional malls; however, no significant difference was found between regular prices at outlets and merchandise on sale in re-

gional malls. Sale prices found at regional malls were often similar to the regular retail prices found at outlets. The researchers also analyzed the suggested/comparable retail prices found on nearly 75% of the merchandise sampled. These prices were found to be significantly higher than the retail price of the same merchandise found in nearby regional malls.

This research found that the price gap between manufacturers' outlet stores and department/specialty stores has narrowed. Increasingly, stores at outlet centers and regional malls are competing for the same customers using similar tactics. More conveniently-located, traditional retailers, offering everyday value-pricing or engaging in frequent sales promotions, are providing competition for outlets.



## ■ Background

Today, outlet retailing controls only a small piece of the total retailing pie—approximately 4%, according to 1995 Census Bureau statistics (*Daily News Record*, 1996a). Sales at over 9,000 factory outlet stores in this country are estimated to reach \$20 billion by 2000 (Apfel, 1996). Although this estimate doubles 1993's \$10 billion in sales, growth of outlet retailing has slowed (*Daily News Record*, 1996b). In 1998, there were approximately 300 factory outlet centers in the United States which compared to only 183 outlet centers in 1990. Most of that growth, however, occurred early in the decade—by 1994, there were already 294 outlet centers.

Contributing to this slowed growth is the decline in the number of manufacturers embarking on outlet retailing. A number of high-profile companies have left outlet retailing or are closing many stores. Manufacturers announcing plans to exit outlet centers include Leslie Faye (closing 59 stores), B.U.M. International (41 stores), Phillips-Van Heusen (20-plus stores), London Fog (19 stores), Adrienne Vittadini (10 stores), L.A. Gear (7 stores), and American Eagle (39 stores). Even among companies planning to continue outlet operations, many are scaling back their growth plans. Historically, some of the fastest growing manufacturers' outlet operators have included Corning/Revere Factory Stores, Welcome Home, and Big Dog Sportswear. Recently, all of these manufacturers have slowed their store openings, focusing more on managing existing stores and ensuring profitable growth (*Daily News Record*, 1996b).

For a number of reasons, profits of outlet center retailers are also being squeezed. Expenses for outlet centers have increased as “regular

retail” amenities have been added in an attempt to meet the higher expectations of shoppers. In today’s price-competitive market place, apparel retailers have not been able to raise prices, further cutting their margins. Explosive growth of outlets has also led to market saturation, and attractive, untapped markets have become scarce for new outlet centers. Rudnitsky (1994) reports that more factory outlet centers may have been built than the market can sustain.

Developing pricing and marketing strategies to spur growth requires a clear understanding of how outlet centers have evolved. In addition to this historical survey, the merchandise mix, tenant mix, and target customers of outlets also need to be examined to determine their impact on these marketing decisions. A detailed analysis of those factors are presented in this section.

### *Operational Definitions*

Definitions to key terms used throughout this article are presented below.

- *Outlet center.* A shopping center in which the tenants are primarily stores owned and operated by manufacturers who market and distribute their products at discounted prices. Outlet centers are often located in rural areas or tourist centers.
- *Manufacturers’ factory outlet stores.* Stores owned or operated by manufacturers are usually found in outlet centers but may be stand-alone stores. Primarily, they have been used to sell overruns, irregulars, and slow-selling goods returned from department or specialty stores.
- *Regional mall.* A shopping mall that serves a metropolitan area housing department and specialty stores. Regional malls usually contain 400,000 to 800,000 square feet of retail space with two or more department stores as major tenants. Restaurants, food courts, and movie theaters are also common tenants.
- *Suggested retail/Comparable retail.* The price listed by the manufacturer or outlet store as being the retail price commonly found at traditional full-price retail stores.
- *Seconds/Irregulars.* Products marked by the manufacturer or retail store as being second quality or having minor defects.

### *Manufacturers’ Outlets: A Historical Perspective*

Factory outlet stores are owned and operated by manufacturers who market and distribute their products at discounted prices. They are typically located in remote areas or near tourist centers. By opening their own stores in outlet centers, rather than selling surplus or seconds to off-price

stores, such as Marshalls and T. J. Maxx, manufacturers can control their sales and the way their goods are presented.

In the late 1880s, apparel and shoe manufacturers began offering excess and damaged goods to employees at deep discounts. Eventually, these manufacturers began opening their doors to consumers a few hours each week; and in 1936, Anderson-Little, a manufacturer of men's clothing, opened the first "factory-direct" store. During the 1940s, factory outlets continued to grow and served as centers for selling overruns and damaged merchandise. In 1974, Vanity Fair opened the first multi-tenant manufacturers' outlet center in Reading, PA. Throughout the 70s and 80s, the number of factory stores continued to grow as consumers' discretionary income decreased and outlet centers became a major tourist draw. In the late 1980s, as regional malls became over-saturated, factory outlets became profit centers for manufacturers experiencing phenomenal growth as increased emphasis was placed on providing better customer service and stocking in-season merchandise (*Consumer Reports*, 1998a).

In the early 1990s, as consumers became more demanding, the appearance of factory outlet stores changed. More sophisticated store designs, better ambiance, and more amenities contributed to the growth of outlet centers. Outlet center stores were no longer garishly-lit spaces, filled with boxes heaped with clothing. In fact, *upscale* became the new buzzword for developers as outlet centers took the form of upscale "villages" with a strong emphasis on brand names.

Most outlet stores have become well-arranged retail shops that provide attention to customer service and stock merchandise similar to that found in traditional retail stores. In fact, many outlet stores are barely distinguishable from stores in regional malls.

Today, outlet centers are facing strong competition from other retailers, particularly department stores in regional malls that have learned to compete by offering sales that feature frequent and deep discounts. No longer do consumers have to travel long distances to outlet stores in search of low prices—they may do as well at a sale in their local mall. This narrowing price gap has become one of the primary challenges facing factory outlet retailers.

### ***Merchandise Mix***

Changing merchandise mixes at outlet stores have also impacted pricing and marketing strategies. In the past, much of the merchandise found at factory outlets was out-of-date or defective. That has dramatically changed in the 1990s. Outlets today include designer and brand names like Eddie Bauer, Geoffrey Beene, Liz Claiborne, J. Crew, Calvin Klein, Nike, Oshkosh B'Gosh, and Polo/Ralph Lauren.

Prime Retail, a leading developer of outlet malls, reports that 90 % of merchandise sold at its outlet centers is first-run and in-season (Bernstein, 1997). Research reported in *Value Retail News* found that 37% of the merchandise shipments to outlet centers could be found in traditional retail stores at the same time, *but at the tail-end of their retail life span*. This merchandise often includes fashion duds or overproduced apparel, but some manufacturers even include parts of their current lines at full retail price. Converse, for example, uses outlets to showcase its current lines at full price. Thirty-two percent of the items found in outlets were closeouts that included merchandise past the retail store season but still appropriate for many consumers. Seconds and irregulars accounted for 18% of the merchandise carried, and 12% were goods manufactured directly for the outlets (Avins, 1994).

