Customer perceptions of factory outlet stores versus traditional department stores

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Abstract

Purpose – The purpose of this paper is to compare customers' perceptions of factory outlet stores (FOS) versus traditional department stores (TDS), and their purchasing preferences, related to demographic profiles.

Design/methodology/approach – Data were collected by a mall intercept survey from 205 shoppers in a New Zealand city across a range of demographics. Factor analysis measured their perceptions of factory outlets and TDS with respect to a number of variables, and one-way ANOVA and *t*-tests were used to investigate the nature and significance of the observed differences.

Findings – Four key factors exert critical influences on customers' perceptions: in-store customer service, brand images, physical features, and price and promotion. FOS are perceived to have comparatively lower prices and more attractive promotions than TDS, which in turn have competitive advantages in terms of the other three factors. Gender, education and income also affect store choice, but age has no discernible effect on perceptions of the two types of outlet.

Research limitations/implications – TDS should maintain their competitive position by continuing to offer attractive physical features, good in-store customer service and reputable branded products, while FOS need to learn from the competitive disadvantage of TDS and enhance their current perceived competitiveness on price and promotions.

Originality/value – Previous research studies have tended to pay little attention to demographics and to focus on large economies; this paper addresses both deficiencies.

Keywords Out of town stores, Customer orientation, Department stores, New Zealand

Paper type Research paper

Introduction

Nowadays, an increasing number of customers choose factory outlet stores (FOS) as their alternative shopping places, rather than continuing to shop at traditional department stores (TDS). If customer loyalty is becoming more important for marketers in achieving sales performance goals (Kulpa, 1998), this increase in the use of FOS as an alternative choice poses a significant challenge to TDS. This circumstance means that the competition between these different retail channels has become extremely intense.

Before any further discussion of the topic it is necessary to introduce the types of retail stores visited by customers in different countries and continents. The nature and design of these stores differs in different geographic locations. For example, in Australasia the retail

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outlet structure is very different than in the USA and Europe. It is much larger and more advanced in the USA and Europe than in New Zealand and Australia. Well defined categories of stores could not be found in a search of the literature, and researchers have used a variety of categories in their researches (Karande and Ganesh, 2000; Parker *et al.*, 2003; Reynolds *et al.*, 2002; Li *et al.*, 2004). The most commonly used types found are FOS, manufacturer-owned stores and TDS. FOS are owned and operated by factory owners, either at the factory premises, or in sole agency/franchise arrangements in shopping malls. These stores sell products exclusively from the factory owner's merchandise brand/s. Depending upon the organisational set-up, these FOS have some control on product offering, prices and specials, and in-store customer service, as well as the physical features of the store. A manufacturer-owned store is owned and operated directly by a manufacturer, either in a city shopping area, or in a shopping village on the outskirts of a city and sells only its brand/s of merchandise. In a manufacturer-owned store, the manufacturer has full control over the product offering, in-store customer service and the quality and price of the product sold, as well as the physical features of the store. Within the manufacturer-owned stores there are two further sub-categories found in the literature; true manufacturer-owned stores and hybrid manufacturer-owned stores (Golub and Winston, 1983). The true manufacturer-owned stores are owned and operated by manufacturers selling their own products, while hybrid manufacturer-owned stores include stores owned by a manufacturer who, along with its own brand/s also sells brands of other manufacturers. For example, VanHeusen Shirts, Dexter Shoes, Quoddy Mocassins, Levi-Straus, etc. are included in the grouping of true manufacturer-owned stores, while T.K. Maxx and J. Brannam are included in the grouping of hybrid manufacturer-owned stores. Regarding TDS, these are owned and operated by private parties independent of manufacturers. Manufacturers of products sold at these stores have limited control over in-store customer service, prices of the products sold and the physical features of the stores.

Initially FOS were established to offer end-of-line goods and seconds at the lowest possible prices (Lombart, 2004). As a result, it was mainly customers in lower socio-economic groups who were willing to buy through this channel. These stores have begun, however, to be gradually accepted by more customers. This acceptance is, in part, due to special annual sale promotions which began during the 1980s (Lombart, 2004). Additionally, customers' increasing value-consciousness has stimulated the development of manufacturer-owned stores. This has especially been the case in the USA, where there are over 10,000 manufacturer-owned stores now in operation (Meyers, 1995). Similarly, in the UK manufacturer-owned stores which provide the same range of brand name merchandise attract more and more customers, and have developed into showcases in much the same form as that of TDS (Fernie and Fernie, 1997). In this research, only FOS and TDS have been included, as New Zealand does not have any manufacturer-owned stores.

According to Parker *et al.* (2003), the rate of customer acceptance of FOS in the US grew from 15 to 17 per cent during the period of 1987-1995 and increased sharply from 1996 to 2000 (by approximately 7 per cent). In contrast, TDS are facing a significant threat as the number of customers who shop at TDS is decreasing, even though the sales in TDS have increased (Nasri, 1999). In fact, customers who said they would shop at TDS dropped sharply, from 54 to 41 per cent, in the period between 1997 and 1999 (Nasri, 1999). In addition, "the number of traditional department stores is on the decline, representing a small portion of total retail sales and they are now becoming an endangered species" (Li, 2003, p. 1). It is undeniable that growing customer acceptance of FOS implies a significant challenge, and offers intense competition, to those TDS. In essence, there are many competitive advantages of FOS. They can set their own attractive prices and product quality, and even offer a similar level of customer service to that available in TDS. Therefore, FOS can make their products much more attractive through a competitive pricing strategy and might catch more opportunities to gain price sensitive market shares (Parker *et al.*, 2003).

