

CONVERSION RATE OPTIMIZATION

Brick-and-Mortar Retailers' Secret Weapon



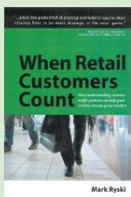
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Whitepaper from the leading authority on
retail traffic and conversion analytics:

HeadCount[®]

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About the Author

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EXECUTIVE SUMMARY

- **Every retailer must be able to answer two questions: (1) how many people visited the store? And, (2) what percentage of the visitors made a purchase?** Sales data captured by your POS system is vital data, but it only tells us about the sales outcomes and nothing about how the outcomes were generated. Retailers that run their stores using sales transaction counts to guide them have two serious operational blind spots – store traffic and shopper conversion insights eliminate them.
- **Brick-and mortar-stores have a significant shopper conversion advantage over online retailers.** This is a key strength of brick-and-mortar retailing - play to your strength. Remember: every shopper who crosses the threshold of your store has a high probability of being converted into a customer.
- **If you want to get people to buy more, you need to understand why they don't buy in the first place.** Conduct simple exit surveys of non-buyers to understand purchase intent and to identify drivers of non-purchase. So much of conversion rate optimization is about executing the basics – having actual shopper insights to inform actions is critical.
- **One of the biggest benefits of having store traffic data is to schedule store labor effectively.** Tracking store visits by the hour enables retailers to perfectly align their staff resources to when people are visiting their store. Sales transaction counts are not a 'good enough' proxy for store traffic. To avoid under/over staffing, schedules should be driven by store traffic activity, not POS transaction counts.
- **Shopper conversion measures store experience.** Measuring “store experience” is another important area that store traffic can help with. If shopper conversion rates are low or sagging on certain days or day-parts, it means people are visiting but not buying – a telltale sign the store has an experience issue. Conversion rate sags show you where to look.
- **Store traffic and shopper conversion provide powerful insights into true store performance that sales results alone cannot.** Store performance is largely determined by sales results, but a sales-only view can mask the true performance of a store. By breaking sales results into the underlying sales drivers of store traffic, shopper conversion and average sale, the retailer will gain deeper insights into how stores are performing and better understand what they need to do to improve sales.
- **Every retailer can improve conversion rates and deliver better financial results by focusing on the shoppers already in their stores.** Conversion Rate Optimization is proven but largely untapped by the vast majority of brick-and-mortar retailers. In a retail world of systemic store visitation declines, CRO has never been more important – start now.

What is *Conversion Rate Optimization* in Physical Retail?

The Changing State of Retail Store Traffic

While declining store traffic continues to dominate the headlines and remains the most frequent reason cited for lackluster store performance, the fact is, it's only part of the story.

There's no question that store traffic volume and patterns are changing. And while many believe the root cause is a cataclysmic shift of shoppers to online, the fact is there are many potential factors contributing to the changing state of store traffic including demographics, economic conditions, political uncertainty, the weather and the inevitable result of an overbuilt retail industry – too many stores chasing a finite number of shoppers.¹

While there is no consensus as to why it's occurring, what virtually all pundits and experts agree on is that brick-and-mortar retail isn't going away – it's never been more important and the spate of once online-only retailers opening brick-and-mortar stores including Amazon is proof positive.

But regardless of why it's happening, if it is true that store traffic is undergoing a permanent and intractable decline, then what are brick-and-mortar retailers to do? How can they continue to deliver positive same-store sales when they get fewer sales opportunities in their stores?

Conversion Rate Optimization – the science of getting more visitors to buy

In the aftermath of the dot-com bubble in the early 2000s, online marketers realized that they couldn't merely focus on generating website traffic, rather they needed to focus on conversion – that is, get more visitors to buy. The same is true in brick-and-mortar retailing. As Jeff Gennette, CEO of Macy's stated in a Bloomberg interview, "the key will be for us to convert – we'll get the traffic."²

Today many brick-and-mortar retailers track store traffic and measure conversion, but the question is, what do they actually do to optimize their in-store conversion rates? The answer for many is, not much.

