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A Survey of Outlet Mall Retailing: Past, Present, and Future

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ABSTRACT

In this article, we summarize the history and current state of outlet retailing, from its beginnings with individual stores connected to textile factories up to today's extensive multi-store malls. We describe prototypical practices in individual outlet mall stores as discovered in original research done in the Chicago marketplace. From this we develop a number of propositions relating to future practices in and prospects for outlet malls. The discussion suggests several avenues for further research in the area. In sum, the paper provides a comprehensive framework for understanding the outlet mall phenomenon and also provides a roadmap for future research in the area.

A Survey of Outlet Mall Retailing: Past, Present, and Future

1. Introduction

The following is a brief survey of outlet stores, an important sector of the U.S. retailing industry. We recount the historical background for outlet stores and provide an analysis of the current state of the phenomenon (based on secondary data and primary data collected by survey). Finally we conclude with prospects for the future of outlet store retailing and a set of testable research propositions suggested by our data. Where appropriate, we propose approaches by which the propositions might be tested.

2. History of Outlet Stores and Today's Outlet Malls[1]

The concept of outlet stores extends back more than a century, when apparel and shoe factory stores on the East Coast of the United States began to offer excess or damaged goods to employees at price discounts. After some time, the factory stores started to sell to non-employees as well. Generally these stores were located on the grounds of the factory where the goods were actually produced. In 1936, Anderson-Little (a men's clothing manufacturer) opened the first set of outlet stores not adjacent to the factory, all of which were nevertheless located far from primary retail centers. From then until the 1970's, outlet stores served primarily to dispose of excess or damaged merchandise, in isolated single-store locations.

In 1974, Vanity Fair (the women's lingerie producer) opened the first multi-store outlet center, in Reading, Pennsylvania. The first enclosed outlet center opened in 1980 and was remotely located in all likelihood to avoid head-to-head competition with established retail outlets. Throughout the 1980's and 1990's, outlet malls have experienced strong growth. Some of the factors leading to this growth have been identified as increased awareness and

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[1] Information for this section is drawn from Consumer Reports (1998); Ward (1992); Vinocur (1994); Stovall (1995); Beddingfield (1998); Chapman (2003); and the Prime Retail website at http://www.primeretail.com/primeretail/outlets.

desirability of designer labels by the general population; an increased importance placed on quality and value by the consumer; and the appreciation of outlet stores as a viable alternative channel by manufacturers themselves. Further, beginning in the 1980's, more and more in-season merchandise was featured in the outlet stores, changing the outlet store image from the earlier "overstocks" store concept.

Manufacturers' outlets generated \$15 billion in revenue from 260 outlet malls by 2003. The number of outlet malls in the U.S. increased significantly throughout the 1990s, from 113 in 1988 to 276 in 1991, 300 in 1994, and 325 at the end of 1997. Some malls have closed since 2000, with 260 remaining in 2003. According to one study, 37 percent of Americans visited an outlet mall in 1997. Growth has been very strong, with outlet mall sales of \$6 billion in 1990, \$6.3 billion in 1991, \$9.9 billion in 1993, \$12 billion in 1997, and \$15 billion in 2003. Sales per square foot in outlet malls were \$235 in 1990, up from about \$195 in 1987; this compared with sales per square foot in conventional malls of only \$182 in 1990. In 2002, two of the industry's biggest outlet mall developers reported even higher numbers: Chelsea's U.S. outlet mall tenant sales averaged \$383 per square foot, and Tanger's averaged \$294.

Outlet malls are typically opened with 100,000 to 200,000 square feet of retail space, and expand over time, sometimes to 500,000-600,000 square feet. The average outlet mall had over 213,000 square feet of GLA (gross leasable area) retail space as of December 2002. Three regional malls in the Chicago area on which data were available follow this pattern: Prime Outlets in Michigan City, Indiana, founded in 1987 (now owned by Chelsea Property Group), started out with 199,000 square feet and now has 478,000 square feet; Prime Outlets in Kenosha, Wisconsin, founded in 1988, started with 89,000 square feet but now has 269,000 square feet; and Prime Outlets in Huntley, Illinois, founded in 1994, started with 192,000 square feet and now has 282,000 square feet of retail space. Total square footage of retail space in U.S. retail outlets is now over 55 million square feet, housing over 14,000 stores. Despite this strong growth, outlet mall retailing accounts for only about 2 percent of U.S. non-auto retail sales. As a result, a number of analysts predict more growth to come, particularly from the opening of outlet malls in markets that are not yet served.

