

retailer'sguide

FOR INDEPENDENT RETAILERS AND STORE MANAGERS

A PUBLICATION OF



IN PARTNERSHIP WITH



RBC Royal Bank®

Developing a set of measurements that will help you evaluate your store and drive success



Measuring FOR SUCCESS

How *traffic counts and conversion rates*
drive sales and operational efficiency

BY ROBERT PRICE

Leveraging metrics to improve efficiencies

Retailers that understand and leverage key data within their business are not only aware of their store's past performance and current standing, but position themselves to be able to forecast and make the right choices and adjustments for their business to improve efficiencies and their bottom line. This *Retailer's Guide* will help you make sense of some of this data and the ways that it can be used to enhance your store's performance.

Metrics 101

Retailers need a view into the performance of their stores. Metrics provide this view.

Metrics are, simply, a set of measurements that evaluate store outcomes against some kind of benchmark, such as past performance, store objectives, and industry averages. Metrics are also called "key performance indicators."

For most retailers, key store metrics include traffic counts, conversion rates, and the performance of sales staff. By measuring the success of these parts of the operation, retailers can understand what works and what doesn't work, set realistic targets, and gauge the store's performance against past performance, the store's goals, and the rest of the industry.

Essentially, metrics turn data generated by the store into intelligence.

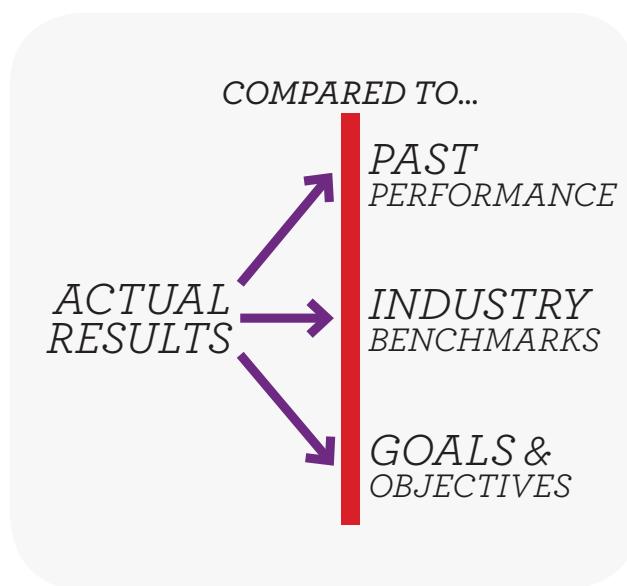
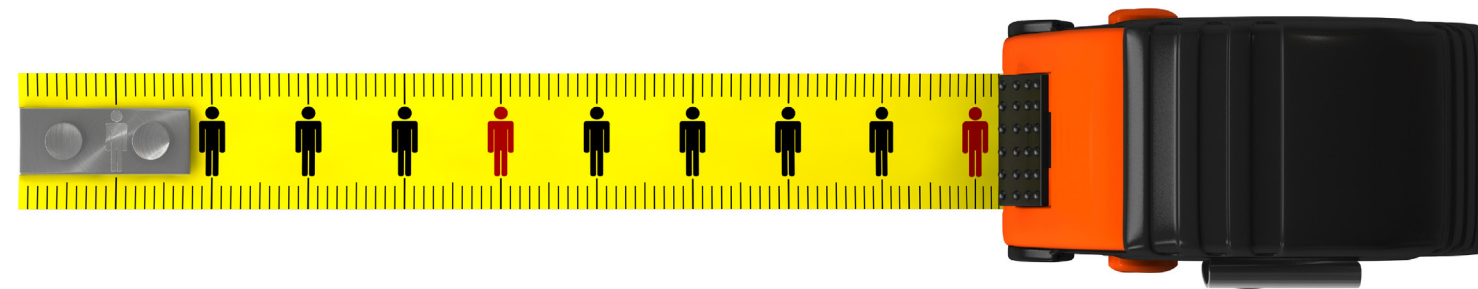
Turning raw data into intelligence

Most retailers already have the key ingredient to developing metrics: data.