In the online world, Conversion Rate Optimization (CRO) has become an industry unto itself, spawning a global community of consultants and service providers, formal methodologies and over a hundred books dedicated to the topic on Amazon alone. There is only one book on brick-and-mortar conversion listed on Amazon.³

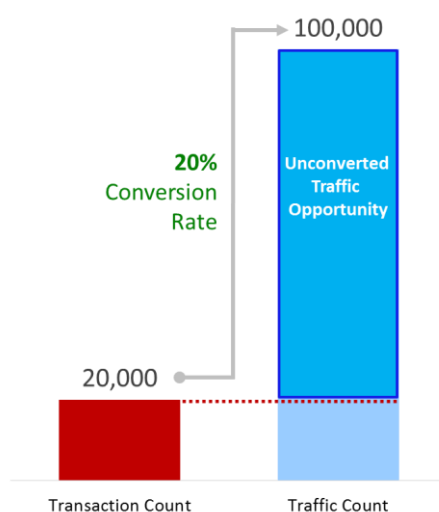
Like online retailers, brick-and-mortar retailers need to focus more of their efforts on converting the store traffic that they do receive especially since there is less of it. In today's retail environment, no retailer can afford to squander their store traffic – it should be treated as a precious, non-renewable resource. Retailers should not count on 'be-backs' and it does no good to think of your stores as responsible for traffic. They aren't and can't be. Hold your marketing team responsible for traffic, but hold your store team responsible for conversion. While conversion rate optimization is no panacea, when effectively applied, it can be the difference between delivering positive same-store sales or not.

Traffic Counts versus Transaction Counts

We can't talk about conversion rates unless we also talk about traffic. Unfortunately, there are still too many retailers that believe sales transaction counts are a reliable proxy for store traffic.

To say that transaction count represents a reliable proxy for store traffic is analogous to saying that 'hits' are a reliable proxy for 'at-bats' in baseball. Yes, the two stats are related, but they are not proxies — not even close. Store traffic is a measure of all the people who visit the store, including buyers and non-buyers where transactions obviously only account for the number of buyers.

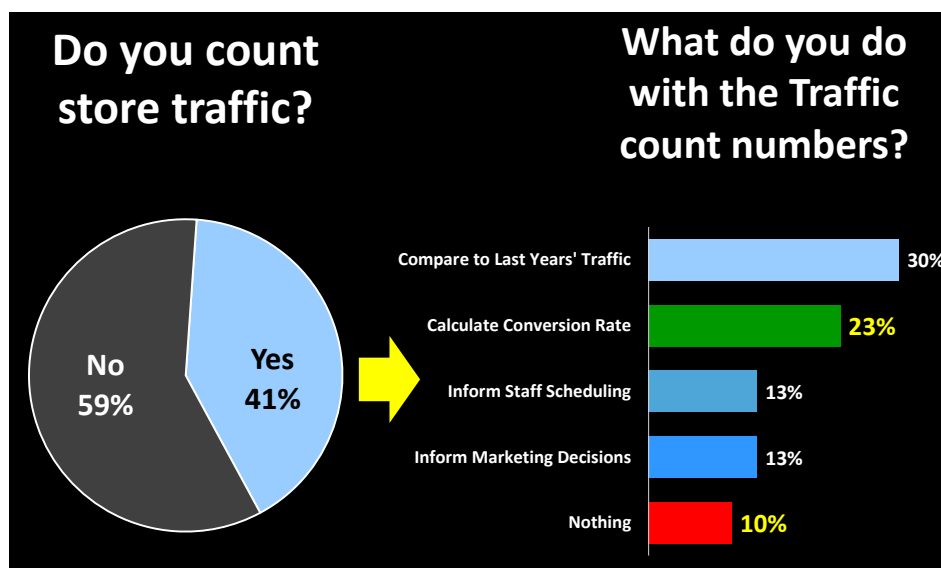
Conversion rate is calculated by taking the ratio of transaction counts to traffic counts, so without traffic counts it's impossible to calculate conversion rates — if you can't calculate conversion rates you most certainly can't optimize them.