Forest (1995) also reported that irregular and damaged goods account for less than 15% of merchandise sold in outlet centers. These merchandise defects may be minuscule or even non-existent. In some situations, first quality merchandise may have been labeled as defective out of desire to maintain good relations with full-price retailers carrying the line.

In another report (Avins, 1994), estimates were made that about half the apparel manufacturers now make goods specifically for outlet stores. For example, the Geoffrey Beene line of men's and women's sportswear, manufactured by Phillips-Van Heusen, exists only in factory outlet stores. Some manufacturers, however, still rely on outlet stores to sell only irregulars and closeouts. The focus of Croscill Factory Stores is selling cancelled orders, overruns, and irregulars. For this firm, sales at outlets continue to be a way to help mitigate losses from overproduction or irregulars without alienating their wholesale clients (Wolf, 1997).

Ralph Lauren/Polo, Gap, Brooks Brothers, Ann Taylor, Donna Karan, and other manufacturers also produce merchandise just for their outlets. "Made-for-outlet" merchandise frequently has "factory store" on its label, *but not always*. This merchandise may have the same name though usually not the same style or stock number. Items bear a strong resemblance to full-price counterparts, but there are differences. For example, the manufacturer may have omitted safety stitching around the sleeves or used a slightly different fabric. Despite such shortcuts, the quality remains good (*Consumer Reports*, 1998b).

## ■ Tenant Mix

The tenant mix at outlets is also changing and impacting pricing and marketing strategies. Traditionally, outlet centers were dominated by manufacturers' outlet stores; however, such stores now often account for

less than 50% of the tenants at many outlet centers. Retailers such as Nordstrom Rack, Casual Corner, Petite Sophisticate, Saks Fifth Avenue's Off 5<sup>th</sup> and Claire's Accessories are opening liquidation centers for out-of-season or slow-moving merchandise. These stores allow the retailers to maintain a fresh flow of merchandise in their regular stores. Opening stores at outlet centers also provides traditional retailers with a means of fighting back against factory outlets by broadening their market to attract discount-conscious customers. For example, the Bloomingdale's Clearance Center in the Franklin Mills Outlet Mall outside Philadelphia offers apparel and home furnishings for 35 to 75% off the original retail price (Ward, 1992a).

All stores in outlet centers are *not* factory outlets. Many of the new outlet centers recently built across the country have only a small number of genuine manufacturers' factory outlets. Most of them include a variety of retailers including discount, off-price, and even traditional, full-price retail stores. For example, Halverson (1988) found that only 13 of 82 stores in one Florida outlet center were truly factory outlets. The majority of them were specialty off-price stores.

Some stores, such as Toy Liquidators and Publishers' Warehouse, are independent off-price retailers selling merchandise from suppliers. Others are manufacturer-owned, but sell merchandise designed exclusively for their outlets. For example, Ann Taylor Loft is an outlet store owned by Ann Taylor but features a merchandise line manufactured specifically for them. Some manufacturers' outlets, like Big Dog, the surf-wear label, have even become solely outlet focused—not selling their merchandise in traditional retail stores.

Mixing of store types is also occurring in some regional malls where off-price and full price retailers are operating side by side. This would not have occurred a few years ago. Today, an abundance of retail space, changing buying patterns, and pressures to breathe life into ailing centers has convinced some retailers and developers that mixing full-price and outlet/discount retailers can work. For example, in one mall an off-price retailer, Marshalls, operates in the same shopping center with Dillard's Department Store. Several regional malls have also added a Burlington Coat Factory to their tenant mix (Palmieri, 1997). Such a mix of off-price and full-price, however, may not work in all markets. Some retail analysts believe that mixing types of tenants will work only in small, suburban markets (Bredin, 1992).

Management at one regional mall even experimented with one wing of the mall devoted to discount/outlet stores (Bredin, 1992). Some full price stores like Lands' End are even adding "not-quite-perfect" or "outlet" departments in the rear of their stores where items with minor imperfections are stocked (Wilson, 1997).

## *Location and Size of Outlets*

In the past, most manufacturers with factory outlets have been quite sensitive to locating near traditional retailers who are the bulk of their wholesale accounts. A report in *Value Retail News* (Avins, 1994) indicates that over the past few years, manufacturers have tried to maintain an average minimum distance ranging between 22 and 25 miles from their department and specialty store accounts. Many manufacturers continue to maintain this distance, or more. Increasingly, however, some are willing to locate close to their wholesale accounts. In 1995, 12% of manufacturers surveyed indicated they would be willing to locate outlet stores near a department store account, up from nine % the prior year. Forty-four percent said they would open within 10 miles of a department store, up from 29% (Vincour, 1996).

The Mills Corporation is one of the outlet developers that has made its mark by opening near metropolitan areas. According to Williamson (1995), the firm uses the approach of offering consumers a unique shopping experience they will not be able to find in traditional malls, and by doing this, their growth is outpacing the industry because they are re-thinking the shopping experience. For example, 40 to 45% of the tenants going into Mills' new malls are new to the outlet or off-price arena (*Chain Store Age*, 1997). In addition, Mills' projects have become major tourist destinations (Reda, 1997).

Development groups, for example the Mills Corporation, continue to develop megamalls, such as the \$150 million, 1.7 million-square-foot Ontario Mills shopping center in California. At Ontario Mills, located about 50 miles from Los Angeles, customers have a choice of more than 25 shoe stores, as well as hundreds of other stores. In between stores, customers can also catch a movie on one of 52 cinema screens; listen to their favorite compact discs at the Virgin Megastore; catch a meal at the Wolfgang Puck Café; or take an unexpected journey through the wilderness in the American Wilderness Experience attraction (McAllister, 1997). Of the 22 centers opened in 1995, nearly a third exceeded 200,000 square feet. This compares to an average center size of 169,212 square feet (*Daily News Record*, 1996b). These centers blend value, off-price, and outlet retailers in an entertaining environment rivaling the best regional mall.

There has also been growth in outlet power centers. Outlet power centers are smaller than megamalls (usually between 150,000 and 700,000 square feet), typically located in suburbs of major metropolitan markets or in mid-sized markets. They usually adopt a strip-center format, although some are village-style centers. Outlet power centers include a hybrid tenant mix, with both outlet stores and value retailers (such as Bed, Bath, and Beyond, CompUSA, and Media Play), off-price apparel



retailers (such as T.J. Maxx and Burlington Coat Factory), and value-oriented specialty retailers (such as Old Navy). These centers also include entertainment tenants such as multi-screen theaters and theme restaurants.

### *Outlet Customer Profile*

Another factor impacting pricing and marketing strategies at outlet stores is the changing profile of their customers. Once thought of as only a pastime for senior citizens, outlet stores today are attracting a variety of shoppers. By featuring upscale designers and stressing brand names, outlets are attracting more sophisticated consumers. In 1997, an estimated 55 million Americans traveled at least 200 miles (round trip) to shop at factory outlet stores. Three-fourths of their purchases were clothing and footwear (*Consumer Reports*, 1998c).