It is unclear, however, whether customer perceptions of FOS versus TDS may differ in general and across demographics, as well as how such differences may be seen. The findings will assist marketers, particularly those employed by manufacturers, in understanding the ways in which customers view both TDS and FOS. This insight will allow such marketers to set more suitable customer-oriented marketing strategies and business objectives, achieve superior financial performance and develop their marketing performance in the retail industry. The main objective of this paper is to explore customers' perceptions of these different types of stores, as well as their purchasing preferences. In addition, the paper examines customer preferences across demographics regarding customers' perceptions of FOS and TDS.

The paper contains seven sections. Following the introduction is an overview of the literature, summarising the previous studies and setting the hypotheses to be tested. The next two sections deal with the research methodology, data analysis and findings. Conclusions, implications and further research are discussed in the last three sections.

Literature review

Factory outlet stores

An increasing number of FOS have been built for various reasons. Some of these stores have been created to deal with seconds' products, some are presented as discount stores associated with new distribution channels and some have been designed by manufacturers in order to reduce the price of their products through savings on overhead costs (Parker *et al.*, 2003). This last reason has been pursued in order to attract more current and potential customers in price-oriented and price-sensitive markets and to satisfy customers' varying needs and wants (Parker *et al.*, 2003). Initially, the FOS was identified and established as an off-price retailer (Joshi, 2003). Internationally, especially in Europe, FOS were built and developed for four basic reasons: to sell discounted products; to reduce overhead costs and carry out sales promotions; to create flexibility of stock running; and to achieve brand promotion (Joshi, 2003). The roles and functions of FOS have changed significantly over the past few decades. They are no longer designed only as low price stores, but are also used for branded product promotions, especially in Europe and the USA. FOS have also been designed as specific seconds' stores and discount stores, and are located in many of Japan's major cities (Joshi, 2003). There has been a 62 per cent increase in the number of FOS since 1990 and the trend is for this increase to continue (Rudnitsky, 1994). FOS have been developed using original styles, by including some specific characteristics of conventional shopping centres in order to provide products with attractive prices and create a leisurely shopping environment for the most price-oriented customers (Golub and Winston, 1983).

Nowadays, FOS are normally recognised as "... gaining a larger market share through price reductions, which are aimed at capturing the mass market"

(Hellofs and Jacobson, 1999, p. 33). Therefore, FOS need to develop their level of customer satisfaction and ensure that the products sold in these stores are of a reasonable quality in comparison to the previously built brand images (Parker *et al.*, 2003). Overall, the trend in FOS development is quite satisfactory. For example, according to a survey discussed in *Happy Campers at Outlets* (Rauch, 2005), around 84 per cent of respondents agreed that the prices in these stores met, and even exceeded, their expectations. Also, nearly 93 per cent of the respondents indicated their intention of making a return visit (Rauch, 2005).

In summary, the development of FOS is rapid. They are seen as offering reasonable, and lower, prices than TDS, and a much better shopping environment and atmosphere than ever before. Therefore, the sales performances achieved by FOS are satisfactory, tending towards positive maintenance of, and a continuous increase in, this type of store.

Traditional department stores

Nowadays, TDS are facing a significant threat because the number of consumers who shop at TDS is decreasing, although the sales of these stores have increased (Nasri, 1999). The number of customers who shop at TDS has dropped sharply (Li, 2003). This means that department stores are in an endangered situation, and are receiving a lessening portion of the total retail sales. This situation has led to a significant decrease in the number of department stores (Li, 2003).

TDS are perceived by customers as playing a distinctive fashion role and offering a range of up-to-date fashion merchandise with reasonable prices, high levels of customer service and a comfortable shopping atmosphere (Johnson, 1994). Customers are more willing to enter into, and purchase products in, TDS, which offer more excitement and emotional attachment than do FOS. As a result, TDS tend to be developed to create and satisfy various demands of customers of different ages and with differing perceptions of fashion trends (Facenda, 2005). This could be a competitive advantage which TDS can utilise to attract and maintain customers, as well as increase market share as an effective defence against the threat presented by FOS.

In summary, unlike discount stores, TDS tend to be challenged into finding, and creating, a winning combination of a diverse customer and merchandise mix, along with service and price expectations, rather than addressing and focusing on attracting bargain-seeking customers through niche target marketing (Coward, 2003). Therefore, the first hypothesis to be tested in the research can be stated as follows:

> *H1*. There is a significant difference in customers' store preferences (TDS, or FOS) across their demographics.

Product brand image

Loyal customers may hold strong and positive images of a brand that are hard to change and leads to long-term sales revenue (Wyner, 2003). This indicates that brand image is one of the most important determinant factors of customer perceptions of shopping choices. A well-known brand, as an important extrinsic factor, can significantly affect customer perceptions (Ailawadi and Keller, 2004). Actually, positive brand image tends to maintain customer loyalty and leads to customers having lower price sensitivity. Thus, properly managing customer feelings about a product is the key to creating favourable brand imaging for this product. This then helps to build long-term relationships with these valuable customers and gain superior market share, which all leads to better financial performance. Retailers have an obvious opportunity and an ideal position to build these positive experiences for customers (Schmitt, 2003).

It is undeniable that retailers need to pay attention to the impact of brand images of stores. Brookman (2004) noted that brand images should be used to link merchandise ranges and design in stores. In other words, store managers need to concentrate on product-oriented content when they design store layouts (Brookman, 2004). Parker *et al.* (2003) also recommended that good brand imagery would lead to good sales revenue. Ailawadi and Keller (2004) pointed that there was a direct relevance between branding and customer perceptions of store imagery, which has been confirmed by a large number of researches in this topic area. In other words, customer perceptions of products branded under the stores are more likely to colour their impression of the stores themselves (Dhar and Hoch, 1997). Inman *et al.* (2004) pointed out that customers associate different branded product ranges with different types of stores.