Store Traffic – The Precious, Non-renewable Resource

Accurately measuring store traffic is vital because it defines the sales opportunity size. Declining store traffic ostensibly means that retailers have fewer sales opportunities in their physical stores, which makes the ones they do get even more precious.

While many retailers today do track store traffic, a surprising number still do not. Here's one survey recently published by National Jeweler Magazine.⁴ In a poll of approximately 140 independent jewelry stores in North America 59% said they didn't count traffic in their stores. Even more surprising was what the retailers who were tracking traffic actually did with the counts — less than a quarter of them were actually using the traffic data to calculate conversion rates and 10% said they were not doing anything with it at all.



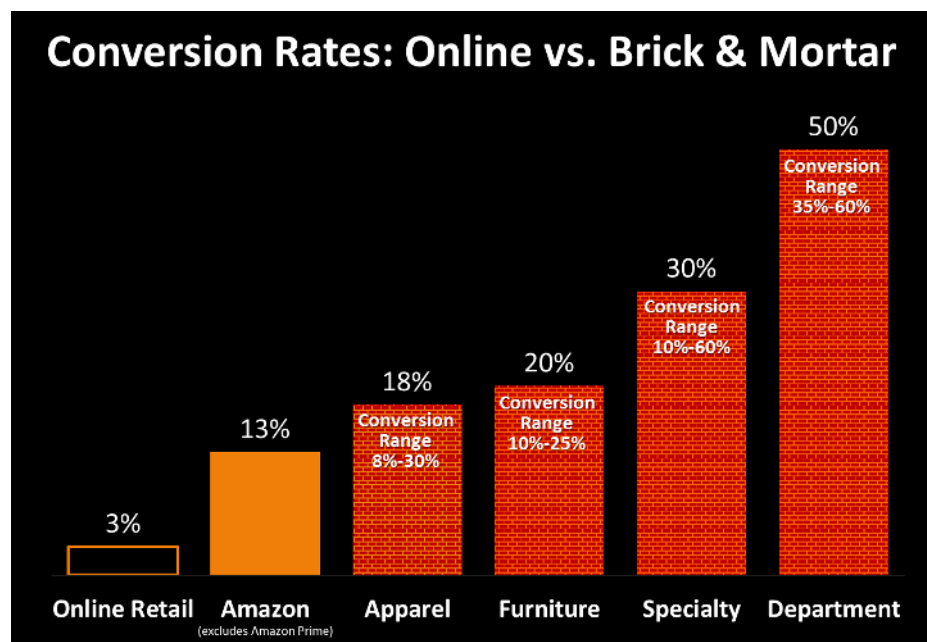
Brick-and-Mortar Retailers' Conversion Advantage

Physical Stores Convert Higher than Online – even Amazon

Despite continued consumer interest in online shopping and Amazon's dominating headlines, a closer study of conversion rates makes it absolutely clear that brick-and-mortar stores have a significant conversion advantage over online retailers.

The chart below provides a comparison of conversion rates of online retailers versus brick-and-mortar stores for a sample of categories.⁵ Conversion rates vary considerably across retail categories, but they also vary within the same chain as a result of variations in store format (mall vs. off-mall), geographical location, product mix, inventory levels, and most importantly, store personnel who serve the shoppers. The reality is, each and every brick-and-mortar store is unique and in order to optimize conversion rates these unique characteristics need to be considered.

It may be surprising that even a typical brick-and-mortar apparel retailer can out-convert Amazon, which has a truly impressive 13% average conversion rate – 4.3 times higher than a typical online retailer. It must be noted that Amazon's conversion rate excludes its *Prime* loyalty program customers who have a significantly higher conversion rate.



In general, and across virtually every category, brick-and-mortar stores can easily out-convert online. The fact is, the mere act of a person physically crossing the threshold of a brick-and-mortar store is itself a strong expression of buying intent. Brick-and-mortar retailers who understand this, adjust their store operations accordingly and create a store experience to optimize for conversion will not only improve conversion rates, but will out-perform the retailers who do not.