Outlet shoppers tend to be older, wealthier, and more educated than typical mall shoppers. Lloyd (1992) reports that outlet shoppers are primarily affluent consumers with household incomes of \$50,000 to \$75,500. Barnes (1998) also found that outlet shoppers are older, better educated, and have higher incomes than typical mall shoppers. Of the outlet shoppers surveyed, 70% were women while 67% were over 40 years old. Only 28% of department store shoppers and 23% of specialty store shoppers surveyed were over age 40. Almost 40% of the outlet shoppers reported incomes of over \$50,000 per year. These demographic characteristics make this group an especially attractive segment for brand names and upscale apparel. In earlier research, Halverson (1988) also found that outlet centers drew a more upscale customer in terms of income and education than the traditional discount store customer. Barnes (1998) concludes that outlet shoppers represent the target market of choice for many manufacturers in the sluggish apparel industry.

Church (1997) reports that almost 75% of outlet mall shoppers come from within a 90-minute driving radius. Although outlet centers, in such cities as Orlando, Las Vegas, and Pigeon Forge do extremely well with tourists, many local consumers shop there on a regular basis (Kaplan, 1996).

Carloads—even busloads—of families and friends travel to outlet centers and spend about \$150 per family during each shopping trip (Rudnitsky, 1994). Other research (Church, 1997) found that outlet shoppers spend an average of \$95 per shopping trip at the outlet center, and are usually women who have planned a day-long excursion.

Most outlet shoppers are repeat customers who don't mind traveling an extra distance for sharp price reductions according to the Developers of Outlet Centers and the Manufacturers Idea Exchange (Moins, 1994).



The two trade groups surveyed 8,830 shoppers in 88 outlet centers in 39 states. Overall customer satisfaction with the outlet shopping experience was exceptionally high, with 93% of the shoppers planning to return. The data were based on exit interviews with shoppers who made a purchase. Among the findings, 87% of those surveyed said their savings were worth the average 45-minute travel time; 79% of the first-time shoppers said their savings were worth the trip, and 90% of the repeat shoppers said the same. Fifty-seven percent said prices met their expectations and 27% said prices were lower than expected, but 16% said they were disappointed by the prices (Moin, 1994).

The average shopper spends between three (Kaplan, 1996) and four hours (Bredin, 1992) in an outlet center, compared with an average of about two hours for a traditional mall. For these customers, outlet shopping may be the last recreational shopping activity. Rudnitsky (1994) even speculates that outlet shopping is not so much shopping as it is recreation.

What attracts these customers to outlet centers? Vargo (1995) concludes that low prices (discount prices that are more consistent day-to-day) and a wide selection of merchandise are what attract customers to outlets today. Department stores may have a sale where prices are lower than outlets, but customers must wait for the sale. Industry leaders believe that "Outlets offer the low prices everyday and the customer knows that" (Vargo, 1995). In fact, 90% of customers surveyed by *Value Retail News* said they were satisfied with their savings (Bodnar, 1991). In the words of one customer, "It's not that I can't afford to shop at regular department stores, but it's the thrill of the hunt. I love to find that elusive, wonderful bargain" (Sharp, 1996). Almost 60% of respondents to a recent *Consumer Reports* survey (1998c) were highly satisfied with their experience. Only 11% were at all dissatisfied. Outlet shoppers are convinced they are getting bargains and they enjoy the challenge of finding markdowns and special deals even within this discount venue.

As outlet customers have become more upscale and sophisticated, many are expecting increased levels of service. Lee and Johnson (1997) report that customer service is not a single universal concept—customers have different expectations for the services they want to receive from different types of apparel retailers. Customers expect better service from stores that stock more upscale apparel. But in all situations, three main themes emerged: store amenities (liberal return policies, refunds, layaway, alterations, gift wrapping, shipping, and in-store credit); store facilities (lighting, mirrors, sitting area, and fitting rooms); and specific sales associates' attributes were expected by all types of customers. Customers expect sales associates to offer helpful suggestions and to be honest, professional, and unobtrusive.

## Pricing Comparisons

Outlet-to-retail price comparisons have been difficult. Outlet stores typically market a product's "suggested retail price" on the tag, but quite possibly, no retailer ever ordered that item or used that suggested retail price. For example, Toys Unlimited advertised an Ice Capades Barbie for \$8.99 with a suggested retail price of \$14.99, but a spokesperson at Mattel said the approximate retail price was \$10.75, and Toys "R" Us had it for \$9.99. Another doll, Li'l Miss Magic Hair, was being promoted for \$14.99—reduced from a suggested retail price of \$34.99. Mattel quoted the approximate retail price at \$27, and customers could buy it for \$20.99 at Toys "R" Us (Bodnar, 1991). Generally, savings claims by outlet stores range from 20 to 75% off suggested retail (McGovern, 1993).

Limited research on price savings at outlet centers has found similar results, but most of these investigations have compared only a small number of items. A study of price differences by two *Value Retail News* (Arvins, 1994) staffers found that prices at outlet centers (where goods could be matched) were only 20% below the department store prices. Rudnitsky (1994) found prices 20% below standard retail, and Berstein (1997) found merchandise in outlets sold at 25 to 30% below full retail. While most outlet centers promise savings of up to 70% off retail prices, one retail analyst reports that average discounts are about 25 to 30% (Forest, 1995). Church (1997) reports that prices are usually one-third or more off regular retail prices. Other research (Avins, 1994) showed a 20% average savings over full retail, despite a claim by outlet store managers that 44% is the average savings. Survey results published in *Consumer Reports* (1998d) revealed that the average discount was about 25%. Respondents to that survey found prices were higher than they expected on nearly one-third of their visits to outlet malls (*Consumer Reports*, 1998c).

In a survey conducted by *Value Retail News* (Bodnar, 1991), manufacturers reported that discounts at their outlet stores averaged 40%. When shoppers were questioned, though, they *estimated* the average discount at closer to 25%. On 13 items found in both department stores and outlet centers, reporters for the publication found the average discount to be 27.5%.

Since 1982, with Macy's first "one-day" sale, consumers have become conditioned not to buy unless a discount is dangled. As a result, the price gap between various types of retail stores has been shrinking (*Consumer Reports*, 1998d).

Pricing strategies are also changing, with many manufacturers' outlets reducing their emphasis on deep discounts of 75% or more to focus on moderate discounts of 20 to 50%. The outlet industry's price leadership has eroded. More conveniently located, traditional retailers, offering

everyday value-pricing or engaging in frequent sales promotions, are providing competition for outlets (*Daily News Record*, 1996b). Klaus (1994) presents reports that outlets do not always deliver the best prices. In many cases, retail analysts report that outlet merchandise costs no less than sale items at department and specialty stores (Bly, 1998).