Further, outlet malls are not just a U.S. retailing phenomenon. They are now seen in Europe and Japan as well. BAA McArthurGlen is the leading outlet mall developer in Europe. Since its founding in 1993, it has opened thirteen outlet malls in Britain, France, Italy, the Netherlands, and Austria, with a total of over 1,200 stores and 3 million square feet of GLA. Over 40 million people visit these malls each year.[2] Japan's outlet malls have been emerging in the mid- to late-1990s as well. In July 1999, the American outlet mall developer Chelsea set up a joint venture with Mitsubishi Estate Co. and Nissho Iwai Corp. to establish Chelsea Gca Japan for outlet mall development in that country. The venture now has three outlet malls in Japan, with a fourth scheduled to open in 2004.[3] Outlet malls are being planned in various locations around the Middle East as well, by developers such as Europe's Freeport, BAA McArthurGlen, and the U.S.'s Mills Corporation (Thomson 2002). Clearly, the outlet mall phenomenon is more than a local U.S. retail curiosity.

Research on outlet mall shoppers shows them to be primarily women. Their median household income was almost $57,000 in 2002. Forty-two percent are college graduates, and 62 percent are less than 50 years old. The average reported distance traveled to an outlet mall varies from study to study, but is generally reported to be in the range of 30-80 miles (one way) with a travel time of 54 minutes each way. Given the distance to outlet malls, they are only accessible to urban residents by car or by the now common "outlet mall bus tours" that leave from city centers. As result, outlet malls, while not focused on high-income clientele, tend to draw people well above the poverty line. The average outlet shopper spends over two hours at the outlet mall (60 percent longer than at regional malls), and the average

[2] See the company's website at www.mcarthurglen.com .

expenditure per outlet visit per shopper is 79 percent higher than at regional malls (Chapman 2003; Prime Retail website at www.primeretail.com).

Outlet malls today offer a mix of manufacturer outlet stores, outlets of department stores, and some non-outlet service locations (such as film developing stores, for example). Table 1 reports on the percentage of stores in Chicago-area outlet malls that are manufacturer-branded, and the data suggest that they are easily the majority of the tenants at outlet malls. For ease of exposition, we group together in our data the outlet stores operated by manufacturers who otherwise sell through independent retailers (such as Liz Claiborne selling through department stores), as well as those run by manufacturers who sell through vertically-integrated primary retail outlets. For example, Brooks Brothers operates wholly-owned primary retail outlets in upscale shopping malls as well as being a highly active outlet mall retailer. The merchandise offered in these outlet stores may be current season, delayed until late season or even delayed until the next year. For example, Jones New York offers current-season merchandise through its outlet stores, while Dana Buchman delays the availability of its fashion merchandise at the outlet store until later in the same season. As a result, while outlet malls may have broadened the market for designer apparel, they also seem to be capturing significant business by diverting consumers from primary retail areas.

Table 1
Outlet Malls in the Chicago Metropolitan Area

Outlet Mall	***Date Founded***	***Distance from N. Michigan Ave. (km.)***	***Distance from Closest Major Mall (km.)***	***Number of Stores****	***% of Stores that are Manufacturer branded***
The Original Outlet Mall, Kenosha, WI	October 1986	93	42	59	58%
Prime Outlets, Kenosha, WI	September 1988	88	37	58	79%
Gurnee Mills, Gurnee, IL	August 1991	73	22	146	49%
Huntley Factory Shops, Huntley, IL	August 1994	78	41	56	61%
Prime Outlets, Michigan City, IN	November 1987	97	68	108	70%

SOURCE: primary data collection by the authors *Excluding food, bank, and service locations

[3] See the Chelsea Property Group's 2003 Annual Report and *Focus Japan*(1999).

Manufacturers need to make a serious financial commitment to open and operate a retail store at an outlet mall. While month-to-month or 90-day leases used to be the norm, today manufacturers are more commonly signing leases for 7 to 10 years at an outlet store (Vinocur 1994). This suggests a purposeful outlet-mall retailing strategy by these manufacturers, not a strategy of managing stochastic swings in inventory stocks.