Conversion Rate Optimization – Brick-and-mortar Blind Spot

Given the difficult business conditions so many brick-and-mortar retailers are facing, it's baffling that CRO hasn't become more of a focus if not an obsession.

There are a number of factors that may be preventing CRO from taking hold with brick-and-mortar retailers, but just like online marketers discovered after the dot-com bust, focusing on conversion can not only help them survive, but even thrive despite traffic declines

Most major retailers today track traffic and conversion rates in all their stores, so the basic data needed to conduct CRO already exists. But just because a retailer has the data, doesn't mean they're doing much with it or as much as they could be and that's where CRO comes in.

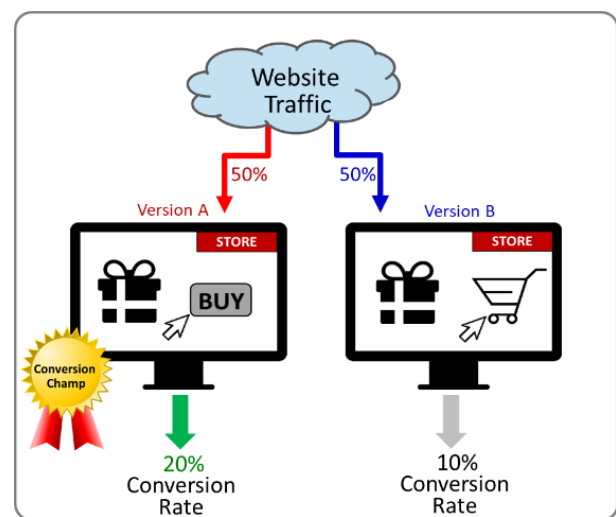
CRO is defined as a system for increasing the percentage of visitors that convert into customers.⁶ In the online world, conversion is a result of offers, site design and navigation; in physical stores, conversion is a result of specific actions that happen in the store which are primarily influenced by store staff.

But how do retailers know what influences conversion rates most? By testing, just like online retailers.

A/B Conversion Testing in Physical Stores

If you are an online retailer looking to optimize your conversion rates, it's relatively simple. You have two versions of your online store: Version A and Version B. You direct an equal amount of website traffic to each one of these sites that have variations in layout, color, navigation and other design elements.

You calculate conversion rates on each site and you declare a winner. And then you continue to repeat this process over and over. While this is a gross simplification of the process, at a very fundamental level this is essentially how online conversion rate optimization works.



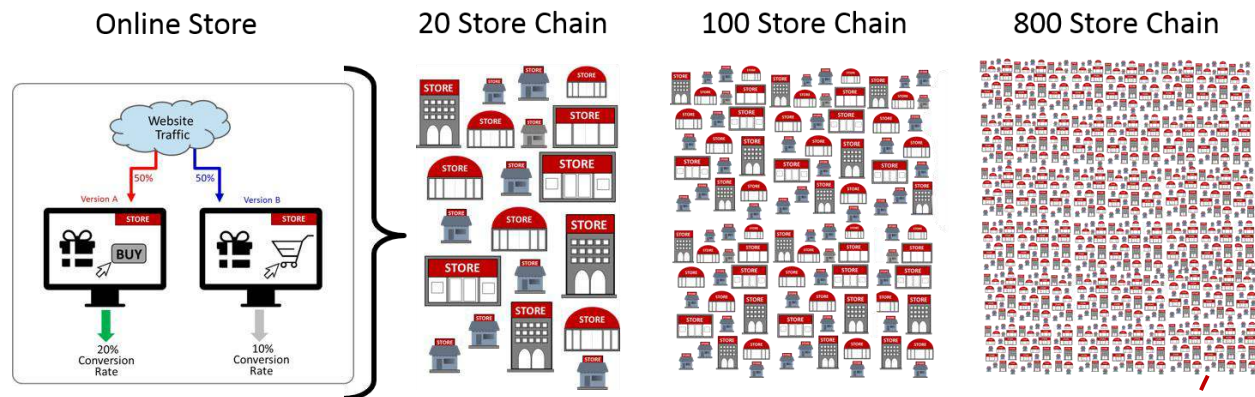
It's significantly more challenging in physical stores.

