BRANDS AND BARGAINS: DEFINING THE OUTLET SHOPPER

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Manufacturers' outlet centers are opening at a frenetic pace in the U.S. There are currently 14,000 outlet stores with combined sales of $14 billion per year. These stores are attracting an upscale shopper seeking designer and brand name merchandise at a discount. The outlet shopper is convinced she is getting bargains and enjoys the challenge of finding markdowns and specials even within this discount venue. Older, more educated, and reporting a higher income than her suburban mall counterpart, the outlet shopper represents the target market of choice for the sluggish apparel industry. Continued growth of outlet centers may ultimately draw the most desirable customers from the traditional malls as shoppers search for the best names at the lowest prices.

INTRODUCTION

A new type of retailing, the factory outlet center, has been sweeping the U.S. over the last ten years. These multi-stored retail centers feature manufacturer-owned stores selling their own manufactured products. The stores provide a way to alleviate the manufacturers' over-production of inventory and bypass the traditional retail markets such as a department store or specialty retail shop in a local mall, although many brands are sold in both (Boling 1995).

There are over 14,000 outlet stores in the US with combined sales of approximately $14 billion per year. These stores have doubled in number since 1990 and are expected to continue high growth. There are now over 500 outlet centers in the U.S. with decidedly upscale in-store designs and unique pricing incentives. More than 500 million shoppers visited outlet centers during 1996 (*Value Retail News 1997*). Nike and Reebok are considered model outleters because of their attractive stores (*Wall Street Journal 1997*).

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Years ago most outlet stores sold predominantly merchandise with slight defects. Irregular and damaged merchandise now accounts for less than 15 percent of all outlet goods. A combination of current season factory overruns, last season's styles, seconds, and samples are typical. More and more outlet merchandise, particularly clothing, is specially manufactured for sale in outlets. This merchandise is typically a cheaper imitation of the line carried in department stores. Major manufacturers of specialty clothing, sporting goods, leather goods, luggage, shoes, housewares, and others are establishing their own factory outlet concept stores and are becoming tenants in these factory outlet centers.

LITERATURE REVIEW

Retailing associations and trade publications have followed the stellar growth of the outlet segment. The International Council of Shopping Centers has created a factory outlet sales index with the cooperation of outlet center developers. The index is based on a proprietary database containing sales and square footage data for 17 merchandise categories by about 150 outlet centers. Additional information is reported regularly in *Value Retail News* and *JP Morgan Outlet Industry Update*. The business dailies and trade journals provide news about openings, policies and successes of outlet centers or stores (Kiernan 1996; Steinhauer 1996; Drox 1996).

In stark contrast, the academic literature offers no insight into the fastest growing segment in retailing. To date, there has been no published work in the major marketing journals focusing on factory outlet shopping. It is the intent of this study to define the outlet shopper and examine relevant perceptions of the outlet shopping experience. Special attention will be paid to different pricing strategies in an effort to investigate shoppers' preferences. A range of pricing issues have been extensively covered in the academic research. Sensitivity to promotional variables (Shankar 1996), reference prices (Biswas 1991), frequency of sales (Krishna 1991) and perceived retailer credibility (Bobinski 1996) are typical of the pricing literature. Without exception, each investigation took place in a laboratory or department store setting. Bobinski, in his conclusion, stresses the need for future research on contextual variables such as store type. Biswas notes that consumers' perceptions of a given price reduction can vary depending on the type of store involved. The enormous growth and popularity of factory outlet centers makes them an important venue for investigation. Examination of pricing issues in this segment of the retail industry is an important step in defining outlet shoppers and their preferences.

The rise in outlet shopping coincides with years of recession followed by a weak economy. During difficult years in the apparel industry in the 1980s, merchants used sales and special promotions to attract customers. Unfortunately, the end product was low profit margins and consumers addicted to sales. In an effort to increase sales and profits, retailers in the 1990s tried to cut back on sales and special promotions. Industry analysts question this strategy. Citing a "new retail reality" one analyst points out that there is simply too much apparel supply to support current levels of anticipated full price selling. Retailers will be forced to cut prices in order to sell more units to maintain current revenue levels (Hasty 1996).