Finally, outlet mall locations have moved somewhat closer to traditional shopping mall locations over the years. Nevertheless, outlet malls are still at some distance from the central shopping areas in most cities. As mentioned above, our investigation of the Chicago market shows that outlet malls are still from 15 to 40 miles away from the closest primary shopping mall. Thus, it appears to be important to geographically separate the outlet mall from the standard mall. The geographic separation seems important for manufacturers to minimize direct channel conflict with their distributors (i.e. primary retailers). In addition, the geographic separation seems to play a role in determining the types of consumers that shop in the two channels.

With this industry overview in mind, we review four rationales that support the implementation of outlet store retailing in addition to distribution through primary retailers.

3. The Rationale for Outlet Retailing

There are a number of rationales that come to mind to explain the phenomenon of outlet store retailing.

One is that outlet stores provide a convenient "dumping ground" for unforeseen overstocks and end-of-season leftover merchandise. Industry research shows that "Irregular and damaged merchandise accounts for about 15 percent of all outlet goods merchandise."[4]

[4] Research done by Value Retail News (an industry periodical) and J.P. Morgan Outlet Industry Update, cited on the Prime Retail website (1998).

Another rationale is that outlet malls expand market coverage by serving a previously unserved set of consumers, a group of buyers who are too price-sensitive to buy at a high-service primary retail store. In some cases, there is evidence that outlet malls have expanded market coverage and have tapped into a segment that previously bought unbranded merchandise ("Developers bring value closer to shoppers" 1998). The business press also contains references to the attraction of tourists to outlet malls (Silcoff 1998).

However, not all outlet malls benefit from being located in key tourist areas. In addition, the business press contains many quotes referring to the sales that outlet malls divert from traditional, primary retail areas ("Off price but upscale…" 1996; McGovern 1993; Okell 1987). These references clearly indicate that a significant percent of the business secured by the outlet malls is at the direct expense of primary retail areas. Indeed, primary retailers themselves recognize this pattern and have sought to respond to it proactively. In this context, an executive at a large U.S. primary retailer says, "We used to try and be all things to all people, but that is not appropriate any more. We are trying to focus on the moderate and better customers who put price as only a piece of the equation" (Gatty 1985).

A third possibility is that manufacturers are using outlet malls to "challenge" their primary retailers' power or discipline them by offering the same merchandise through their own outlets. While most outlet malls are a considerable distance from primary retail malls, there are now outlet malls in certain metropolitan areas located within city limits (e.g. Orlando).

Finally, manufacturers can use outlet retailing to implement simple market segmentation through dual distribution. Highly service-sensitive consumers can shop at the primary retail outlet, where they will pay higher prices but get better service. Less service-sensitive consumers can shop at the outlet store, where lower service levels but also lower prices are available. However, the high degree of price competition and proximity of competitive manufacturers (e.g. Brooks Bros. and Ralph Lauren, Liz Claiborne and Anne Klein) at many outlet malls (within a minute's walk of each other) may limit the profitability of outlet mall retailing. In fact, the outlet mall consumers who previously patronized primary retailers are clearly paying lower prices than they paid in the primary market.[5] Work by Coughlan and Soberman (2004) demonstrates that this form of segmentation can be effective even under conditions of intense inter-manufacturer competition.

With this industry overview in mind, we now turn to a discussion of the state of outlet store retailing based on information collected in the Chicago marketplace.

4. Primary Data Collection: The Chicago Outlet Store Marketplace

We collected data in November and December 1998 from a subset of outlet mall stores at two Chicago-area outlet malls: Prime Outlets in Kenosha, Wisconsin, and Gurnee Mills in Gurnee, Illinois. We focused on fashion apparel goods, and collected data in two waves. In the first wave, in November 1998, we first sampled outlet stores, collecting price and availability data on 10 to 15 items at each store, as well as collecting general data about each store (store size, amount of floor space devoted to clearly end-of-season discount merchandise, etc.). Within one week of this data collection, we visited primary shopping malls in the area and attempted to match merchandise at the malls with what we had found at the outlet stores.

In December, we followed a similar pattern, except that we reversed the process, starting first at the primary shopping malls and then (again within one week) checking for merchandise availability and pricing at the corresponding outlet stores.