Conducting A/B Conversion Testing in Brick-and-mortar Stores

Having two versions of a website is relatively straightforward to modify and test, but how does that work with a 20-store chain?

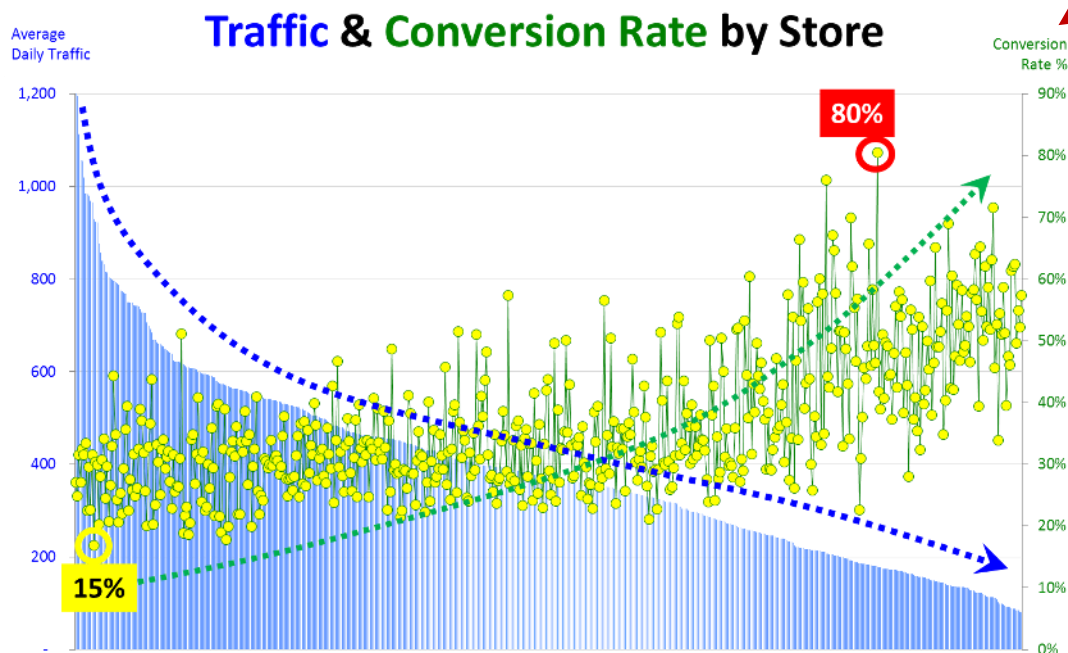
Every one of those 20 stores is unique. They are in different geographic locations, they draw consumers from different demographics, and they may have different product mixes. Importantly they have different store managers and associates that operate those stores.

Imagine the complexity of going from two websites to 20 stores. Now imagine 100 stores or an 800-store chain. How do you optimize conversion rates across 800 stores? What does that even look like?



The chart below shows the average daily traffic and conversion rate for 800 different stores from the same chain. In this chain, conversion rates ranged from a low of 15% in some of the mall stores all the way up to 80% in factory outlet stores. The widely held misconception that stores with similar formats in the same chain should have similar conversion rates is simply not supported by the actual data. Look as closely as you like, you will not find two stores that are identical.

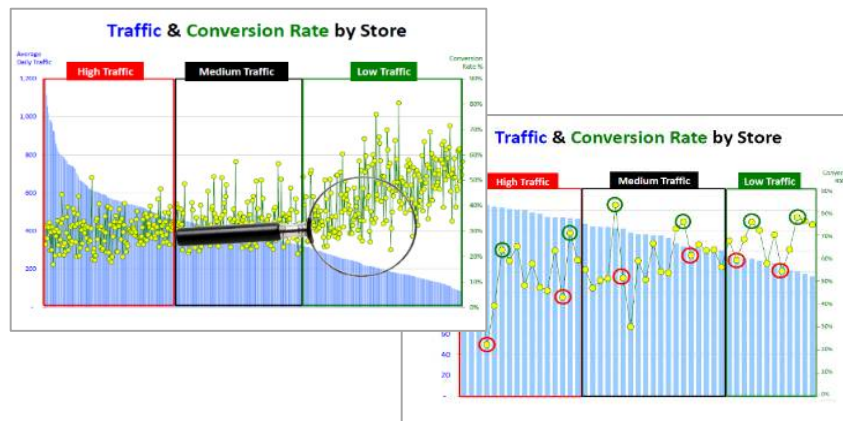
While traffic and conversion patterns have certain tendencies, ultimately each store needs to be evaluated individually and that's, in part, what makes CRO so challenging for physical retailers. Nonetheless CRO techniques can be applied, but first the data needs to be organized.