Accordingly, store image is impacted on significantly by customer perceptions of different branded products and services offered by the retailers (Ailawadi and Keller, 2004). The greater breadth of the different products and services offered by a store, the greater the number of customers will be who frequently patronise the store, as the variety of product categories provided in the store makes the shopping experience much more convenient for customers (Messinger and Narasimhan, 1997). Essentially, a wide range of products can help retailers create a very positive store image by adding value for customers, through the offer of shopping convenience and a variety of choices (Ailawadi and Keller, 2004). This range can also be adapted according to customers' changing perceptions over time (Ailawadi and Keller, 2004). Furthermore, the depth of within-category brand products is another very important factor in influencing store image in customer perceptions, and could be a main stimulator in the customer store-choice decision (Ailawadi and Keller, 2004). Diversification of flavours, size and colours within branded products can satisfy a variety of customer needs and wants and make customers' choices much more flexible and convenient (Kahn and Lehmann, 1991). Developing a selection, range of styles and favourable categories of branded products are the most important keys to increasing customer perceptions of store image, and achieving higher sales (Dreze *et al.*, 1994). Obviously, the greater the perceived assortment is, the higher the level of customer satisfaction with the store, which significantly influences the store image and the store choice (Ailawadi and Keller, 2004). Therefore, the design of brand-name products can be a comparable factor in creating images for FOS and TDS.

The customer image of a store is highly and positively influenced by the quality of the manufactured product brands (Ailawadi and Keller, 2004). Accordingly, Jacoby and Mazursky (1984) noted that carrying strong, positive images of brands could improve the positive image of stores. Strong store image, however, cannot improve the image of a weak brand in the customer perception (Jacoby and Mazursky, 1984). Furthermore, they noted that it was much easier to increase sales and achieve market share by increasing both the images of brands and stores in the current saturated retail environment (Jacoby and Mazursky, 1984). Jacoby and Mazursky (1984) also mentioned, however, that a good product brand image would be damaged if it was associated with a store with a poor image.

Therefore, branded products sold in either type of store should be designed and managed to create and improve relevant customer perceptions. Basically, customers having a good brand image tend to be much more loyal in their shopping patterns, whether at TDS, or FOS. Also, customers who wish to purchase high-quality branded products would consider whether the quality and value of the branded products sold in TDS is higher than those products sold in FOS (Parker *et al.*, 2003). So, the hypothesis to be tested in the research could be stated as follows:

H2. The brand images of those products sold in TDS are higher than for those products sold in FOS.

Retail store features

Retail store features play a very important role in creating profit and maintaining customer loyalty. Therefore, this could be a determining factor in customer perceptions (Parker *et al.*, 2003). A high-quality store feature implies a possibility for differentiation, loyalty and profitability, while a low-quality store feature paves the way for price wars by emphasising and intensifying customer price sensitivity (Stanford, 1994). Martineau (1958) concluded that stores should develop positive, clear and favourable features in order to be an alternative choice in customers' minds.

Understanding the impact of product brand image, and how a store should be positioned, is extremely important in building the features of a store (Ailawadi *et al.*, 1995). Many stores achieve their sales goals by offering favourable and fashionable branded merchandise in broad ranges. It is not enough, however, to create a unique store image in the customer's mind. Building the image of a store requires the identification of sufficiently different goods and services from those of their competitors, which tends to increase customers appreciation (Keller, 2003). There are many different features which significantly influence store image. For example, the quality of merchandise and services, the store appearance, the quality of the purchase service, the physical facilities, the behaviour and service of employees, the price levels, the depth and frequency of promotions and the store shopping atmosphere (Lindquist, 1974). Based on a previous study, it can be stated that there are three basic dimensions which can be used to analyse the store features. These are, "... access, in-store atmosphere, price & promotion" (Ailawadi and Keller, 2004, p. 333).

As is known, in-store atmosphere is one of the most important factors in the influence of customer perceptions of stores. Baker *et al.* (2002) pointed out that a store's shopping environment plays an extremely important role in providing information and shopping guides to customers, and is the key feature in building the store image. The in-store environment; particularly physical features such as merchandise pricing, quality and store design and layout, as well as social service facilities such as employees' service and friendliness, and also food-court service; can influence customers' perceptions of economic and psychological shopping behaviours (Baker *et al.*, 2002). Certainly, store environment plays a major role in providing informational cues and signals to customers about the type of merchandise and service they should expect (Parker *et al.*, 2003). Merchandise quality and service quality are key variables in influencing store image (Parker *et al.*, 2003). Also, "... defined service is equal to defined brand" (Hicks, 2000, p. 1). This indicates that service features might be some of the most important factors in store image brand-building, and can deeply influence consumer purchase behaviours (Hicks, 2000). This leads to the creation of long-term sales revenue and profitability (Hicks, 2000). In summary:

> . . . a pleasing in-store atmosphere provides substantial hedonic utility to consumers and encourages them to visit more often, stay longer, and buy more, and it offers much potential in terms of crafting a unique store image and establishing differentiation (Ailawadi and Keller, 2004, p. 334).

Furthermore, when different retailers stock similar products and brands, an appealing in-store atmosphere can play a critical role in building the store brand image (Ailawadi and Keller, 2004). In this research, the in-store atmosphere of FOS and TDS is compared, especially in terms of the physical characteristics and social service features. So, two hypothesises need to be tested, as below:

H3. The physical features (such as lighting, air conditioning, washrooms, music, cleanliness, displays, etc.) of TDS are perceived to be better than those of FOS.

H4. The in-store customer service features (such as friendliness, helpfulness of salespeople, etc.) of TDS are perceived to be better than those of FOS.

Price and promotion

Price and promotion are direct factors which affect customer perceptions of different types of stores and their images. A store's image in terms of price and promotion will be influenced by average levels of prices, seasonal variations in prices, and the frequency and depth of promotions (Dickson and Sawyer, 1990). Different customers hold different perceptions of the store choice decision, according to their different images of the store. For example, large basket shoppers like every-day low-price stores, while small basket shoppers prefer high-low promotional pricing stores (Bell and Lattin, 1998).