Table 2 reports information on the 18 stores that we sampled. The stores vary in several dimensions. Seven of the 18 outlet stores are run by manufacturers that also operate

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[5] As previously mentioned, many outlet malls source their clientele by switching consumers from the primary

manufacturer-owned retail shops in primary retail areas. This highlights the breadth of appeal for outlet store retailing. It is not just for manufacturers who distribute through large primary retailers (like department stores) and downtown boutiques. Outlet stores are also attractive for manufacturers that serve customers themselves through wholly owned stores in primary shopping areas.[6] One of the 18 stores, Ann Taylor, only offers a specialized outlet brand ("Ann Taylor Loft") in its outlet stores; so no direct price comparisons are possible there. Of the remaining 17 stores, 9 offer at least some current-season merchandise. Jones New York in fact prides itself on offering current-season merchandise; the store clerks assured us openly of the fact. We found no outlet-store managers who were reluctant to talk about the availability of current-season merchandise. When merchandise was available only late in the season, the store managers often suggested that we call back later to see if merchandise had yet come into the outlet stores. In a few instances (e.g., the women's clothing line of Polo Ralph Lauren), the delay in outlet-store product availability is as long as a year, and product is warehoused until that time. The manufacturers appear to purposefully plan for outlet-mall retailing. In addition, they often aggressively promote outlet-store goods as a competitive alternative to primary-store product (albeit sometimes with a delay).

TABLE 2: Outlet Stores Sampled in the Chicago Area, Nov.-Dec. 1998

Store	Vertically Integrated at Primary Outlet?	Average Percentage Price Discount at Outlet Store (1)	Delay in Availability of Product at Outlet Store?	Product Available at Outlet Store	# Outlet Stores in U.S.
Ann Taylor	Yes	N/A	N/A	"Ann Taylor Loft" outlet line only; no possible price comparison	38
Anne Klein	No	36%	Delay	Primary brand	10
Brooks Brothers	Yes	30%	Mixed (2)	Primary brand	79
Casual Corner	Yes	-15%	Delay	Primary brand	195
Dana Buchman	No	0%	Delay	Primary brand	14
Donna Karan, DKNY	No	5%	Current	Primary brand	16 (Donna Karan), 22 (DKNY)

market.

[6] In fact, Polo Ralph Lauren also operates a wholly owned retail store in Chicago. Our data on Ralph Lauren apparel in the primary retailing area however, were obtained from a Polo Ralph Lauren boutique within a department store.

Gap	Yes	33%	Mixed	Both primary brand and "Gap Outlet" brand	141
Izod	No	26%	Mixed	Primary brand	128
J. Crew	Yes	36%	Delay	Primary brand	42
Jones New York	No	9%	Current	Primary brand	150
Kasper	No	20%	Current	Primary brand	63
Liz Claiborne	No	N/A	Delay	Primary brand; no price comparison possible due to 1-year delay in product availability	159
Nautica	No	47%	Delay	Primary brand	117
Osh Kosh	No	25%	Current	Primary brand	152
Polo Ralph Lauren	No	29%	Delay	Primary brand	124
Tahari	No	40%	Delay	Primary brand	11
Timberland	Yes	42%	Current	Primary brand	55
Tommy Hilfiger	Yes	20%	Current	Primary brand	125

SOURCE: primary data collection by authors; number of outlet stores is recorded from www.outletbound.com as of April 6, 2004.

NOTES:

(1) This is the average percentage discount at the outlet mall relative to the *prevailing* price at the primary outlet, not relative to the *list price*. A negative number indicates that prevailing prices were actually lower at the primary retail store than at the outlet store.

(2) "Mixed" means that some merchandise is concurrently available in both the primary retailer and the outlet store, while other primary-retail merchandise is only available at the outlet after some delay.

The average percentage price discount we found at the outlet mall across all stores was 24 percent. This number masks some interesting variations in price discounts at some of the outlets. For example, some products were actually priced the same or lower at the primary retailer than at the outlet store when we observed the prices. However, this was generally the result of the product having been available for some time at the primary retailer; due to its slow movement (for example), the product had been marked down at the primary retailer. Said differently, the same item that we observed at both the primary retailer and the outlet store in November was available several weeks earlier at the primary retailer, selling at a higher price.