Clustering by Traffic Volume and Identifying Reference Stores

The first step is to cluster stores by format or type (i.e., malls vs. malls, street vs. street, outlet vs. outlet, etc.) Other characteristics such as geography and market demographics can also be applied. Next, cluster stores into traffic cohorts based on high/medium/low average daily traffic volume.

Once this is completed, examine the conversion rates of stores in the same traffic cohorts to identify high conversion and low conversion performance. This is important because it starts to help us understand reference stores – what's going right in the stores with high conversion and what might be impeding conversion results in low performers.

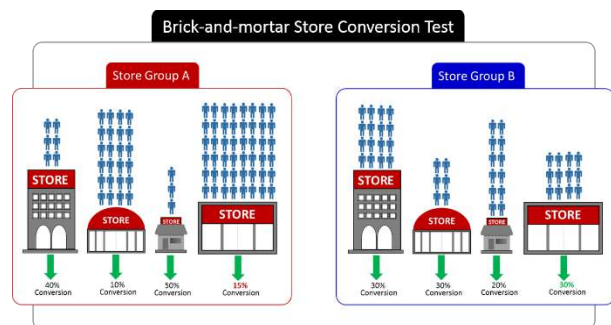


By comparing conversion performance in this way, we can begin to isolate the variables that may be driving the performance differences and start to formulate hypotheses about how to change outcomes. Armed with this, you're ready to create Test and Control groups and begin to do A/B testing.

Conversion Rate Influencers and BOPIS

Unlike the online world where variables are self-contained and controllable, in the physical world of brick-and-mortar retailing, that's never the case.

You can't control the weather, economic environment, store staff or shoppers. Furthermore, you must also be mindful of traffic data quality, sample error, seasonality, external market conditions and other factors like store renovations, merchandising re-sets, and importantly store personnel availability and turnover. All these factors can influence conversion results and therefore CRO test results.



But that's not all. New services that blend online with physical stores like *Buy Online, Pick-up In-store (BOPIS)* can also impact conversion results. The following simple example illustrates how.

Buy Online, Pick-up In-store (BOPIS) – Impact on Conversion

Increasingly customers expect a seamless experience regardless of how they engage with a retailer and these expectations are blurring the lines between online and physical stores. Programs like BOPIS are becoming table stakes in the battle for customers – they are also impacting store traffic patterns and conversion rates. Here's a simple example to illustrate.