Spiegle's CEO, John Shea, agrees. In an interview for *Crain's Chicago Business* he says, "increasing prices is not a very intelligent thing to do when everyone else is going to value-pricing"(Vererka 1993). Others agree that if any mega trend has developed in retailing, it's been the general repricing of apparel. Despite this movement, Dayton Hudson Corporation offered 50 percent fewer sales events in 1996 as in 1995, and Ann Taylor Stores said they will display fewer numbers of a particular garment to encourage shoppers to pay full price (*Wall Street Journal 1996*).

The problem with this change in pricing policy is that the United States has seen an explosion of non-traditional apparel outlets in recent years. Manufacturers' outlet-stores and outlet centers began to sprout up, as off price and discount stores carrying popular brand names complicate the situation. Consumers are enjoying a wide variety of retail options for apparel shopping. They are also being bombarded with ever-changing pricing policies.

Ultimately pricing should result in a reasonable profit for the merchant, and a perception of value by the consumer. Unfortunately, several factors have made this almost impossible to accomplish. The apparel market is weak, the competition is fierce, and economic conditions in many parts of the country have left consumers cautious. In addition, the menagerie of ever-changing pricing policies has led many consumers to focus on price rather than on value or quality as many retailers would prefer. Given these competing motivations, it would seem to be advantageous to investigate consumers evaluations of differential pricing policies in retail venues with a focus on manufacturers' outlet shoppers.
The following questions provide the framework for this research :

1. Who are the outlet shoppers? Are they a demographically different segment than traditional mall shoppers?
2. How do outlet shoppers view manufacturers' outlet store prices relative to those of a traditional mall?
3. How do outlet shoppers evaluate pricing strategies generally utilized by retailers?
4. What are the common misconceptions regarding manufacturers' outlet stores?

METHODOLOGY

A non-experimental survey design and mall intercept methodology was utilized to investigate how common pricing strategies are evaluated by outlet shoppers. For comparative purposes, data were collected at a large Northeast manufacturers' outlet center and a traditional suburban mall nearby anchored by Sears and J.C. Penny. The outlet mall includes Bass, Van Huesen, and Lee along with many other stores.

A convenience sample with a systematic random selection procedure was employed. Every fifth shopper was approached and asked to participate. Declines were replace by the next available shopper. Intercepts were conducted at a variety of times and on each day of the week during a period of thirty days.

Each interview consisted of the shopper filling out a detailed two page questionnaire. The first page focused on evaluation of popular pricing strategies often mentioned in the trade journals. These include value pricing, markdowns taken at the register, special promotions, markdowns indicated on the original ticket, etc. The second page focused on consumers' attitudes towards strategies often employed to spur sales. Examples of this include displaying only a few pieces of an item or claims of everyday low prices. General questions about price perception and demographics for classification purposes appear at the end of the survey. Upon completion of the questionnaire, the respondent received a small gift as a token of our appreciation. The response rate for the study was 72 percent. A total of 581 shoppers provided information. Of those 276 were factory outlet shoppers surveyed in an outlet center. The remainder were traditional mall shoppers surveyed in a large suburban mall and used for comparative purposes.

PROFILE OF OUTLET SHOPPERS

Most outlet shoppers involved in this study are women (70 percent). This is true for traditional mall shoppers as well (73 percent). Outlet shoppers, however, are older. In this study 67 percent of the outlet shoppers are over 40 while only 26 percent of mall shoppers reported being over 40. This difference is further reflected in other demographics. Sixty five percent of outlet shoppers are married, while only thirty eight percent of mall shoppers are married. Approximately 40 percent of outlet shoppers report incomes of over $50,000 per year. Eighteen percent of their mall counterparts report earning that amount. Forty percent of outlet shoppers are college graduates, compared with 28 percent of mall shoppers.

The typical outlet shopper in this study is female, over the age of 40, married with at least some college experience, and an income of over $50,000. This makes her older, wealthier and more educated than the typical mall shopper (see Table 1 for Profile of Sample). These attractive demographics, along with the size and growth of the outlet industry, makes the outlet shopper movement one to watch as retailers fight for sales and profits.