The Dana Buchman line is an interesting example of exactly this strategy. The items in the line are first available only at the primary retailer, at full list price and with full (and very high-quality) service. Some weeks later, the same items appear in the outlet store, labeled as "New Arrivals," at a 40 percent discount off list price. Meanwhile, at the primary retailer, whatever units of the product are still on the racks are *also* discounted by *exactly 40 percent*. This evidence is consistent with a policy of understanding between the designer and the primary retailers that a lead time of a certain number of weeks will be allowed before the designer will offer the product in the outlet store. In addition, when it is offered, outlet store apparel is sold at a 40 percent discount off list price. Knowing this, the primary retailer is likely to choose the same discount off list price, at the same time, to match the outlet store.

We can infer from the Dana Buchman example that outlet-store prices are very close to the primary retailer's marginal cost, since the standard pricing policy in apparel retailing (called "keystone pricing") is to mark up goods by 50 percent on retail price (i.e. by 100 percent on cost of goods sold). The manufacturer's margin on outlet-store merchandise is therefore probably not zero, but small when the costs of running the outlet store are taken into account.

We can also make some general comments about the service environment at the outlet stores as compared to that in the primary retail outlets. While the sales clerks at the outlet stores are pleasant, the level of service is definitely lower at the outlet stores. It is generally up to the shopper to match items of clothing, and the retail environment is much less luxurious than in an upscale department or specialty store. Today's outlet stores do offer certain amenities that did not formerly grace them (such as dressing rooms, for example), and the clerks were unfailingly helpful when asked specific questions. However, service of the level associated with personal shoppers is absent at these outlets.[7] On balance, it appears that manufacturers are trying to make the outlet shopping experience a positive one, but not as high-touch an experience as one gets at a full-service primary retailer.

It is further instructive to think about the brands that are *not* offered through outlet stores, or if they are, through only a few outlets across the country. We obtained a list of merchants who are members of the Greater North Michigan Avenue Association. We identified 33 manufacturers'-brand apparel stores, only 9 of which have outlet stores in the Chicago area. See Table 3 for a listing of the stores. The Table also reports the number of U.S. outlet stores operated by each retailer. Casual inspection of the list suggests that the retailers with few or zero outlet stores tend to be ones that are likely to be serving upscale consumers almost exclusively. Specifically, thirteen retailers on the list have zero outlet stores, and another nine have few outlets (most of these have fewer than ten). Among the list are such exclusive brand names as Chanel, Ermenegildo Zegna, Hermes, Hino & Malee Boutique, Louis Vuitton, Sonia Rykiel, Sulka, and Ultimo. These retailers are clearly much more upscale and target a

[7] "Personal Shoppers" are now available at many upscale specialty and department stores (Faircloth 1997); these shoppers (who are retail store employees) choose clothes and accessories before their clients arrive at the store, thus saving the client the time and effort necessary to find merchandise. There is no extra charge for using a personal shopper but consumers who do typically pay full retail price.

much smaller, more exclusive audience than retailers like Banana Republic (with 50 outlet stores), Gap (with 141 outlet stores), or Levi's (with 133 outlet stores). For the truly upscale retail brands, outlets may play another role, such as disposal of overstock merchandise, but as we argue above, in such a case it is not necessary (nor is it desirable, from either a cost-side or a demand-side perspective) to have a large network of outlet stores. Instead, the few outlets that manufacturers like Escada or Bottega Veneta have are sufficient to dispose of any overstocks the company might have on hand. This can be contrasted with the outlet-store strategy of some of the more "popular" designers (i.e., more mid-market; see also Table 2), such as Brooks Brothers with 79 U.S. outlet stores; Jones New York with 150; Gap with 141; Izod with 128; Liz Claiborne with 159; Osh Kosh with 152; Polo Ralph Lauren with 124; or Tommy Hilfiger, with 125. These lines are not as exclusively positioned as is Chanel and are almost certainly serving a mix of customers with a lower level of service demand intensity, suggesting a greater viability of the outlet-store channel for them.