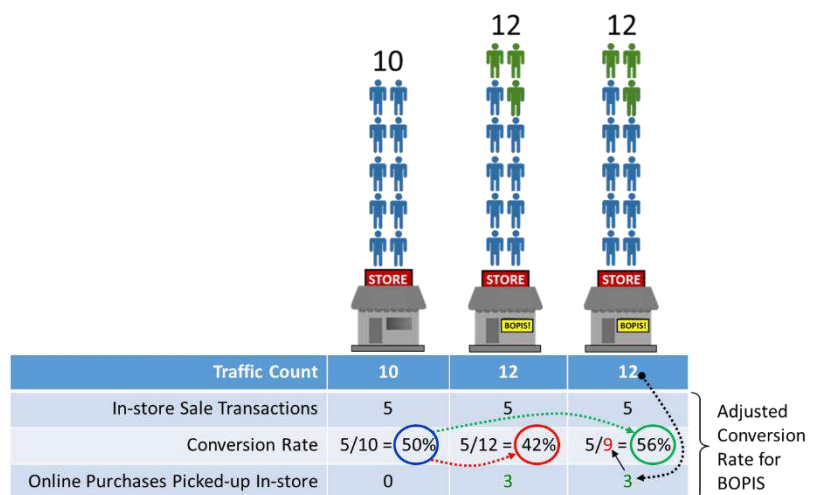
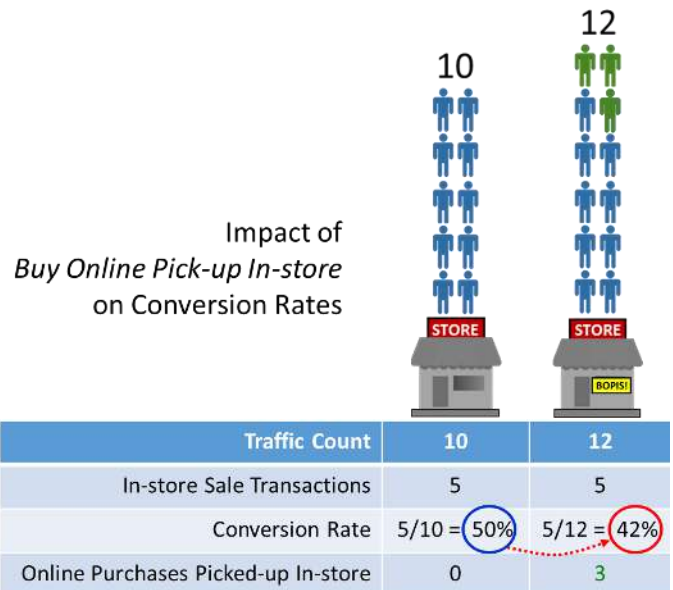
Before there was a BOPIS program, the store depicted in this chart had 10 traffic counts and five in-store transactions for a 50% conversion rate.

After the retailer launched a BOPIS program, their store traffic went up from 10 counts to 12. The in-store sales transactions (sales that were conducted in the store not including the BOPIS activity) were five.

Since three of the 12 traffic counts generated were 'pre-converted', that is, already purchased online and came to the store to pick-up their purchase, they didn't generate a sales transaction. If we don't track that BOPIS transaction and factor it into our conversion rates, then the only thing that we will conclude is that our conversion rates have dropped from 50% to 42% in this example.

If you are incenting the store team on conversion rate performance in any way, realize that the BOPIS dynamic may negatively impact results. In this example, a better approach might be to remove the BOPIS visitors from the traffic count used to calculate conversion rates to get a more accurate measure of store performance as shown below.

While there are various ways to adjust for the impact of programs like BOPIS on conversion rates, the important point is that retailers need to be mindful about how these initiatives will impact conversion rates and therefore their efforts to optimize them. There is no one right answer – pick an approach and apply it consistently.

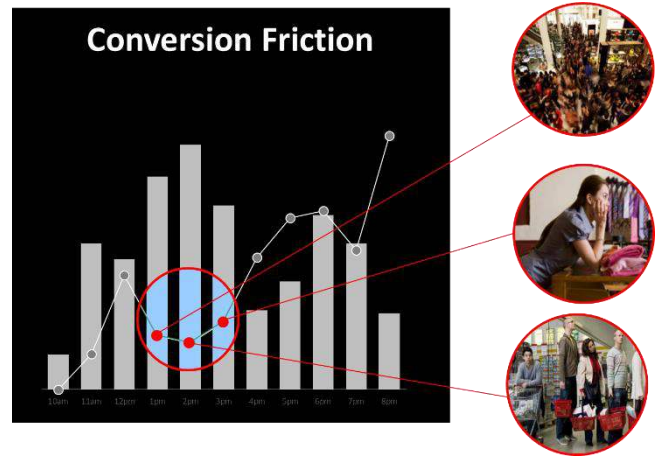


Identifying and Minimizing Conversion Friction

If you are going to optimize conversion rates, you need to start by understanding why people don't buy in the first place.

