



CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT

LET'S TALK BUSINESS

IDEAS FOR COMMUNITY DEVELOPMENT PROFESSIONALS WORKING TO EXPAND LOCAL BUSINESS ACTIVITY

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Outlet Shopping A Retail Development Opportunity for Some Communities

By Bill Ryan*

Outlet stores have been sweeping the nation in recent years. They are located in strip centers, malls and specialty shopping villages and represent one of the biggest trends in the rapidly changing retail industry. This edition of *Lets Talk Business* describes this retail segment and its implications for local economic development.

Outlet Stores and Centers

Outlet stores are owned and operated by manufacturers as a way to alleviate the over-production of goods and bypass the traditional department and specialty retail stores. Outlet stores include first-quality products including sporting goods, clothing, leather goods, luggage, shoes and housewares. There are approximately 200 active manufacturers that are tenants in the nation's factory outlet shopping centers.

Years ago, outlets were known for discounts on factory overruns and seconds. Today products include current styles and seasonal merchandise. Many outlets now offer customer service features found in traditional retail outlets including credit card acceptance and liberal return policies. Not all outlet stores are the same. Pricing and value varies by shop, center and over time.

The Mills Corporation of Washington D.C. changed the outlet shopping industry in the 1980's by opening outlet supermalls. These centers combine a large number of factory outlets, off-price shops, restaurants and entertainment facilities. The Company operates the Gurnee Mills development between Milwaukee and Chicago.

There are now approximately 400 outlet centers nationwide, up from 142 in 1989. Today's outlet centers include 250,000 to 300,000 square feet, more than twice the amount constructed at centers just five years ago. Industry experts predict that the industry will continue to grow through the year 2000 and outpace traditional shopping center growth.

Outlet Consumers

Research by Value Retail News, an industry monitor, indicates that outlet sales will grow from \$12 billion in 1995 to \$20 billion by the year 2000. This growth is being fueled by the consumer's increasing demand for value.

Consumers of outlet stores are brand-conscious and bargain-oriented. They often choose between waiting for a sale at a local retail store or driving an hour or two to an outlet. The typical outlet shopper is female, between the

* Ryan is a business development specialist with the UWEX Center for Community Economic Development.
Drawn from:
Fortunato, Laura, [Outlet Store Shopping](#), Cross Sections-Federal Reserve Bank of Richmond, Summer 1996.
Boling, F. Wayne, [Pursuing the Factory Outlet Development](#), Economic Development Review, Spring 1995.
Meyers, Carleton R., [Attracting Factory Outlet Stores...](#), Economic Development Review, Spring 1995.

ages of 30 and 49, with an annual household income of more than \$50,000.

Some industry experts believe that price is no longer the primary shopping motivator. Ease of shopping and location have become the primary reason for selecting an outlet according to Wendy Liebmann with the New York consulting firm WSL Strategic Retail.

Some believe that outlet shopping has reached its peak. They believe that traditional retailers have effectively responded by offering sale prices that rival the outlets.

Economic Development Opportunity

Factory outlet centers are an attractive economic development strategy as they bring new shoppers into a community through the creation of a tourism attraction. These centers generate new employment, sales, and property taxes, and serve as a catalyst for other new spin-off businesses such as restaurants, hotels and gas stations.

Many large outlet malls have become major tourist destinations. According to *The Washington Post*, Virginia's Potomac Mills is considered to be the state's largest tourist attraction, drawing more visitors than any of its treasured historical sites.

With large numbers of new visitors and shoppers brought into a community, outlet centers often increase retail sales at existing merchants including those in the downtown business district. They also serve as a catalyst for attracting new traditional retail and services to the community. Factory outlet stores typically draw from a radius in excess of 100 miles (compared to a regional mall's radius of 30 miles). This can lead to a reversal in a community's retail sales leakage.

Market Analysis for Development

Outlet center developers receive hundreds of presentations each month from communities offering site locations. These developers are very selective in their choice of sites. Their criteria typically include:

A large regional population base located between two major urban centers. The population of the local community has little bearing on the potential of the outlet center.

- A location on the way to or near tourist destinations. For many tourists, shopping is a leisure activity.
- Twenty-five miles away from a major mall.
- High traffic volume and good access and visibility, preferably adjacent to an interstate highway.
- Land costs significantly below that paid by traditional shopping center developers.

Area colleges or universities, museums, attractions, convention centers and other facilities that make the area unique help draw the interest of outlet center developers.

Even if your community satisfies all of the market requirements, outlet center developers may demand local incentives such as utility and road access improvements. This might generate opposition from local citizens and the existing retail community.

Summary

As few communities fit the criteria established by outlet store developers, it is typically very difficult to attract a outlet mall or strip center. Nevertheless, for some communities, it is a powerful economic development opportunity.

Even if a community cannot attract a large scale outlet center, it is important that local retailers and economic development professionals recognize the significant consumer trends related to outlet shopping. Communities may want to explore smaller scale outlet store retailing in their business districts. Even one or two stores affiliated with local manufacturers could draw new consumers into a community and benefit existing retail and service businesses as well.

CENTER FOR COMMUNITY ECONOMIC DEVELOPMENT, UNIVERSITY OF WISCONSIN-EXTENSION
1327 UNIVERSITY AVE, MADISON, WI 53715

PH: (608) 265-8136; FAX: (608) 263-4999; <http://www.uwex.edu/ces/cced/index.html>

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