TABLE 3: Apparel Retailers on North Michigan Avenue

N. Michigan Ave. Retailer	Chicago Area Outlet Store?	# Outlet Stores in U.S.*
Adelaide	No	0
Banana Republic	No	50
Bottega Veneta	No	2
Brooks Brothers	Yes	79
Burberrys Ltd.	Yes	11
Chanel Boutique	No	1
Eddie Bauer	Yes	84
Emli	No	0
Ermenegildo Zegna	No	3
Fogal of Switzerland	No	0
Gap	Yes	141
Giorgio Armani	No	9
Gucci	No	3
Hermes	No	0
Hino & Malee Boutique	No	0
J. Crew	Yes	42
Jil Sander	No	0
Joan & David	No	1
Louis Vuitton	No	0
Manrico Cashmere U.S.A.	No	0
Mark Shale	No	0
Niketown	Yes	81
The North Face	No	76
The Original Levi's Store	Yes	133
Orvis	No	5
Paul Stuart	No	0
Plaza Escada	No	17
The Polo Store – Ralph Lauren	Yes	124
Sonia Rykiel	No	0
Sulka	No	0
Talbots	No	12
Timberland Company	Yes	55
Ultimo	No	0

SOURCE: Greater North Michigan Avenue Association; number of outlet stores is recorded from www.outletbound.com as of April 6, 2004.

5. The Current State of Outlet Store Retailing and the Future

The discussion above provides descriptive evidence about outlet-mall retailing in the U.S. The evidence shows that outlet malls are not merely a "dumping ground" for overstocks and end-of-season leftover merchandise. Instead, it is apparent based on the survey and information in the business press that manufacturers view outlet-mall retailing as a viable channel strategy to strategically segment increasingly heterogeneous markets (whether through their own vertically-integrated stores or through full-service department stores). Therefore, even if the forecasting and production management of apparel manufacturers improves significantly (as one might expect with increasingly sophisticated information technology), outlet stores will not disappear because they are much more than an on-again, off-again method for manufacturers to dispose of unwanted inventory.

The evidence suggests that outlet-mall retailing is most likely to be profitable in markets with a significant proportion of consumers who are highly price-sensitive but do not place high value on in-store service. In addition, outlet stores will tend to focus on products that have broad appeal across a range of segments (not surprisingly, the easiest products to find at both primary retail stores and outlet stores are "staple" items like Ralph Lauren men's chino pants, or the Izod alligator-logo polo shirt). In markets populated entirely (or almost entirely) by highly service-sensitive consumers, outlet-store retailing is less likely to be effective. Indeed we see very few extremely upscale retailers in the Chicago area using outlet stores as a distribution channel.

The industry-wide data suggest that outlet-store retailing is strongly entrenched across most U.S. markets. Nevertheless, there are several important prognostications that we make based on current trends. We provide these in the form of research propositions and then provide a brief discussion to support each proposition. We also suggest potential avenues for evaluating each proposition.

Proposition 1*: The growth of a manufacturer's outlet store network will be positively related to (a) the breadth of its target segment definition and (b) the dispersion between the price sensitivity of demand in the target market and the service sensitivity of demand in the target market, among different sub-segments targeted.*

Our data suggest that outlet store retailing is not an ideal solution for all branded apparel manufacturers. A brand that is targeted only at the least price-sensitive and most service-sensitive customers cannot benefit from outlet mall retailing for two reasons. One is that its market is simply not large enough to support a significant outlet store network. The other is that its target market has few or no consumers who value low price far above and beyond service. Therefore this brand's manufacturers would garner few incremental sales from a broad outlet store strategy. This does not mean that such brand manufacturers *never* establish outlet stores, but rather that if they do, there are only a few of them. Their purpose is more to dispose of end-of-season product than to cultivate a new audience for their products.

This proposition could be tested using survey research of major apparel brands (data would need to be collected across a broad range of consumer segments) and a summary of the outlet retailing activity of the brands to be included in the survey (this is available from sources such as www.outletbound.com, as shown in the Tables above). A measure of outlet store activity would be the dependent variable in the study. The survey would provide data regarding the preferences of respondents for various brands of apparel, their sensitivity to price and the value they place on in-store service when shopping for clothing.[8] The data would reveal both the breadth of appeal for different brands and the specific segments where a given brand is popular. This would provide a basis for evaluating the first part of Proposition 1. In addition, the degree of across-segment variance in terms of price and service sensitivity provides information needed to determine whether the ratio of variance in terms of price and service sensitivity is a better predictor of outlet store activity than a measure of the variance in terms of price sensitivity alone.

Proposition 2*: In markets where the dispersion in income increases over time and where the population is older, the level of outlet store activity will increase.*

The increasing income dispersion and aging of the population in current U.S. society suggests that an increasing fraction of consumers will be highly price sensitive and less willing to pay extra for service. This implies that the potential for outlet store growth is high especially in markets where outlet stores have yet to appear.