Overall, goods found in the growing luxury/designer categories may be the best outlet buys these days. For example, Coach handbags, which are typically priced between \$100 and \$400, do not go on sale in retail stores. But, in the company's outlets, quality irregulars and discontinued styles are marked down 25%. At Esprit outlets, goods arrive just six to eight weeks behind the department stores and are sold at 30 to 70% discount. An additional markdown may be taken a month later. St. John Knits are about nine months behind the retail stores at their three East Coast locations; but since the line's devotees wear the items for years, at 50% off, the lag might not matter.

Outlets have also forced traditional retailers to lower prices. For example, one department store has to sell a Van Heusen shirt for \$18.95 instead of \$24.95, in order to be competitive with factory outlets. The department store, however, requires Van Heusen to sell the shirts to them at a lower price to guarantee their profit margins (McGovern, 1993).

Retail experts say outlet malls have to discount about 30% to draw repeat business. "In apparel, if you are not at least one-third off, people will start to question why you're an outlet," said one retail consultant and former outlet executive (Bodnar, 1991).

### *Statement of the Problem*

Today, regional malls are competing with outlet centers (Ward, 1992b). Both types of shopping centers are competing for customers who are time-strapped and value-conscious. In a recent survey by consulting firm Kurt Salmon Associates of Atlanta, 38% of respondents indicated they planned to shop at traditional malls less often than in the past (Labich, 1995). Growth of outlet centers has also slowed. Preliminary evidence would indicate that the price advantage that outlet centers once enjoyed has eroded.

The purpose of this research study will be to compare the pricing policies of manufacturers' retail apparel outlets and traditional retailers. All investigations in the past have focused on only a small number of items. Primarily, the research is directed at determining if there is a significant price difference on identical products found in both outlet centers and regional malls.

## *Questions to Be Answered*

This research study is also focused on answering the questions that follow. Findings can be used by managers of regional malls and outlet centers as they position themselves to enter the 21<sup>st</sup> century.

1. Based on a review of related literature, what market trends are occurring that impact the pricing policies of apparel products at outlet centers and regional malls?
2. To what extent are identical apparel products sold in outlet centers and at regional malls?
3. For identical apparel products, do regular retail prices differ between outlet centers and regional malls serving the nearby market?
4. For identical apparel products, is the comparable or suggested retail price stated at outlet centers the same as the regular retail prices found at regional malls serving the nearby market?
5. For identical products is the retail sale price different from the regular outlet price?
6. For seconds or irregular apparel products, do regular retail prices differ between outlet centers and regional malls serving the nearby market?
7. For seconds and irregular apparel products, is the comparable/suggested retail price promoted at outlet centers the same as the regular retail price found at regional malls serving the nearby market?
8. Are pricing policies consistent at manufacturers' outlets in different markets?
9. How do pricing policies differ among the various types of apparel manufacturers' outlets?
10. How can outlet center and regional mall managers use findings related to pricing policies to promote their centers in the best way?

## ■ **Methodology**

Details of the pilot study and actual data collection procedures are described in this section. In addition, operational definitions to key terms used in the article are presented.

### *Pilot Test and Development of Data Collection Instruments*

After a review of the literature, the researchers conducted a pilot test to determine how best to collect and record data for the study. Fifty items of

merchandise at 10 manufacturers' outlet stores at Carolina Factory Shops near Gaffney, SC were selected. Gaffney is located 18 miles east of Spartanburg, SC. There are more than 60 stores in the mall, a food court, children's playground, and a customer service center. In each store, merchandise was randomly selected to represent different apparel categories. Detailed information about each item was recorded. That same day, the researchers attempted to find the same 50 items at Westgate Mall, a regional mall located in Spartanburg. Store managers and sales associates were also interviewed as the price checks were conducted in both outlet centers and regional malls.

Results of the pilot study allowed the researchers to determine problems they would encounter with data collection for the study. The pilot study also allowed the researchers to identify lines of apparel that were most likely to be found in both outlet centers and regional malls. Based on these experiences, data collection instruments were designed.

### *Data Collection*

Three markets were selected in which to conduct data collection: Myrtle Beach, SC; Savannah, GA; and Knoxville, TN. In addition to these markets being tourist centers, they had at least two outlet centers and at least two regional malls.

Myrtle Beach, SC was the first market selected. Data were collected at two outlet centers—Waccamaw Factory Shoppes and Myrtle Beach Factory Shops. Prices were then compared at two regional malls—Briar Cliff Mall and Myrtle Square Mall. The population of Myrtle Beach is 28,456, but the county has a population of 163,856. The average family income is \$36,300. Retail sales, including restaurants, generates revenue of \$4.82 billion.

Waccamaw Factory Shoppes consist of four covered malls containing over 125 stores, a visitor center, and a food court. In addition, the Fantasy Harbor entertainment complex is located adjacent to the outlet center. The retail accounts of the manufacturers represented in the outlets are located at regional malls within 10 miles of the outlet center.

Myrtle Beach Factory Stores, which house 65 stores and a food court, are located approximately three miles from Waccamaw Factory Shoppes. The retail accounts of the manufacturers represented in the outlets are within 13 miles of the outlet center.

Briar Cliff Mall is a regional mall with three anchors, K-Mart, JC Penney, and Belk department stores. In addition there are 95 specialty stores, a carousel, a multiplex theatre, and a food court. Myrtle Square Mall is also a regional mall with three anchors, Sears, Belk and Peebles department stores. In addition, there are 85 stores, restaurants, a carousel, and an arcade.

The second market selected for data collection was the Savannah, GA area. The population of the city of Savannah is 134,600 with a metro population of 287,900. The median household income of Savannah is \$34,000, while the median household income of the metro region is \$41,000. Total retail sales for 1997 were \$2,784,934.

In the Savannah market, data were collected at two outlet centers—Magnolia Bluff Factory Shops and Hilton Head Factory Stores. Prices were compared at two regional malls—Oglethorpe Mall and Savannah Mall.

Magnolia Bluff Factory Shops are located 30 miles south of Savannah. The outlet center has 73 stores, a food court, playground, a putting green, a dog run/pet rest, and a picnic area. The Hilton Head Factory Stores are located 20 miles north of Savannah on Hilton Head Island, South Carolina. The outlet center has over 80 outlet stores and a food court. Promotional materials for Hilton Head Factory Stores claim the shopper will save 20 to 70% off original retail prices.

Oglethorpe Mall has four anchor stores—Sears, Rich's, JC Penney, and Belk department stores. In addition, there are 140 other stores and restaurants. Anchor stores in Savannah Mall include Parisian, JB White, Montgomery Ward, and Belk department stores. In addition, the mall contains 110 other stores, three major restaurants, a food court, and a carousel.

The third market in which data were collected was Knoxville, TN. Knoxville has a population of 168,854 with a county population of 365,626 and a metro population of 654,181. The average income in the metro area is \$23,952. Many factory outlets are located in Pigeon Forge, which is located 20 miles east of Knoxville.