TABLE 1
Profile of the Sample*
Outlet Store Shoppers
N=276**

	Percent	Count
Sex		
Male	30	(76)
Female	70	(177)
Age		
18-25	12	(32)
26-39	21	(57)
40-54	39	(105)
55 and over	28	(77)
Income		
<$25,000	18	(44)
$26,000-$50,000	42	(106)
$51,000-$75,000	25	(61)
over$75,000	15	(36)
Education		
High School or less	30	(80)
Some college	30	(81)
College graduate	40	(108)

*Totals of less than 276 are due to non-response
**The total sample for the study is 581 shoppers of which 276 were factory outlet shoppers

EVALUATION OF PRICING STRATEGIES

Shoppers were asked to evaluate a variety of pricing strategies using a four point scale, with 1 indicating poor and 4 indicating excellent (see Table 2 for significant differences in evaluation between factory outlet shoppers and mall shoppers). One popular strategy studied is value pricing. Value pricing is defined for the respondent as good quality at reasonable prices everyday with no markdowns or sales. This particular strategy has been employed predominately by discount department stores. One third of outlet shoppers rate value pricing as an excellent strategy. Suburban mall shoppers are far less enthusiastic, with only 13 percent following suit. Value pricing appears to have appeal in certain venues and not in others.

TABLE 2
Significant Differences Between Manufacturer's Outlet Shoppers and Mall Shoppers

Item	Mean-Outlet	Mean-Mall	P value
Value Pricing	3.13	2.77	.0001
Calculating Percent Off	2.89	2.67	.0001
Markdown Taken	3.28	3.17	.0146
Price Guarantee	3.19	2.96	.0001
Would Pay Regular Price If Few Available	2.43	2.58	.0004
Outlet Prices Lower	2.93	2.63	.0001
I Save Money	3.18	2.61	.0001
Prices Better Where I Shop	2.74	2.50	.0001
Age	2.84	1.93	.0001
Marital Status	1.35	1.62	.0001
Income	2.36	1.76	.0001
Education	2.10	1.92	.0001

The practice of taking markdowns is one which crosses all segments of retail markets. Typically, the original ticket is marked in some way to indicate the reduced price. In recent years retailers have attempted to cut costs by promoting a certain percentage that would be deducted from the ticketed price at the check out register, thereby eliminating the need to individually mark tickets. In order to know the final price, this strategy requires the shopper to calculate the discount prior to checking out. Both markdown strategies were evaluated. Eighty to ninety percent of outlet shoppers and mall shoppers rate markdowns written on the original ticket as good or excellent . It is clearly a preferred way to shop across venues. Markdowns which require the customer to calculate the discount which will be deducted at the check out register was far less popular. Only 16 percent of mall shoppers and 20 percent of outlet shoppers rated this strategy favorably. Having to calculate an actual price is poorly received regardless of context. It is possible that consumers have difficulty calculating the discounts, feel it takes too much time, or dislike not knowing exactly how much they have spent prior to checking out.

Shoppers were asked to evaluate the concurrent mixing of price strategies. In this situation the store offers some merchandise at regular price, some marked down, or merchandise on special, all at the same time. Reaction was less than enthusiastic among both outlet and mall shoppers. The "mix" was rated as excellent by only 24 percent and 22 percent of shoppers respectively.

Shoppers were asked which pricing strategy (of those evaluated) they would prefer to see in stores where they shopped. Outlet shoppers (32 percent) liked the use of price guarantees by either the store or the complex at which purchases were made. Having markdowns appearing on the original ticket, was by 23 percent of outlet shoppers. Traditional mall shoppers prefer a mix of markdowns, specials and original prices (46 percent), when compared to the alternatives. When rated alone however, the mix was not a preferred strategy. Having markdown prices appear on the tickets is also a favorite selected by 30 percent of mall shoppers. Both groups of shoppers agreed that their least favorite pricing strategy is calculating an advertised discount which is taken off at the register at check out time.

One women's apparel store (Ann Taylor) reported displaying a limited number of certain garments to encourage buying at regular price (*Wall Street Journal 1996*). Both outlet and mall shoppers were asked if seeing a limited number of a garment they were interested in would make them more likely to pay the original price. Response to this question demonstrates the influence of display strategies on pricing. Forty six percent of outlet shoppers versus 58 percent of mall shoppers indicated they would be persuaded to pay full price for an item they believed to be in short supply.

