

Study examines outlets' effect on spending in retailers' other stores

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As the fastest-growing segment of the retail industry, outlet stores generated \$22.4 billion in retail sales in 2010.

More customers are turning to this lower-quality, lower-price channel, and one UT Dallas researcher wanted to know how shopping at outlet stores influences customer behavior at retail stores.

Dr. Gonca Soysal, an assistant professor of marketing in the Naveen Jindal School of Management, investigated how adoption of a retailer's factory outlet channel affected customers' spending in the retailer's traditional retail store channel.

"When retailers introduce these lower-quality, lower-price channels, they worry about something called cannibalization: when customers switch away from the more expensive channel and then replace their purchases with purchases from the cheaper channel," Soysal said. "We wanted to see if that was the case or if something positive would come out of introducing an outlet channel."

Retailers also worry about brand dilution, which is when customers experience a product at a lower quality and a lower price point and reduce their valuation of the brand, Soysal said.

For the study, published in *Management Science*, the researchers examined data from a leading specialty apparel retailer with more than 400 retail stores and 100 exclusively sourced outlet stores.

The study did not find evidence of cannibalization or brand dilution. The researchers were surprised to learn that once customers adopted the outlet channel, they started spending even more at the retail stores.

The researchers also found that customers who adopted the outlet channel made more frequent purchases at the retail stores, but did not spend more per purchase occasion.

Although they did not focus on an explanation for these findings in this paper, the authors argue that it might be a product of customer learning.

"If there's a price-sensitive customer who is not very experienced with the retailer, they might come in and experiment with the brand at the outlet channel," Soysal said. "Since the products have similar designs and similar fits across the channels, once they gain experience with the brand, they might feel more comfortable purchasing more from the higher-priced channel."

Soysal said the study strongly suggests that retailers should not be scared to expand into dual distribution with higher-quality, higher-price retail stores and lower-quality, lower-price outlet stores. The strategy enables the retailer to segment its customers successfully and generates a large positive spillover from the outlet channel to the retail store channel.

"The study clearly shows that when positioned properly, outlet channels can bring in not only incremental dollars—from customers who would otherwise not buy from the regular retail stores—but it also serves as an entry point for certain kinds of customers," Soysal said. "When managed well, this is a good strategy."

About Outlet Stores

"Retailers definitely pay attention to differentiating the two channels and

try to make the outlet channel less attractive to their high-paying customers," Soysal said.

- Once considered a dumping ground for excess or imperfect merchandise, factory outlets have gained prestige and significantly grown in the last decade.
- Outlet stores offer designs very similar to the retailer's offerings in the retail store channel at a lower quality and at an average discount of 40 percent.
- Many retailers have no flow of material between the regular [retail store](#) and the outlet store. At Coach and Nordstrom, approximately 80 percent of the goods sold at their outlet stores are designed and produced solely for the channel. Others like Gap, Old Navy and Talbots exclusively source all products sold in their outlet stores.
- In addition to lower product quality, outlet stores have lower levels of in-store services and narrower assortments.

More information: Gonca Soysal et al. How Does Adoption of the Outlet Channel Impact Customers' Spending in the Retail Stores: Conflict or Synergy?, *Management Science* (2015). [DOI: 10.1287/mnsc.2015.2262](#)

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