There are over 300 outlet stores in seven outlet centers in Pigeon Forge. Price checks were conducted at Tanger Outlet Center, Red Roof Outlet Center, and Five Oaks Outlet Center. Data were also collected at one regional mall, West Town Mall. This mall has five anchor stores—JC Penney, Proffitt's, Parisian, Dillard's, and Sears department stores. The mall also contains over 110 other specialty shops and restaurants.

Data collection occurred during a nine-day period in July 1998. In these three markets, the prices of 686 items of merchandise were checked and recorded at manufacturers' outlet stores. The researchers then attempted to find the identical products at retail stores in nearby regional malls. Both department and specialty stores were checked. Four hundred and fifteen of these items were found in regional malls.

### *Limitations of the Study*

When reviewing the findings of this study, several limitations should be noted. The research was completed in three markets in the Southeast

which may or may not be representative of markets in other geographic sections of the country.

The merchandise selected in the study does not accurately reflect the merchandise mix found at outlet centers. The merchandise selected for this study was limited to apparel. Findings may or may not be generalized to other product categories; however, previous research had found that 75% of merchandise sold in outlet centers is apparel.

Finally, the items chosen for price checks were purposefully selected. Styles from the previous season or merchandise labeled “factory store” were not selected for this study since they could not be found in stores at nearby regional malls.

## ■ Data Analysis and Findings

The data collected were analyzed to answer the questions previously identified. Results and findings from that data analysis are presented in this section.

### *Question 1*

Based on a review of related literature, what market trends are occurring that impact the pricing policies of apparel products at outlet centers and regional malls?

- When compared with the start of this decade, the growth of outlet centers has slowed. In fact, many markets may be over-saturated.
- Outlet centers have become more upscale with added amenities, such as food courts and playgrounds, similar to regional malls. Outlet store designs and fixtures have also become more sophisticated. Many outlet stores are difficult to distinguish from similar stores in regional malls.
- By becoming upscale and adding amenities, profits for many outlet stores have been squeezed in recent years. In addition, apparel sales at both outlet and regional malls have slowed.
- Today, outlet centers have a very varied tenant mix. In addition to manufacturers’ outlet stores, there are clearance centers for large retailers. Some stores can only be found at outlet centers. In addition, some traditional, full-price retail stores can now be found at outlet centers. Regional mall managers are also adding off-price retailers to their tenant mix.
- Much of the merchandise sold at outlet centers is made specifically for those stores. Sometimes this merchandise will be labeled as “fac-



tory store,” but many times there will be no such designation. For most of this merchandise, the quality is somewhat less when compared to similar merchandise being sold in traditional retail stores; therefore, prices at outlets can be less than at regional malls because of lower construction specifications.

- Outlet centers are locating closer to regional malls and the full-price retail stores carrying similar or identical merchandise.
- Outlet centers now attract an upscale market that is especially attractive for brand names and upscale merchandise.
- Average savings at outlet centers are typically 20 to 30%, although many outlet stores claim higher savings. Prices similar to those found at outlet centers can be found in regional malls *when sales are occurring*.
- Many customers view outlet shopping as more recreational than shopping in regional malls.
- Outlet centers and regional malls are competing for similar market segments.

## Question 2

To what extent are identical apparel products sold in outlet centers and at regional malls? Five categories of apparel merchandise were selected for this study: men’s apparel, women’s apparel, children’s apparel, handbags, and shoes. Since merchandise sold at outlet stores includes closeouts and merchandise made specifically for the outlet, all merchandise found there could not be included in a random selection for this study. If selected, such merchandise could not be found in regional malls. Therefore, merchandise selected at outlet stores was randomly chosen based on the likelihood of identical merchandise being found in regional malls.

Even with this *intentional random selection*, all the merchandise selected at outlet stores could not be found in regional malls. As shown in Table 1, 415 (61%) of the 686 items selected at outlet centers were found in regional malls. Similar results were found in the men’s, women’s, and children’s categories. Shoes selected at outlet stores were the most difficult apparel category to find in regional malls. Only 37% of the shoes chosen in outlet centers were found in regional malls. Styles of shoes sold at regional malls seemed to be quite different from those found at outlet centers. Interviews with store managers indicated that most of the shoes found in outlet stores were discontinued or made specifically for the outlet market.

Since the number of products found in three categories of merchandise (men’s, women’s and children’s apparel) was large, they were divided

**TABLE 1. PERCENTAGE OF MERCHANDISE SELECTED AT OUTLET CENTERS AND FOUND AT TRADITIONAL RETAIL STORES**

	Number of Products Selected in Outlet Centers	Number of Products Found in Regional Malls	Percentage of Products Selected Found in Regional Malls
Total Sample	686	415	61%
Men's Apparel	288	178	62%
Shirts	89	51	57%
Undergarments	50	35	70%
Pants & Slacks	41	28	68%
Jeans	40	27	68%
Shorts	33	22	67%
Jackets/Sweaters/ Wind Suits	27	12	44%
Accessories	8	4	50%
Women's Apparel	178	109	61%
Shorts, Slacks, Skirts & Jeans	43	25	58%
Socks & Hosiery	35	28	80%
Shirts, Jackets & Sweaters	35	16	46%
Bras	35	28	80%
Lingerie except for Bras	30	20	67%
Children's Apparel	156	93	60%
Layette	59	44	75%
Boys & Girls	97	49	51%
Handbags	23	20	87%
Shoes	41	15	37%

into subcategories. The number of products found in the categories of handbags and shoes was too small to be subdivided.

Sixty-two percent of men's apparel products selected for this study was found at both the outlet centers and the regional malls. Typical men's apparel items selected in the study were shirts, undergarments (including socks, robes, briefs, and undershirts), slacks, jeans, shorts, jackets/ sweaters/wind suits, and accessories. An analysis of these sub-categories (shown in Table 1) revealed that there was a greater likelihood of finding men's basic apparel products such as undergarments, jeans, shirts, slacks, and shorts than fashion merchandise such as jackets, sweaters, and wind suits. These products tended to be more seasonal or trendy.

Women's apparel merchandise chosen for this study was subdivided into the following categories—shorts/slacks/skirts/jeans, socks/hosiery, shirts/jackets/sweaters, bras, and other items of lingerie (panties, slips, boxers and crop tops). An analysis of these sub-categories (shown in Table 1) revealed that there was a greater likelihood of finding basic apparel products such as women's socks, hosiery and bras in both outlet stores and regional malls.

Children's merchandise, selected for the study, was divided into two sub-categories—layette products and boys'/girls' apparel. Typical layette merchandise included blankets, towels, body suits, gowns, crib sheets, sleepers, and bibs. Typical children's products included dresses, slacks, tops, jeans, overalls, and socks. As shown on Table 1, 75% of the layette items selected in outlet stores were found in regional malls. Only 51% of the boys'/girls' items selected were found in regional malls. Many of the layette products are basics and sold throughout the year; they change very little from one year to the next.