These kinds of features tend to create an overall determination of store image categories, which could include discount store and high-quality TDS categories in customers' minds. TDS tend to create, ". . . a diverse customer and merchandise mix, service expectations and price point" in order to design an incredible shopping experience (Coward, 2003, p. 27). For example, Coward (2003) suggested that stores needed to rethink convenient designs, return and commission policies in order to make their service more flexible and satisfactory. In customers' minds, however, FOS normally tend to be considered to be discount stores, or stores with big sale promotions, which might not include high-quality brand name products, satisfying shopping service, or satisfying physical facilities. More specifically, price levels and sales promotion strategies tend to be more important when the store images and product brand images of both the TDS and the FOS are positive and have imperceptible differences. Accordingly, Parker *et al.* (2003) pointed out that there is an incredible interaction between price levels and customer perceptions of product brand and store images. In particular, comparatively lower price levels would lead to negative customer perceptions of stores (Parker *et al.*, 2003). To identify the different price and promotion images of stores, two hypotheses are formulated as below:

H5. The price and promotion features of products sold in TDS are perceived as being higher than that of FOS.

H6. There is a significant difference in customers' store ratings (TDS vs FOS) across their demographics.

Four conclusions can be drawn from the above literature review. First of all, FOS are perceived as changing their original style by providing products with attractive prices and a leisure-shopping environment to meet most price-oriented customers' different wants and needs. They are no longer taking the role of simple discount stores offering second hand products at the lowest possible price, and tend to be a big threat to TS (Parker *et al.*, 2003). FOS should be considered as being attractive retail alternatives in the entire manufacturers' distribution channel strategy (Parker *et al.*, 2003).

Secondly, TDS are considered to be more attractive when they build a winning, combined relationship between different customers with different shopping perceptions and merchandise mixes, as well as service expectations and price points, rather than concentrating on attracting bargain customers by niche price target marketing (Coward, 2003).

A third conclusion is that the product brand image and the brand equity need to be emphasised, which tends to significantly influence customers' perceptions. Specifically, a positive brand image leads to increased customer loyalty, which helps to build long-term relationships with these valuable customers, in order to gain superior marketing and financial performance. Different stores have an obvious opportunity to, and an ideal position from which to, build these positive experiences for customers (Schmitt, 2003).

Last, but not least, building positive store images is very important for manufacturers. Three relative features of stores can be compared and evaluated by customers through the creation of store images. That is, physical characteristics, in-store customer service characteristics, and price and promotion characteristics of the products sold in both types of stores are part of this process. Accordingly, Parker *et al.* (2003, p. 34) pointed out that, "... the perceived quality of the product, along with the pricing structure and service provided by employees are cues used by consumers in assessing overall brand image".

Research methodology

The study was conducted in Auckland city, in New Zealand. Auckland is the biggest city in New Zealand, with a population of 1,303,068 in 2006, being about one third of the total New Zealand population (Statistics New Zealand, 2007). Moreover, Auckland inhabitants contain the largest number of immigrants and it is the most important commercial and trade hub in New Zealand.

A self-administrated questionnaire was developed and used in the data collection. The questions in the questionnaire were adapted from a questionnaire used by previous researchers in a US study, and were intended to collect information around the four factors measured in previous studies (Parker *et al.*, 2003). These were; the brand images of products sold in the stores, the physical features of stores, in-store customer service features, and price and promotion characteristics of the products sold in the stores. A five-point scale was used in the questionnaire, anchored by 1 = very poor, 3 = neither and 5 = very good. About 19 questions regarding the two types of stores' different characteristics were presented in the questionnaire. In order to reduce the potential brand/product bias and preferences, the questionnaire did not state any specific brand names, or products. At the end of the questionnaire, respondents were asked to provide demographic information such as gender, income, educational attainment and age, in order to examine the impact of demographics on the store choices.

The data were collected using mall intercept surveys (Karande and Ganesh, 2000; Parker *et al.*, 2003; Reynolds *et al.*, 2002). Various TDS and FOS were visited during 2005 in order to approach respondents. The respondents were selected equally at both types of outlets. Around 600 respondents were approached personally and 205 agreed to complete the questionnaire. Respondents were approached keeping in mind the need to target all demographics of the population. To ensure the reliability and representation of the sample, the time used to collect the data included weekdays and weekends and avoided the bias of seasonal shopping, such as the Christmas shopping season. Furthermore, the respondents were selected widely and randomly in order to reduce the possibility of selection biases in the shopping areas. Additionally, the respondents were given sufficient time to complete the two-page questionnaire on the spot. On average, respondents took ten to 15 minutes to complete the questionnaire. The sample profile is given in Table I.

Data analysis and findings

Data analysis tools

A number of statistical tools were used to investigate the data, in order to draw meaningful conclusions. Reliability analysis was used to test the reliability of the questionnaire.

Demographics	Percentage
Gender	
Female	52.2
Male	47.8
Total	100
Age	
Under 25 years	15.6
25-34 years	25.9
35-44 years	29.8
45-54 years	18.5
55-64 years	7.8
Over 64 years	2.4
Total	100
Education	
High school completion	16.6
Trade certificate (after h/school)	30.2
Bachelor's degree	38.5
Masters degree	14.6
Total	100
Individual yearly gross income before tax (one NZ$ equalled US$0.75 at the time of study)	
Less than US$15,000	21.5
US$15,001-30,000	45.4
US$30,001-45,000	23.9
Over US$45,000	9.3
Total	100

Note: $N = 205$

Table I. Sample profile

Factor analysis was used to categorise the nineteen questions in the questionnaire, in order to investigate factor structures and then to investigate the factors regarding customers' choices across the type of store. The χ^2 method was used to examine the impact of demographics on the choice of store type. Summated scales and *t*-tests were used to test the four stated hypotheses of research. One-way ANOVA and *t*-test were used to examine whether there is a significant difference in customers' store ratings across different demographics.

