
OUTLET INDUSTRY UPDATE: Recession proof?

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From UBS Warburg's Weekly Chain Store Sales Snapshot to Instinet's Redbook Retail Sales Average, economic indicators point to hard times for retailers. But for the outlet sector the news is somewhat less discouraging. When mainstream retailers' sales decline, outlets can absorb some of that excess inventory, keeping their shelves well stocked with low-priced goods.

This makes outlet malls more attractive to consumers, notes Legg Mason analyst Joel Goodman. "Some same-store sales have declined in the outlet industry," he says. "But bigger operations are still showing a plus for the year."

According to ICSC's database of 4,010 outlet stores across the United States, comparable-store sales in the outlet industry fell 3.3% in November (the most recent month for which statistics are available) compared to the same period in 2001. Overall U.S. retail sales plunged a record 3.7% in November, according to the U.S. Commerce Department.

As bad as that news was, it could have been much worse for the outlet sector. Baltimore-based Prime Retail, for example, saw a 6.4% increase in traffic at its 45 outlet malls nationwide during the 2001 holiday season, which is traditionally measured from Nov. 23 to Dec. 24. "Portfolio-wide, our November comparable traffic was up 3.3% from last year, and our December traffic was up 5.6%," notes Prime Retail spokesman Steve Sless. "When people are faced with a difficult economic climate — which we're in now with an erratic stock market and a lot of uncertainty in the marketplace — they're much more careful with their discretionary income. The savings they realize by going to outlets are considerable."

In addition to hunting for bargains, shoppers are also leaning toward brand names they can trust, many of which can be found at outlet centers, Goodman notes.

All these factors contribute to the relative good health of the outlet sector during rough economic times. For industry veterans, it's a familiar trend. "The factory outlet concept has proven to be recession-proof and inflation-proof over the past 20 years," says Andrew Groveman, president of Belz Factory Outlets. "In hard times, people try to buy the best merchandise at the lowest possible prices."

This quest for value will likely continue into 2002, according to a report last month by Rosalind Wells, chief economist for the National Retail Federation. Although Wells sees signs of a modest economic recovery through the first quarter, she predicts little change in recent spending patterns, including the focus on value. That news appears to bode well for the outlet industry.

Tourism's retail role

Tourists represent a significant portion of sales for many outlets, but while the Sept. 11 terrorist attacks had a detrimental impact on travel and tourism, outlets bounced back after a brief lull. "For two or three weeks immediately following, business was off as the tourism business virtually shut down," says Groveman. "There is now a nice rebound underway. Las Vegas and Orlando have come back faster than expected. There is no question that consumer confidence is down, but I believe they've gotten over the shock and hibernation."

The importance of tourism in the outlet business varies depending on the location of the actual center. But in some parts of the country, the decrease in air travel appears to be fueling an increase in close-to-home domestic tourism. This can work to the advantage of companies such as Tanger Factory Outlet Centers, which operates outlets targeting domestic tourists in locations such as Pigeon Forge, Tenn., Branson, Mo., and Blowing Rock, N.C.

“In many of our centers, we have actually seen a positive effect,” notes Steven Tanger, president and COO. “We are getting more visitors driving to these destinations or driving by our heavily traveled interstate sites en route to their destinations.”

Glenn Reschke, president and CEO of Prime Retail, has seen a similar effect at several Prime Retail outlets in recent months. At the beginning of the holiday season, for example, sales at its outlet center in Hagerstown, Md., were up 11% from the previous year. Customer traffic was up 47%.

Marketing shifts

In response to this trend, Prime Retail made some adjustments to its marketing strategy. According to Reschke, company executives are traveling to fewer international shows to focus more of their efforts on domestic fronts. Prime Retail's marketing department recently developed a “sign-up and save” program anchored by a customer loyalty card featuring daily specials along with a treasure map, which families can use to hunt for bargains. “Now more than ever, people are looking for things to do as a family,” notes Reschke.

Belz has also shifted attention to its existing asset base in local and regional markets, Groveman says. The privately owned company has been doing more TV advertising and strategic print buys to reach local customers. Likewise, Tanger Factory Outlets changed its media message to capture the dollars of domestic tourists. Among other strategies, the company is now promoting its national partnership with AAA. Tanger believes the trend toward close-to-home tourism is likely to continue through 2002, causing locally targeted marketing to play a more prominent role in the outlet industry.

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