### Question 3

For identical apparel products, do regular retail prices differ between outlet centers and regional malls serving the nearby market? The prices of identical merchandise found in both outlet centers and regional malls were compared. Apparel merchandise in outlet centers was found to be 24% lower in price than identical merchandise found in regional malls. Paired t-tests were administered to analyze the data to determine whether there was a significant difference in the price of merchandise located at outlet centers and merchandise found at regional malls. Specific findings are presented in Table 2. For this data analysis, *Regular Outlet Price* indicates the retail price at the outlet center without any reductions or discounts, and *Regular Retail Price* indicates the price at the regional malls without any reductions or discounts.

There was a significant difference between the regular outlet price and the regular retail price at regional malls for the sample ( $n=415$ ,  $p < .000$ ). The regular outlet price was significantly lower than the regular retail price at regional malls.

Each of the merchandise categories previously described was also analyzed by paired t-tests to determine if there was a significant difference in the regular retail price of merchandise located at outlet centers and the regular retail price at regional malls. There was a significant difference between the regular outlet price and the regular retail price at regional malls for men's apparel ( $n=178$ ,  $p < .000$ ). The regular retail price at regional malls was significantly higher than the regular outlet price.

There was also a significant difference between the regular outlet

TABLE 2. REGULAR OUTLET PRICES COMPARED TO REGULAR RETAIL PRICES: PAIRED T-TEST

	Paired Differences						Sig. (2-tailed)
	Mean	Std. Deviation	Std. Error	95% Confidence Interval of the Difference		t	
				Lower	Upper		
<i>All Merchandise:</i>							
Regular Outlet Price-							
Regular Retail Price	-8.9321	10.8074	.5305	-9.9750	-7.8893	-16.837	.000
<i>Men's Apparel:</i>							
Regular Outlet Price-							
Regular Retail Price	-9.9534	7.1488	.5358	-11.0108	-8.8959	-18.576	.000
<i>Women's Apparel:</i>							
Regular Outlet Price-							
Regular Retail Price	-7.2371	7.5210	.7204	-8.6650	-5.8091	-10.046	.000
<i>Children's Apparel:</i>							
Regular Outlet Price-							
Regular Retail Price	-3.8910	5.3502	.5548	-4.9928	-2.7891	-7.013	.000
<i>Handbags:</i>							
Regular Outlet Price-							
Regular Retail Price	-34.4000	21.5416	4.8169	-44.4818	-24.3182	-7.142	.000
<i>Shoes:</i>							
Regular Outlet Price-							
Regular Retail Price	-6.4287	20.3924	5.2653	-17.7216	4.8643	-1.221	.242

price and the regular retail price at regional malls for women's apparel ( $n=109$ ,  $p < .000$ ). The regular retail price at regional malls was significantly higher than the regular outlet price; however, the majority of merchandise located in both outlet centers and regional malls was skewed to the merchandise sub-categories of bras, socks, hosiery, and lingerie.

There was a significant difference between the regular outlet price and the regular retail price at regional malls for children's apparel ( $n=93$ ,  $p < .000$ ). The regular retail price at regional malls was significantly higher than the regular outlet price. This finding is skewed toward layette items which were found more frequently than boys'/girls' merchandise.

There was a significant difference between the regular outlet price and the regular retail price at regional malls for handbags ( $n=20$ ,  $p < .000$ ). The regular retail price at regional malls was significantly higher than the regular outlet price. The sample size, however, was small and may not be generalizable to the entire population. Most of the handbags found in both outlet centers and regional malls were high-end, leather purses.

As presented in Table 2, there was no significant difference between the regular outlet price and the regular retail price at regional malls for shoes ( $n=15$ ,  $p < .242$ ). The sample size, however, was small and may not be generalizable to the entire population. Men's leather shoes and women's leather shoes made up approximately half of the sample, and the other half was athletic shoes.

#### Question 4

For identical apparel products, is the comparable/suggested retail price stated at outlet centers the same as the regular retail prices found at regional malls serving the nearby market? Seventy-nine percent of all the merchandise found at both regional malls and outlet centers listed a comparable/suggested retail price. The stated comparable/suggested retail price in outlet centers was found to be six percent higher than the regular retail price of merchandise found in regional malls. Paired  $t$ -tests were administered to analyze the data to determine whether there was a significant difference in the comparable/suggested retail price of merchandise located at outlet centers and similar merchandise found at regional malls. Specific data analysis is presented in Table 3. For this analysis, *Comparable/Suggested Retail Price* indicates the comparable or suggested retail price found on merchandise labels or signs at the outlet center. *Regular Retail Price* indicates the price at the regional malls without any reductions or discounts.

There was a significant difference between the comparable/suggested retail price quoted at outlet centers and the regular retail price at regional malls for the sample ( $n=327$ ,  $p < .000$ ). The comparable or suggested

TABLE 3. REGULAR RETAIL PRICES COMPARED TO COMPARABLE/SUGGESTED RETAIL PRICE AT OUTLET STORES: PAIRED T-TEST

	Paired Differences						Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error	95% Confidence Interval of the Difference		t		df
				Lower	Upper			
<i>All Merchandise:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	2.6788	9.3104	.5149	1.6659	3.6917	5.203	326	.000
<i>Men's Apparel:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	2.0169	5.7458	.4600	1.1082	2.9257	4.384	155	.000
<i>Women's Apparel:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	.9782	5.6680	.5717	-.1563	2.1126	1.711	98	.090
<i>Children's Apparel:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	1.6021	5.0294	.8054	-2.8E-02	3.2324	1.989	38	.054
<i>Handbags:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	8.4000	16.0735	3.5941	.8774	15.9226	2.337	19	.031
<i>Shoes:</i>								
Comparable/Suggested Retail Price- Regular Retail Price	18.0000	28.8600	8.0043	.5601	35.4399	2.249	12	.044

retail price was significantly higher than the regular retail price at regional malls for the entire sample. In other words, the regular retail price at regional malls was lower than the comparable or suggested retail price stated at the outlet centers. This finding indicates the comparable/suggested retail price stated in outlet centers is inflated, possibly to enhance customers' perception of "savings" found at outlet centers.

Each of the merchandise categories was also analyzed by paired t-tests to determine whether there was a significant difference in the comparable/suggested retail price of merchandise located at outlet centers and the regular retail price at regional malls. There was a significant difference between the comparable/suggested retail and the regular retail price at regional malls for men's apparel ( $n=156$ ,  $p < .000$ ). The comparable or suggested retail price was significantly higher than the regular retail price at regional malls for men's apparel.

There was no significant difference between the comparable or suggested retail and the regular retail price at regional malls for women's apparel ( $n=99$ ,  $p < .090$ ) and children's apparel ( $n=39$ ,  $p < .054$ ). The comparable/suggested retail price was significantly higher for handbags ( $n=20$ ,  $p < .031$ ) and shoes ( $n=13$ ,  $p < .044$ ); however, the number of products found in these categories was probably too small to make generalizations. Additionally, the majority of women's products were undergarments with retail tags attached stating the manufacturers' suggested retail price (MSRP); therefore, no difference was expected.