Sample profile

The sample profile of 205 respondents is summarised in Table I. There are more female respondents in the survey. The majority of the respondents are less than 45 years of age. Furthermore, the majority of the respondents had completed secondary school and completed at least one trade diploma, or certificate degree. Additionally, around three-quarters of the respondents earned a yearly gross income (before tax) of over US$15,000. Respondents with a yearly income over US$45,000 only comprised 9.3 per cent of the sample, with the majority having a yearly income of between US$15,000 and 30,000.

The reliability analysis was utilised to test whether the 19 questions used in the questionnaire fit the factor analysis criteria. Using Cronbach's α, it was found that the 19 items' reliability for TDS was 0.88 and for FOS was 0.88, both figures being at an acceptable level (Nunnally, 1978).

Factors customers keep in mind while shopping at TDS and FOS

Table II displays the factor analysis results for the different scales of TDS in the questionnaire. Four factors were extracted through the factor analysis for TDS. Factor 1 concerns the in-store customer service characteristics of TDS. The variables relating to customer service in the stores; such as friendly, helpful, familiar with merchandise, exchanges, salespeople's pressure and enough salespeople; are loaded more highly than other variables contained in Factor 1. Customers are especially concerned with whether the salespeople in TDS are helpful. Within Factor 2, higher loadings are given to quality, wide selection, newest styles and fully stocked in regards to the products sold in the stores. These loadings indicate that Factor 2 largely displays concerns about the brand images of products sold in TDS.

Customers shopping in TDS tend to pay more attention to whether products sold in the stores display a wide selection, contain the newest styles and are fully stocked, rather than being concerned about their quality. Furthermore, Factor 3 shows significant loadings on the variables of attractive, not crowded, clean, neat and bright. Therefore, Factor 3 can be identified as containing the physical features of TDS. Specifically, the variables of clean and neat have much higher loadings than the others. This implies that these two factors significantly influence customer perceptions of the physical features of TDS. Factor 4 shows customers' considerations regarding the price and promotion features of products sold in TDS. Within the fourth factor, comparatively higher loadings are found for the variables of price, value for price, markdowns and clearly marked price. In particular, customers' who preferred TDS tended to give more consideration to whether they could gain reasonable value from their purchase.

Table II.
Factor analysis results

Store variables/statements in the questionnaire	Traditional department stores				Factory outlet stores			
	Factor 1. In-store customer service features	*Factor 2.* Brand images of products	*Factor 3.* Physical features	*Factor 4.* Price and promotion features	*Factor 1.* In-store customer service features	*Factor 2.* Brand images of products	*Factor 3.* Physical features	*Factor 4.* Price and promotion features
Salespeople are friendly	*0.600*	0.172	0.232	0.105	*0.628*	0.077	0.259	0.232
Salespeople are helpful	*0.746*	0.145	0.168	0.225	*0.717*	0.198	0.320	0.122
Salespeople are familiar with merchandise	*0.637*	0.134	0.132	0.054	*0.652*	0.134	0.242	0.176
Exchanges happily	*0.571*	0.065	0.017	0.254	*0.590*	0.258	0.047	0.084
Less pressure from salespeople	*0.601*	−0.009	0.048	0.065	*0.640*	0.105	0.118	0.110
Enough salespeople	*0.580*	0.262	0.177	0.056	*0.639*	0.025	0.205	0.144
Quality is good	0.232	*0.449*	0.233	0.306	0.228	*0.471*	0.308	0.199
Selection of products is wide	0.173	*0.763*	0.119	0.131	0.146	*0.694*	0.148	0.116
Styles of products are newest	0.127	*0.771*	0.127	0.092	0.140	*0.779*	0.124	0.118
Stock level	0.085	*0.702*	0.182	0.106	0.041	*0.740*	0.002	−0.128
Store is attractive	0.292	0.122	*0.458*	0.372	0.294	0.283	*0.556*	0.077
Store is not crowded	0.077	0.052	*0.545*	0.281	0.240	0.166	*0.697*	0.052
Store is clean	0.195	0.147	*0.763*	0.149	0.190	0.038	*0.822*	0.183
Store is neat	0.224	0.171	*0.745*	0.012	0.293	0.094	*0.677*	0.250
Store is bright	0.052	0.408	*0.672*	0.054	0.142	0.003	*0.160*	0.095
Prices are good	0.235	0.228	0.155	*0.655*	0.268	0.156	0.118	*0.359*
Value for price	0.147	0.100	0.151	*0.810*	0.212	0.194	0.086	*0.325*
Markdowns are attractive	0.140	0.376	0.124	*0.468*	0.090	0.034	0.138	*0.882*
Prices of products are marked clearly	0.125	0.372	0.142	*0.360*	0.212	−0.070	0.146	*0.739*

Table II also displays the factor analysis results for the different variables of the FOS in the questionnaire. Again, a similar group of four factors is extracted through the factor analysis. As in the TDS analysis, Factor 1 concerns the in-store customer service features of FOS. The variables regarding customer service have higher loadings than the other variables contained in Factor 1. Respondents were concerned as to whether the service offered by the salespeople is helpful, or not. The variables of quality, wide selection, newest styles and fully stocked, regarding the products sold in FOS are included in Factor 2. Their high loadings indicate that Factor 2 is related to measuring the brand images of the products sold in the stores. The customers who shop in FOS tend to give more consideration to whether the products sold in these stores are comparatively new styles and have satisfactory stock levels, as shown in the related high loadings of these two variables. These customers do not pay much attention to the quality of the products sold in FOS. Variables of attractive, not crowded, cleanliness, neat and bright loaded significantly on Factor 3. Thus, Factor 3 can be identified as concerning the physical features of FOS. More specifically, customers tend to be concerned about the cleanliness of FOS, but few of them indicate that store brightness is important. Lastly, Factor 4 concerns the price and promotion features of the products sold in FOS. Higher loadings are given to the price, reasonable price for value, markdowns and clearly marked price variables. Customers of FOS tend to be more concerned as to whether the markdowns of the products sold in the stores are attractive, and whether the prices of the products are clearly marked.