The importance of consumer perceptions is obvious when shoppers were asked if prices for the same merchandise are lower in manufacturers' outlet stores. Outlet shoppers voiced a resounding "yes". Seventy-five percent of outlet shoppers believe they can buy the same merchandise for less. It is interesting to note that the majority of mall shoppers agreed. Over fifty-five percent of mall shoppers believe the same merchandise is available in outlet stores for less that they usually pay. While this may not always be true, both groups of shoppers believe that prices are better at outlet stores.

Asked if they could actually save money by shopping outlet stores, 90 percent of outlet shoppers indicated they could. Fifty-five percent of mall shoppers agreed that shopping at outlet stores saves money. These numbers dip when shoppers are asked if outlet prices without any markdowns or specials are better than prices elsewhere. In this circumstance, 61 percent of outlet shoppers still believe prices are better while 46 percent of mall shoppers believe that to be true. The implication is that shoppers continue to look for specials and markdowns regardless of venue. These findings are supported by the 1997 *Barnard's Retail Marketing Report* that concludes, "shoppers will wait to buy until prices drop" (Beck 1997).

MISCONCEPTIONS REGARDING OUTLET STORES

There are undercurrents of consumer misconceptions about outlet shopping running throughout the popular media. A network television news magazine presented a segment called "Buyer Beware" (Prime Time Live 1997). The focus of the piece was consumers who shop outlet centers and the widely-held belief that all stores inside are outlets and offer better prices than regular retail. Merchandise was evaluated by apparel experts and declared, in some cases, to be of lower quality than the manufacturers department store line. The following points were stressed in the television segment:

1. **All stores in outlet malls are not outlet stores.** Most outlet malls include a variety of retailers including discount, off-price, and regular retail stores.
2. **Prices at the outlet stores are not always less than at the regular retail store.** Outlet shoppers are encouraged to check prices before shopping outlet stores in order to make prudent buying decisions.
3. **Outlet merchandise is not always a bargain.** Manufacturers are creating special apparel for their outlet stores to sell at lower prices. Often the tailoring, buttons, or belts are of lower quality. It is not uncommon for outlet stores to carry seconds, out-of-season, or discontinued lines. Buying by label is not an assurance of top line merchandise.
4. **Outlet stores provide fewer services.** Many outlet stores do not give cash or credit card refunds for returns. Return deadlines can be shorter and reduced-price merchandise often can not be returned.

IMPLICATIONS AND CONCLUSION

Outlet shoppers are older, better educated and boast higher incomes than their non-outlet counterparts. This segment seeks the opportunity to buy quality goods at reasonable prices. Their demographics make them an attractive segment for brand name and up-scale apparel.

These shoppers are convinced that outlet stores offer them the same apparel as the department stores at a reduced price. This perception might provide fertile ground for marketing communications as well as future research as to the relative strength of that perception in light of contrary information.

Both outlet store shoppers and traditional mall shoppers are looking for price reductions or price guarantees. While markdowns indicated on the original ticket are popular, calculating discounts that will eventually be taken at the register are a resounding failure. It is suggested that this strategy be used only if the retailer provides easy to read and readily accessible conversion charts to assist consumers in calculating the item's final cost. It should also be noted that this strategy is rated poorly across venues and may simply be too inconvenient or time consuming for most shoppers.

Misconceptions lead to dissatisfied customers. Consumers need to understand the advantages as well as the limitations of shopping at outlet stores. For outlets to enjoy continued growth they will need to cultivate long-term relationships with shoppers so that they will return and spread the word.

Outlet shopping centers may be the suburban malls of the millennium. Just as shoppers turned from downtown shops to shiny new malls decades ago, they now flock to outlet centers. The mantra for the 90s is value. The search for good quality at reasonable prices may be leading shoppers to a place that offers bargains and brands but at a price which remains unclear. Does the success of outlet centers negatively impact suburban malls? Are outlet centers misrepresenting themselves and their product mix? The enormous growth of the outlet industry raises important questions for future research. For now, the fastest growing segment of the national retail industry appears to have gained access to the hearts, minds and wallets of affluent, well-educated shoppers.

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