"Retailers today are consuming truckloads of data," says Elie Elikaim, Retail Industry Specialist for Information Builders (Canada). The data pours in from the POS system, inventory counts, year-end reviews, customer satisfaction surveys, industry benchmarks—and dozens of other sources.

The problem most retailers face is sorting the relevant data from the rest. Technology and the right business processes offer a way to draw intelligence from the data more easily.

Take sales data as an example. Sales figures are the base level of data in the store. In its rawest form, sales



data explain how much of what sold when. The lowest-level metric raw sales figures provide is comp sales—a comparison of sales of different time periods. In themselves, these insights aren't all that useful.

To get meaningful insights—detail from the data that goes beyond the most basic analysis—requires time and investment. Time, because digging deeper into the data means having a process for sorting through the irrelevancies to get to the gold. Investment, because getting the right information means investing in technologies—like point of sales systems and traffic counters—that make data meaningful.

With the right technology and processes in place retailers can pull more precise and more useful details from the raw data. Retailers who can generate intelligence

about customer preferences and buying patterns are better able to connect with individual customers, refine the product mix, and hone customer service and business practices to be more efficient, cost-effective, and responsive.

The more refined the data, the more precise the retailer can measure the store's current performance against past performance, market performance, and retail industry benchmarks.

"How can I get more customers to buy from my store?"

The important question that metrics help retailers answer is: "How can I get more customers to buy from my store?"

The simple answer to the question is to get more people into the store—to increase traffic. To leverage traffic as a metric—and to make sense of a store's conversion rate—retailers need to first collect accurate traffic counts.

Once retailers have accurate traffic data, they can develop initiatives to boost traffic. And, because they have the processes and technology in place to count traffic, they can measure the success of their initiatives.

Measuring success

Leveraging store traffic to increase customer sales

Once an increase in traffic is achieved retailers will want to convert more of the people who enter the store into customers. This is sales conversion, a metric that every retailer should understand and use.

To determine the store's conversion rate, divide the total sales by the number of people who enter the store.

$$\text{CONVERSION} = \frac{\text{TRANSACTIONS}}{\text{TRAFFIC}}$$

The conversation rate is such an important metric—when a retailer tracks the conversion rate by day, by staff, by month, by year, they can diagnose what they do right and why and when things go wrong.

Consider this scenario. Sandeep makes a habit of calculating his store's conversion rate for each shift. After three months he discovers a pattern: the conversion rate drops by 20 per cent of the average on Friday nights. Friday nights, Sandeep knows, are the nights when his two junior employees work.

Knowing this, Sandeep can develop a plan to train the junior employees in customer service and product knowledge. Or perhaps Sandeep will increase the staff levels on Friday nights. Or maybe he features promotions on Friday nights. Whatever Sandeep chooses to do, the conversion rate—a key metric—gives him a way to measure the success of his initiatives.

Measuring success requires at least three steps.

First, set objectives. In the case of increasing traffic into a store, a retailer may set a goal of a ten per cent increase in traffic during the holiday season compared to the previous year. A ten per cent increase is a real objective, a specific goal that a retailer can quantitatively measure. Set objectives that are shaped by the goals you want to achieve.

Next, formulate a plan to accomplish that objective. Here, too, metrics are useful in determining the plan. To drive traffic a retailer will want to know what kind of advertising channels have proved most effective at catching the attention of shoppers. They'll want to know what kind of budget they have to spend, what kind of advertising competitors will spend, and how long to advertise.

Finally—and here is where the metric becomes useful—the retailer can measure the actual traffic numbers during the promotional period against the objectives. Did traffic increase by ten per cent? Then the retailer can ask deeper questions about what worked. Did the promotion work? What messaging and advertising drove traffic into the store? Did we convert that additional ten per cent into paying customers?

No metrics, no magic

"The risk of not using metrics directly hurts the wallet," says Elikaim. "The risks are enormous." Yet, many retailers operate on a survival mode—their key metric is "good enough."