Customer store preference across demographics

To determine whether there is a trend to shop at FOS, respondents were asked which store they normally prefer to shop in. To control for any possible response bias, respondents were selected equally at both types of retail outlet. As shown in Table III, the number of respondents who prefer TDS as their shopping place is 113, compared to 92 respondents choosing FOS as their preferred shopping place. This implies that a sizable number of customers prefer and/or are shopping at FOS.

χ^2 is next used in order to examine whether there are any significant effects from the different demographic characteristics on customer decision-making in regards to store choices. As shown in Table IV, significant differences exist in customers' store choice as regards their different genders, levels of education and gross yearly income. Nevertheless, there are no significant differences between customers' shopping preferences in regard to age.

More specifically, female respondents tend to prefer shopping in FOS, while nearly two-thirds of the male respondents prefer to shop in TDS. Furthermore, customers with higher levels of education are more likely to choose TDS as their shopping preference. As shown in Table IV, the number of customers who possess degrees and prefer shopping at TDS is much higher than the number of those customers who are willing to go to FOS. In addition, customers who earn a higher yearly income tend to choose

Table III. Frequency analysis of store choice

Stores visited by respondents	Frequency	Percentage
Traditional department stores	113	55.1
Factory outlet stores	92	44.9
Total	205	100.0

Demographics	Traditional department stores	Factory outlet stores	Total	χ^2 values	*P*-values
Gender					
Female	47	60	107	11.343	0.001
Male	66	32	98		
Total	113	92	205		
Age					
Under 25 years	19	13	32	3.065	0.690
25-34 years	28	25	53		
35-44 years	36	25	61		
45-54 years	18	20	38		
55-64 years	8	8	16		
Over 64 years	4	1	5		
Total	113	92	205		
Education					
High school	13	21	34	20.223	0.000
Trade certificate	24	38	62		
Bachelor degree	56	23	79		
Master degree	20	10	30		
Total	113	92	205		
Individual yearly gross income (before tax) (one NZ$ equalled US$0.75 at the time of study)					
Less than US$15,000	18	26	44	14.256	0.003
US$15,001-30,000	46	47	93		
US$30,001-45,000	33	16	49		
Over US$45,000	16	3	19		
Total	113	92	205		

Table IV. Store choices and demographic characteristics

TDS over FOS. These statistics are summarised in Table IV. Therefore, *H1* is supported on gender, education and income, but not on the demographic of age.

Customer perceptions of brand images of products sold in TDS and FOS

Table V provides a comparison of the brand images and *t*-test results of products sold in TDS and FOS. According to these results, *H2*; which holds that the brand images of products sold in TDS are higher than those of products sold in FOS; is supported (Table V). According to the analysis of the individual items of product features, the respondents gave higher ratings for products sold in TDS (regarding their wide selection, newer styles and satisfactory stock levels), than for products sold in FOS. There is a significant difference between the mean ratings of the branded products sold

Store features/statement in the questionnaire	Traditional department stores		Factory outlet stores		
	Mean[a]	SD[a]	Mean[a]	SD[a]	*P*-values
Quality is good	3.88	0.70	3.11	0.77	0.000
Selection of products is wide	4.05	0.81	2.53	0.89	0.000
Styles of products are newest	4.02	0.93	2.16	0.87	0.000
Stock level	4.07	0.88	1.91	0.94	0.000

Note: [a]Based on five-point scale

Table V. Comparison of store features of products sold in stores in TDS and FOS. Thus, the results from the data analysis show that there is a significant difference in the brand images of the products sold in TDS and FOS. Customers tend to have higher, and more positive, images of branded products sold in TDS than they do for branded products sold in FOS.

Customer perceptions of store features of TDS and FOS

Table VI provides a comparison of the store features and *t*-test results of both types of stores. As shown, the item-wise mean ratings of TDS physical features are significantly higher than for FOS. Therefore, *H3* is accepted. That is, the physical features of TDS are perceived as being better than those of the FOS. There is a significant difference between the mean ratings of the physical features of TDS and FOS. Thus, the respondents indicated that the physical features of TDS are more attractive than those of FOS.

Further, to this finding, the respondents' item-wise mean ratings of TDS in-store customer service features are significantly higher than those for FOS. Therefore, *H4* is accepted. That is, in-store customer service features of TDS are perceived as being better than those of FOS.

Furthermore, *H5*; which holds that the price and promotion features of products sold in TDS are perceived as being significantly higher than those of FOS; is accepted, as indicated in Table V. Also, the individual scale items of price and promotion features are much higher for the FOS. This finding indicates that respondents consider the prices of products sold in FOS to be comparative lower than those sold in TDS and that the promotions offered by FOS are more attractive and satisfactory.

Table VI.
Comparison of the features of TDS and FOS

Store features/statements in the questionnaire	Traditional department stores Mean[a]	SD[a]	Factory outlet stores Mean[a]	SD[a]	*P*-values
Physical features					
Store is attractive	3.63	0.84	3.32	0.94	0.000
Store is not crowded	3.70	0.81	3.25	0.85	0.000
Store is clean	4.10	0.75	3.44	0.83	0.000
Store is neat	4.16	0.73	3.49	0.86	0.000
Store is bright	4.28	0.73	2.62	0.70	0.000
In-store customer service features					
Salespeople are friendly	3.86	0.67	3.59	0.82	0.000
Salespeople are helpful	3.76	0.73	3.52	0.82	0.000
Salespeople are familiar with merchandise	3.77	0.86	3.42	0.88	0.000
Exchanges happily	3.39	0.84	3.07	0.87	0.000
Less pressure from salespeople	3.48	0.81	3.36	0.87	0.000
Enough salespeople	3.91	0.85	3.51	0.96	0.000
Price and promotion features of products sold in the stores					
Prices are good	2.88	0.83	3.99	0.65	0.000
Value for price	2.82	0.88	3.66	0.76	0.000
Markdowns are attractive	3.38	0.91	4.22	0.79	0.000
Prices of products are marked clearly	3.63	0.88	4.24	0.84	0.000

Note: [a]Based on five-point scale

Customer perceptions of TDS and FOS across demographics

To investigate objective 4 (to evaluate whether demographic characteristics are related to customer perceptions of TDS and FOS), ANOVA and *t*-tests are used to determine whether there are significant relationships between customers' store ratings and their demographic characteristics. Table VII displays the customer perceptions of overall store ratings and the four relevant demographic characteristics of the study respondents.