### Question 5

For identical products is the retail sale price different from the regular outlet price? A series of paired t-tests were used in analyzing the data to determine whether there was a significant difference in the regular outlet price and the sale price of merchandise at regional malls. The results of that analysis are presented in Table 4. In that table, *Regular Outlet Price* indicates the price at the outlet center without any reductions or discounts; *Retail Sale Price* indicates any reduced or sale prices found at regional malls.

There was no significant difference between the regular outlet price and the retail sale price for all merchandise ( $n=97$ ,  $p < .284$ ). This finding indicates that the sale price found at regional malls is often similar to the regular retail price found at outlet centers.

In addition, each of the merchandise categories was analyzed by paired t-tests to determine whether there was a significant difference between the regular outlet price and the retail sale price. There was no significant difference between the regular outlet price and the retail sale price for men's apparel ( $n=57$ ,  $p < .230$ ), women's apparel ( $n=18$ ,  $p <$



TABLE 4. REGULAR OUTLET PRICES COMPARED TO RETAIL SALE PRICES AT REGIONAL MALLS: PAIRED T-TEST

	Paired Differences						Sig. (2-tailed)	
	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t		df
				Lower	Upper			
<i>All Merchandise:</i>								
Regular Outlet Price-Retail Sale Price	.9343	8.5381	.8669	-.7865	2.6551	1.078	96	.284
<i>Men's Apparel:</i>								
Regular Outlet Price-Retail Sale Price	-1.0214	6.3521	.8414	-2.7068	.6641	-1.214	56	.230
<i>Women's Apparel:</i>								
Regular Outlet Price-Retail Sale Price	-.9128	4.0143	.9462	-2.9091	1.0835	-9.65	17	.348
<i>Children's Apparel:</i>								
Regular Outlet Price-Retail Sale Price	2.8892	4.8336	1.3406	3.168E-02	5.8101	2.155	12	.052
<i>Handbags:</i>								
Regular Outlet Price-Retail Sale Price	37.5100	27.5630	19.4900	-136.7210	-210.1339	285.1539	1	.305
<i>Shoes:</i>								
Regular Outlet Price-Retail Sale Price	7.5271	4.3919	1.6600	3.4653	11.5889	4.535	6	.014

.348), children's apparel ( $n=13$ ,  $p < .052$ ), and handbags ( $n=2$ ,  $p < .305$ ). However, the number of products found in these categories is probably too small to make generalizations.

### *Question 6*

For seconds or irregular apparel products, do regular retail prices differ between outlet centers and regional malls serving the nearby market? Prices on seconds and irregular merchandise were analyzed. Irregulars and seconds in outlet centers were found to be 28% lower in price than the same brand and style of merchandise found in regional malls. The sample contained 74 products that were seconds or irregulars. Of those, 49 were also found in regional malls, and 36 of these products were hosiery or socks. One outlet store manager stated that although the socks carried were marked seconds, they were first quality and did not have any imperfections. Paired t-tests were administered to analyze the data to determine whether or not there was a significant difference in these prices. As shown in Table 5, there was a significant difference between the regular outlet price and the regular retail price at regional malls for the sample of irregulars/seconds ( $n=49$ ,  $p < .000$ ). The regular price at regional malls was significantly higher than the regular outlet price which is to be expected, since these are seconds or irregulars. Yet, irregulars and seconds were 28% lower while first quality merchandise was 24% lower.

### *Question 7*

For seconds and irregular apparel products, is the comparable/suggested retail price promoted at outlet centers the same as the regular retail price found at regional malls serving the nearby market? The comparable/suggested retail price promoted in outlet centers for seconds and irregulars was found to be four percent higher than the retail price of merchandise found in regional malls.

Paired t-tests were administered to analyze the data to determine whether or not there was a significant difference in these prices. As shown in Table 5, there was no significant difference between the comparable or suggested retail price and the regular retail price at regional malls for the sample ( $n=24$ ,  $p < .298$ ). This finding would suggest that the comparable or suggested retail price on irregulars or seconds is not inflated, as was found with other merchandise.

### *Question 8*

Are pricing policies consistent at manufacturers' outlets in different markets? The researchers found the pricing policies were consistent at manu-

TABLE 5. REGULAR OUTLET PRICES COMPARED TO REGULAR RETAIL PRICES FOR IRREGULAR MERCHANDISE: PAIRED T-TEST

	Paired Differences					
	Mean	Std. Deviation	Std. Error Mean	Lower	Upper	Sig. (2-tailed)
<i>Irregular Merchandise:</i>						
Regular Outlet Price-						
Regular Retail Price	-6.9880	8.2650	1.1807	-9.3620	-4.6149	.000
<i>Irregular Merchandise:</i>						
Comparable/Suggested-						
Regular Retail Price	2.3108	10.6291	2.1697	-2.1774	6.7991	.298

facturers' outlets in the different markets. As shown in Table 6, an analysis of variance was performed and revealed no significant difference in the prices in any of the markets.

**TABLE 6. COMPARISON OF OUTLET MARKETS, ANOVA**

	Sum of Squares	df	Mean Square	F	Sig.
Regular Outlet					
Between Groups	1977.871	2	099.935	.816	.443
Within Groups	826679.8	682	1212.141		
Total	828657.7	684			
Regular Retail					
Between Groups	220.772	2	493.547	.055	.946
Within Groups	820104.9	411	2410.091		
Total	820325.7	413			
Comparable Retail					
Between Groups	987.095	2	493.547	.205	.815
Within Groups	1347241	559	2410.091		
Total	1348228	561			

In fact, almost all the same outlet stores were found in the three markets. It is interesting to note that outlet stores run holiday and back-to-school promotions similar to those of the traditional retail stores located in regional malls, which indicates that outlet centers and regional malls are competing for the same customer. Outlet stores also use direct mail and discount coupons to promote sales to reward high volume customers, just as many full-price retail stores do.

### *Question 9*

How do pricing policies differ among the various types of apparel manufacturers' outlets? The researchers found that many manufacturers have set up a two-tier merchandising system, allowing them to attract customers at both outlet centers and regional malls. In fact, many of the manufacturers may be using lower prices on apparel merchandise at outlet centers to develop customers who would then move on to purchase fashion or trendier styles at the regional malls. Once outlet store customers find a brand they like, they are also offered daily discounted prices with a wider merchandise assortment. Many times this assortment is not offered at the regional mall.

Manufacturers maintain their retail accounts by assuring them that the merchandise sold at outlet centers is near the end of the season or

designed differently. For example, Tommy Hilfiger uses different emblems on their outlet merchandise from that found in the nearby regional mall. New merchandise sold at the Gap Outlet specifically states on the label that the merchandise is outlet merchandise. In addition, during interviews with outlet store managers, several stated that store managers representing the manufacturer's retail accounts "shop" their stores. If merchandise is displayed which is on the floor at the traditional retail stores, the manufacturer is contacted and the merchandise is removed from the floor of the outlet store. In addition, new or perfect merchandise may be marked or labeled "second" or "irregular" in order for the manufacturer to pacify the retail accounts while maintaining the deep assortment.