Operating without metrics limits growth, says Brian Joynt, Vice-President and General Manager of Information Builders (Canada). Scaling up the business is near impossible without being able to look at in-store comparisons to understand where opportunities for growth lie. And growing the business is difficult without being able to measure the store's performance relative to the industry. Is there even room to grow? And if there is room for growth, how much growth?

What is a good benchmark for measuring a store's performance?

A benchmark is the value that retailers measure their performance against. Without a benchmark, metrics will be a sliding scale. The two benchmarks retailers should consider include:

1. Past performance: Yearly, quarterly, daily, and hourly—the more precise the unit of analysis, the more precise the measurement.
2. Industry averages: Retail sector benchmarks, available through suppliers and industry organizations, give retailers another way of determining how well they're doing.

To help retailers prepare to measure their stores performance, Mark Ryski, President and CEO of HeadCount, answers some of the more relevant questions that you need to consider to better understand metrics and how they are used to improve the efficiencies of the retail store.

Q: Are metrics an undervalued part of the retail business?

Ryski: Retailers are overwhelmed with data and metrics. It's not a question of having metrics, they have too many, and it's difficult to know which ones they should focus on. It's a huge problem today. The other part of it, that is pervasive in retailing, is this notion that retailing is about expense minimization. Retailers are less confident about how they grow the top line, but they become very adept at pruning expenses. I've talked to many retailers who will say things like, "You know what, my comp sales are going up and I got my labour costs down 11 per cent this year. I'm really excited." And I respond, "But what impact did that have on conversion? Did you ultimately sub-optimize?"

Q: Conversion rates are a key metric. Why don't more retailers use conversion rates?

Ryski: Most retailers don't measure conversion because they don't measure traffic. Mostly retailers are focused on transactional data and transactional metrics: comp sales, average ticket, comp per square foot, and so on. While these are useful measures, fundamentally these are outcomes. What retailers know less about is what drove those financial results. So, for example, comp sales might be up, but traffic in the store is actually down. This means they sold to more

people who came in, but fewer people came into the store. Comp sales might be up but it's somewhat disconcerting to know that fewer people came to the store. What does that mean going forward? It's almost like, if comps are going up, people don't care how they're getting there. Part of what I contend is that it is important to know how you get there because it tells you how you keep going.

Q: What issues do you see with respect to the way retailers think about metrics?

Ryski: Retailers tend not to have good metrics on the underlying drivers to the sales result. They're overwhelmed with transactional data and data related to transactional outcomes. So managers either get too much information or not enough information. And because of this don't know what to do with the information.

Q: What are these underlying drivers to the sales result that retailers should focus on?

Ryski: Traffic and customer conversion rate. From there it's average sale and average ticket. Customer service and customer experience scores are another whole set of data and measure that retailers are employing. Unfortunately, these two are a lot more difficult to measure related to sales.

Q: How difficult is it to implement a system of measurements that measures underlying sales drivers?

Ryski: The challenge for retailers is with respect to the implementation of the technologies that will help you arrive at these measurements. Once these technologies are in place, it's a matter of allotting the required time to analyze the data. That's the tricky part for most independent retailers as their focus is often split among every aspect of their operation.

Q: What are the risks of not leveraging key metrics?

Ryski: It's about running off a cliff and not knowing it. It's about making bad decisions, or letting short-term transactional results guide your decisions, which ultimately will happen. You're flying blind. You know the outcomes of your decision-making, but you don't know what got you there. Therefore, every decision you're making is really just a guess.



1255 Bay Street, Suite 800
Toronto, Ontario M5R 2A9
(888) 373-8245
info@retailcouncil.org
www.retailcouncil.org



RBC Royal Bank®

Specialized financial advice to help your retail business succeed

To help you take your business to the next level, RBC has a dedicated team of account managers who specialize in financial services for retailers. With up-to-date knowledge of the changing trends and business opportunities in the retail sector, your RBC account manager can help you reach more of today's sophisticated consumers. Whatever retail business you're in, there's an RBC retail specialist ready to help you. rbccouncil.com/retail