As shown in Table VII, only income level shows significant mean differences in the ratings of TDS. In other words, customers' concerns regarding the physical features and price and promotion features of TDS are highly influenced by their income level. More specifically, the higher the customer's income is the more favourable will be the mean ratings for physical features and price and promotion of TDS.

There is, however, no difference in the customer perceptions of TDS and FOS across gender, age groups and educational levels. Therefore, *H6* is supported only on income, but not on gender and education levels.

Conclusions

The findings on customer store preference across demographics show that customers with different genders, levels of education and gross yearly incomes tend to make different store choices; however, they perceive TDS and FOS similarly regardless of their age. More specifically, male customers regard TDS offering famous branded products as their first choice, however, female customers are willing to shop at FOS in order to seek branded products with comparatively lower prices. Female customers tend to be more price-oriented and price sensitive. Furthermore, the higher the level of education customers have the more likely they are to choose TDS as their shopping preference. This finding indicates that more highly educated customers tend to have greater concerns in regards to the shopping environment and atmosphere offered by TDS. In addition, customers earning higher yearly incomes are more willing to choose TDS over FOS.

In regards to customer perceptions of brand images of products sold in TDS and FOS, there is a significant difference in the brand images of products sold across these stores. The brand images of products sold in TDS are perceived more positively than are those of products sold in FOS. Customers perceive TDS as offering wider, and more satisfactory, selections of various types of merchandise in comparison to FOS. The stock levels in TDS are also seen as being superior. Obviously, the wider selection and greater breadth of different branded products offered in the stores, the greater the number of customers who will be more attracted to TDS.

In regard to customer perceptions of the store features of TDS and FOS, there is a significant difference between these stores. Firstly, respondents feel that the physical features of TDS are more satisfactory, comfortable and attractive than those of the FOS. Customers believe that they will enjoy shopping at TDS, as they provide them with a more comfortable in-store shopping environment and atmosphere. Secondly, there are significant differences in the in-store customer service features of TDS and FOS. Customers believe that TDS provide a higher quality of in-store customer services. TDS are also seen as having better exchange policies and an adequate number of salespeople offering to meet customers' different wants and needs. Therefore, TDS do have distinctive advantages in terms of their in-store customer

Table VII. Store type ratings and demographic characteristics across four factors

Demographics	Traditional department stores Physical features Mean[a]	SD[a]	Factory outlet stores Physical features Mean[a]	SD[a]	Traditional department stores In-store customer service features Mean[a]	SD[a]	Factory outlet stores In-store customer service features Mean[a]	SD[a]	Traditional department stores Price and promotion features Mean[a]	SD[a]	Factory outlet stores Price and promotion features Mean[a]	SD[a]	Traditional department stores Product features Mean[a]	SD[a]	Factory outlet stores Product features Mean[a]	SD[a]
Gender																
Female	3.93	0.54	3.32	0.60	3.66	0.58	3.43	0.64	3.14	0.70	4.02	0.58	3.97	0.65	2.48	0.74
Male	4.02	0.64	3.12	0.63	3.74	0.57	3.40	0.68	3.22	0.65	4.03	0.56	4.04	0.69	2.37	0.61
P-value	0.682		0.059		0.307		0.832		0.636		0.635		0.734		0.476	
Age																
Under 25 years	3.88	0.55	3.23	0.69	3.82	0.56	3.47	0.59	3.24	0.69	4.09	0.48	4.13	0.58	2.54	0.80
25-34 years	3.95	0.60	3.22	0.62	3.63	0.57	3.39	0.66	2.99	0.70	3.88	0.57	3.90	0.68	2.32	0.64
35-44 years	4.05	0.57	3.20	0.64	3.71	0.60	3.38	0.64	3.31	0.58	4.05	0.60	4.09	0.63	2.44	0.65
45-54 years	3.94	0.59	3.38	0.44	3.59	0.52	3.59	0.57	3.13	0.65	4.14	0.46	3.99	0.72	2.50	0.74
55-64 years	3.86	0.66	3.14	0.69	3.85	0.57	3.28	0.76	3.27	0.77	4.09	0.56	3.86	0.75	2.44	0.56
Over 64 years	4.48	0.74	2.76	0.82	3.73	0.89	2.73	0.66	3.10	0.68	3.80	0.56	3.90	0.67	2.10	0.65
P-value	0.270		0.330		0.450		0.097		0.206		0.225		0.532		0.572	
Education																
High school grad	3.96	0.62	3.38	0.68	3.59	0.55	3.51	0.74	2.94	0.72	3.99	0.60	3.83	0.85	2.57	0.72
Diploma/certificate	3.85	0.53	3.34	0.52	3.70	0.50	3.55	0.56	3.15	0.65	4.09	0.50	3.99	0.59	2.41	0.52
Bachelor degree	4.02	0.60	3.11	0.68	3.76	0.60	3.26	0.65	3.31	0.65	3.97	0.63	4.10	0.56	2.30	0.70
Masters degree	4.11	0.65	3.14	0.53	3.63	0.67	3.42	0.71	3.15	0.72	4.08	0.45	4.00	0.85	2.63	0.82
P-value	0.201		0.058		0.480		0.590		0.066		0.552		0.281		0.075	
Yearly gross income																
Less than US$15,000	3.90	0.64	3.22	0.66	3.67	0.56	3.44	0.68	2.88	0.71	4.02	0.57	3.85	0.76	2.61	0.75
US$15,001-30,000	3.87	0.54	3.28	0.63	3.66	0.59	3.48	0.67	3.20	0.67	4.05	0.57	3.97	0.65	2.38	0.61
US$30,001-45,000	4.11	0.58	3.19	0.59	3.78	0.56	3.29	0.63	3.30	0.59	4.01	0.53	4.12	0.62	2.31	0.63
Over US$45,000	4.27	0.62	3.06	0.55	3.74	0.58	3.34	0.65	3.43	0.68	3.99	0.66	4.28	0.58	2.55	0.93
P-value	0.010		0.524		0.674		0.413		0.005		0.960		0.060		0.130	