To test this proposition, data from the sites of all the major outlet mall developers would need to be collected regarding the size and timing of their activities across major U.S.

[8] Either a pre-existing segmentation scheme could be employed or segmentation scheme could be developed based on demographic data gathered in the survey.

urban markets. Information on the malls of each developer (the size of the mall in square feet and the date of opening) are available on the websites of major mall operators (such as Prime Outlets or the Chelsea Property Group). These data could then be combined to provide measures of the intensity and growth of outlet store retailing in top U.S. urban markets. U.S. Census data would provide measures of the average age and the average income in each urban area. The census data could then be used as basis for predicting outlet retailing activity and growth. This would be one avenue to investigate Proposition 2.

Proposition 3: *In metropolitan areas where urban sprawl is significant, outlet store retailing will diminish and outlet store malls will be converted to traditional malls.*

Increasing urban sprawl means that many outlet malls that were formerly located more than an hour from major metropolitan areas are now located closer to the center of gravity for major urban agglomerations. Over time, the ability of an outlet store to deliver a clean segmentation of the market will fall in such markets; this may reduce its effectiveness as a channel strategy.

This proposition is more difficult to evaluate, as the only urban areas where mall conversion would take place are those where outlet malls are already in operation and urban sprawl is a significant factor. It appears that the best alternative to investigate this further would be to identify a number of outlet malls that have been converted to traditional malls and to then investigate the managerial rationale for the conversions. In particular, were such conversions implemented at the behest of the resident manufacturers?

Proposition 4: *Outlet store retailing will increase in urban areas, where variegated levels of outlet malls are developed.*

A new trend toward very large malls providing “shoppertainment” (a combination of shopping and entertainment) gives shoppers a higher level of service overall than pure outlet malls. In major metropolitan areas, both types of malls persist. For example, Gurnee Mills (providing “shoppertainment”) and Prime Outlets (a pure outlet mall) co-exist just 15 miles apart in the Chicago marketplace. There is thus increased blur between what constitutes an outlet store environment versus a primary retailing environment.

To evaluate this proposition, a researcher should focus on the major U.S. markets for outlet malls such as New York, Chicago, Los Angeles or Miami. Within each market, outlet malls should then be classified by type: a possible categorization divides the set into no-frills outlet malls, large outlet malls with some services (e.g., restaurants), and "shoppertainment" outlet malls. The proposition suggests that the penetration (or overall popularity) of outlet stores as a fraction of total apparel sales within a metropolitan area should be a function of the degree to which outlet mall retailing is variegated, controlling for underlying population growth. In other words, for a given market size, a more variegated assortment of outlet mall types is expected to be correlated with a higher number of outlet malls overall.

Proposition 5: *In categories where manufacturers have been extremely active in outlet store distribution, primary retailers will be increasingly aggressive in developing retail or private label brands.*

As outlet stores move upscale, the raison d'être for primary retail distribution becomes less clear. A defensive strategy on the part of primary retailers will be increased emphasis on private label or retail branded apparel. A number of apparel manufacturers are already fully integrated into retailing such as Brooks Brothers.

This proposition could be evaluated by conducting a comprehensive survey of the key U.S. primary retailers of apparel such as J.C. Penney, Wal-Mart, Macy's, Bloomingdales, Lord and Taylor and Nordstrom. In each of these, the researcher can identify the categories where primary retailers are most active in terms of developing private labels. The proposition predicts that these categories would be those where the most important brands are highly active in terms of outlet store retailing.

6. Conclusion

In this paper, we attempt to provide a brief overview of a sector of significant importance in U.S. retailing. While the total sales in outlet malls is estimated at less than 2% of total non-auto retail sales, in certain sectors such as apparel and footwear, their importance is significantly higher. Our analysis suggests that the outlet mall phenomenon will fragment significantly over the next few years. As a result, there will be a blurring of what constitutes an outlet mall. Hybrid retailing centers that develop may have little in common with the "original outlet mall" as developed in the 1980's. We propose a number of propositions that can assist in mapping out the future development of this sector and the retail environment in general for apparel. The propositions also provide a micro-basis to forecast expected retail developments in specific urban areas. Outlet store retailing is now a thriving alternative distribution channel for fashion goods in the U.S., and an emerging and growing one outside the U.S. Nevertheless, continuing evolution and change are certainly on the horizon.

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