### Question 10

How can outlet center and regional mall managers use findings related to pricing policies to best promote and market their centers? The researchers believe that implications of this research would lead to the following recommendations for *regional mall managers and retailers*:

- Promotion by stores at regional malls should stress that they have the newest and most fashionable merchandise.
- When sales occur at regional malls, sale prices should be touted as being similar to those at outlet stores.
- Promotion should stress that customers do not have to travel outside their shopping areas to receive a good deal—saving time and saving money on transportation, meals, and other related expenses.
- Retailers in regional malls located near outlet centers should periodically monitor manufacturers' outlets to ensure that these stores are not carrying the same merchandise. If the same lines are being carried, retailers may want to request that manufacturers discontinue sales of the products at those outlets.

The recommendations that follow are suggestions for *outlet center managers and retailers*.

- Stores at outlet centers should promote that they offer customers everyday discounts—not just during special sales.
- Outlet stores should promote the fact that they offer a greater variety within brands than department stores do.
- Outlets can also be promoted as being fun and entertaining. Outlet center managers should promote the excitement of unearthing a hidden bargain.
- Outlet center managers may want to consider lease agreements with tenants to offer customers a minimum of 30% off full retail. They

may even want to employ mystery shoppers to conduct price checks periodically to ensure that these savings do exist.

- Outlet center managers may want to consider limiting tenants to outlet or discount stores. Full price retailers in outlets can lead to customer confusion.
- Managers of stores at outlet centers should post suggested/comparable retail prices that are more in line with retail prices that exist in the market. Exaggerated claims can lead to customer mistrust.
- Manufacturers should label merchandise made specifically for outlets with a distinct label, such as "factory store." Without these labels, manufacturers are giving customers the impression the products are exactly the same as similar ones found in full-price retail stores since they appear identical.

## ■ Discussion

Outlet centers today have changed. They have become more upscale and are offering customers many of the same amenities that they would find in regional malls. No longer do outlet stores offer just overruns, out-of-season merchandise, and irregulars/seconds. Many of these stores now carry new merchandise designed expressly for the outlet; yet, other stores are selling products at full retail, alongside discounted items. Some manufacturers are even using outlets as a way to test new merchandise before bringing it out in traditional retail stores.

These changes have led to lower discounts being offered at outlet stores. As the price gap has narrowed between retailers at outlets and regional malls, competition has increased for the same customers.

Not only do factory outlet stores provide competition to traditional retailers, they divide manufacturer loyalty. There is a potential for drained resources and strained relationships with their traditional retail customers. Traditional retailers have tolerated the competition because outlet centers have usually been built 18-20 miles or more from the manufacturer's large wholesale accounts, but today some outlet centers are being located much nearer these full-price retailers (Apfel, 1996).

Some manufacturers' outlet stores have created friction between vendors and retailers by selling first-run merchandise. For example, retailers attending the 1996 Western Shoe Retailers Association Conference engaged in heated debates over the increasing number of vendor-owned outlet stores. Independent retailers voiced skepticism that products sold at outlet stores were really irregular or not in season. They stressed their inability to match such outlet prices (MacDonald, 1996; Malone, 1997; *Footwear News*, 1996).

Some elements of the outlet store format are also changing to minimize direct competition with these traditional retailers. Often merchandise assortments are differentiated from the mix found at traditional retail stores—lines are being offered that never appear in traditional retail stores. Also, many upscale, designer outlet stores refuse to be identified in promotional materials of outlets for fear of upsetting retailers that sell those brands at full price (Berstein, 1997).

One mall executive believes that the entry of retailers into outlet centers (i.e., Nordstrom Rack, Off 5<sup>th</sup>) has broken down the sensitivity barriers between retailers and manufacturers. Full-price retailers may not be able to complain about vendors selling off-price when they are doing it themselves (McAllister, 1997).

Both regional malls and outlet centers have added entertainment and restaurant attractions. According to the president of Belz Factory Outlets, the developer's strategy to add entertainment and mall-like features is just one aspect of its many-pronged approach to the outlet business of the future. He stresses that the key to future success in the factory outlet industry is tied to having consumers enjoy the shopping experience. "First and foremost, outlet shopping is fun for the shopper," he explains. "It's fun due to the fact that they're finding good quality merchandise at low prices, and second, because the environment in which we frame it is fun" (Kaplan, 1996). Some experts contend, however, that entertainment may distract consumers from serious shopping (Labich, 1995).

Are outlet centers in trouble? One retail analyst believes that many of the smaller ones face serious challenges. Customers may no longer be willing to drive out of their way to a small outlet center or free-standing manufacturer's outlet store as department stores become more price-competitive (*Daily News Record*, 1996a). Forest (1995) also contends that the growth of outlet centers is ending because retailers in local malls are matching their prices with the added convenience of being closer to the consumer.

Steadily narrowing price gaps between outlet centers and traditional malls is just one of the challenges faced by outlet centers. Explosive growth in the number of outlets has caused market saturation in some areas. The president of Savane, a division of Farah, also believes trouble is brewing for outlet centers. The outlet business for Savane is not growing as much today as in the past. Although he doesn't believe outlets will disappear, he says growth will flatten and possibly go through a consolidation of outlet centers similar to the closings of many traditional retail centers. He feels consumers today have too many options (*Daily News Record*, 1996a).

As outlets get closer to the traditional look and feel of full-price retail stores, there may be less reason to shop there. Kurt Barnard, president of



Barnard's Retail Marketing Reports, believes outlets should get back to where they were originally and that upscaling is a mistake. As outlets upscale and add frills that increase prices, one outlet advantage over regular-priced retailers—lower prices—begins to evaporate.

Upscaling with fancy fixtures may not be the answer. Being in stock in many sizes, with fuller assortments across categories, is closer to what should be happening (*Discount Store News*, 1995). Outlet center managers are also fighting back with new brand-name tenants with different product categories.

Outlet shopping center managers and developers must clearly differentiate outlet centers from traditional malls. Consumers are becoming more sophisticated and particularly understand time. If they are going to invest the time to drive 90-100 miles to an outlet center to realize selection, value, and price savings, they had best find them when they get there. Consumers do not need to trek to faraway outlet centers in search of markdowns. They may do as well if they wait for a department store sale, but they might not have as much fun. There is possibly an exuberance about outlet centers that consumers cannot find at other shopping centers.

## ■ Implications for Future Research

The results of this study have the following implications for future research studies:

- Since data were collected only in the southeastern section of the United States, the research should be replicated in other sections of the country to determine if similar results can be found nationwide.
- Similar research should be conducted for all categories of merchandise found in outlet centers, not just apparel.
- Since much of the merchandise sold in outlet centers is now made specifically for the outlet market, research should be conducted to determine exactly how the quality of these products compares with similar merchandise found in regional malls.
- A detailed examination should be conducted of seconds/irregulars to determine the extent of imperfections and the percentage of goods that are labeled seconds/irregular but which are free of defects.

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