Note: [a] Based on five-point scale

services, in comparison to those offered by FOS. Thirdly, TDS have much higher prices when compared with FOS. This is due to their different marketing orientation and segmentation. Customers tend to be attracted by the prices and value of products sold in FOS. Schneiderman (1998) found that customers believed FOS could provide greater value for their money than did TDS.

Results on the examination of customer perceptions of TDS and FOS across demographics indicate that only income levels have significant effects on customers' mean ratings of TDS, but no significant differences exist across gender, age and education. This means that customer perceptions of physical features and price and promotion features of TDS are highly influenced by different income levels. Customers with higher incomes tend to be attracted to the physical features and the price and promotion features of TDS. They are interested in shopping in a comfortable environment and seeking famous and fashionable branded products, rather than being price sensitive, bargain seeking customers.

Implications

There are important implications for both types of stores, which are discussed below. A highly structured questionnaire was used, rather than an in-depth qualitative research method to investigate four specific factors which customers use to make shopping choices across these stores. This provided an opportunity to tightly compare each specific factor of the choices made by customers and helped in drawing conclusions regarding the customers' store preferences across these four factors.

For traditional department stores

TDS should maintain their competitive positions by continuing to offer good physical facilities and environments, satisfactory in-store customer services and famous branded products, in order to maintain and attract more customers. This will also help to maintain their market share and gain competitive advantage within the intensely competitive market environment created by FOS.

In general, customers perceive that the prices offered in TDS are much higher than those of FOS. This indicates that customers think that the value received from purchasing in TDS is less than when purchasing from FOS. Therefore, TDS are facing a big challenge from FOS in terms of price and promotion strategies. Thus, they need to assess their value positions and adapt more reasonable prices to provide satisfactory value for customer purchases. Clearly identifying and dividing their current and potential customers into different target segments is necessary for stores in setting differing price strategies.

During different sales seasons, more attractive promotion of branded products could be undertaken in TDS. Certainly, customers tend to purchase more in TDS when there are large sales and attractive promotions of branded products.

In order to target appropriate segments, TDS need to identify what relevant level of branded products should be sold, with reasonable prices in stores across different ages, genders, and levels of education and income. Also, the TDS need to; provide more selection characteristics in terms of their branded products, adapt to the newest styles frequently, and maintain good stock levels, in order to keep their competitive advantages through being perceived as offering more positive brand images of the products sold in their stores.

Furthermore, to increase market share, they need to compete with FOS, and maintain and improve their competitive positions in the market. A strategic alliance of different TDS and their distributors could also be developed. In such an alliance, competitive advantages could be shared by TDS, such as better offerings of quality in-store services and providing similar branded products with reasonable prices and promotions, all of which should reduce costs for the alliance.

For factory outlet stores

FOS needs to learn from the comparative disadvantages of TDS and engage in enhancing their current competitive positions on price and promotion offerings, in order to increase customer perceptions.

Maintaining their comparatively lower prices and providing frequent promotions of branded products is one of the most useful price and promotion strategies for FOS in maintaining and enhancing their competitive positions on price and promotion features. Meanwhile, manufacturers, which utilise FOS, need to control the values of the products through assessments. Thus, customers who are not only price sensitive, but are also value seeking, will be satisfied with the price and promotion features of the products sold in the FOS.

It is extremely important for FOS to immediately improve their products' brand images. Widening the selection of characteristics, improving stock levels and offering positively branded products in the stores are ways to improve customers' perceptions of products sold in FOS. Nowadays, FOS are no longer established for the sale of second-hand, or comparatively lower quality, products with lower prices. Therefore, they need to build more positive brand images for the products sold in the stores, instead of being perceived as discount stores.

In addition, when FOS seeks new distributors, they should be careful so as not to be perceived as traditional discounters. They need to invest more in the stores' physical facilities to offer a better shopping environment and atmosphere. Nevertheless, prices might increase significantly through such upgrading of the stores images, meaning that such a strategy might be risky (Parker *et al.*, 2003). Therefore, FOS need to evaluate their choices carefully, in order to balance any price increases and distribution channel developments.

Scope for further research

Firstly, this research has only examined FOS and TDS, but was not able to include manufacturer-owned stores, as New Zealand does not have these stores. It is felt (by both the authors and one of the reviewers) that it is a good area of research to investigate further by including manufacturer-owned stores in the study. This will further add to the knowledge and understanding of customer behaviour across these three types of stores. Secondly, the sample for the research population was drawn only from Auckland, and not from around the whole of New Zealand. Thus, future study should be conducted through examining data drawn from the whole New Zealand population. Thirdly, the location factor is not investigated in this research. Customer perceptions of location differences of TDS and FOS are not examined in this study, which tends to significantly influence the shopping decision regarding stores. Therefore, future study is encouraged to more fully investigate customer perceptions of location and their shopping preferences.

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