Conversion Friction is not a new concept. There are a myriad of reasons for why shoppers visit a store but leave without purchasing. Long till line-ups, stock-outs and poor service from disengaged associates are only a few of the obvious reasons.

The key point is that people visit and leave without buying for a reason, and it behooves every retailer to understand why. If you want to optimize conversion rates, you need to know why shoppers don't convert.



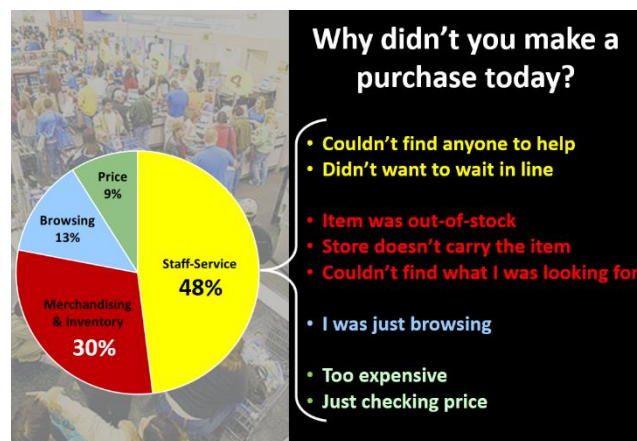
Why Shoppers Don't Buy?

In an effort to help a general merchandise retailer discover the answer to this question, HeadCount conducted a series of exit surveys.⁷ Everyone leaving the store without a purchase was simply asked if they had intended to make a purchase – surprisingly, 77% of respondents said they had intended to purchase. What this simple survey revealed was the tremendous conversion opportunity this retailer was missing.

When asked why these unconverted shoppers didn't purchase, the results were also surprising. The two most-cited reasons: (1) couldn't find anyone to help and (2) didn't want to wait in check-out line. What is surprising about this was the impact staff have on conversion rates even in a general merchandise store that's largely considered self-serve or low service. Imagine the impact staff have on conversion in high-assist or high-touch sales environments.

After staff related issues, the second most common reason shoppers didn't buy was related to merchandising and product availability.

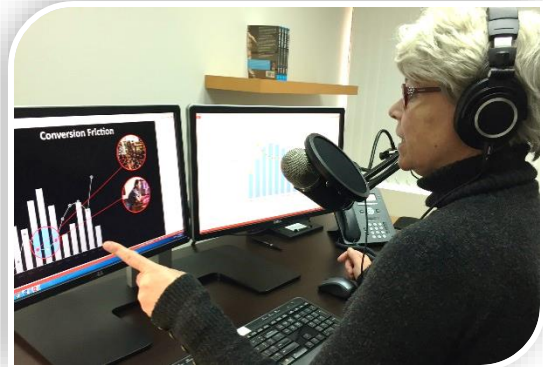
Based on this and many other analyses of conversion impediments in brick-and-mortar stores, it's clear that conversion rate optimization should begin with an assessment of front-line staffing. The single largest driver to conversion in physical stores are the managers and associates who interact and serve store visitors every day.



Turning Store Managers into Conversion Champions

Once retailers understand their conversion drivers, they need to engage their store teams. District managers, store managers and even associates need to understand the role they play in driving conversion in their stores. Conversion is won or lost in the store every hour of every day.

Best-in-class retailers make conversion rate a meaningful KPI and incentivize the behavior to encourage it. However, getting field managers engaged and encouraging them to apply insights from traffic and conversion analytics can be a challenge.



Based on literally tens of thousands of coaching calls conducted by HeadCount conversion coaches with retail field managers, a number of recurring themes have emerged about why field managers struggle with driving conversion rates and, importantly, what's needed to overcome the barriers.

Some issues were relatively straight-forward, like not having enough staff to support the traffic volume in their store or lacking confidence in their data due to antiquated or malfunctioning traffic counters. Other issues were more nuanced like how to set conversion targets or connecting actual behaviors to results. What was clear was that conversion rates can be improved and optimized and stores that received simplified reporting and conversion coaching consistently delivered better conversion rates.

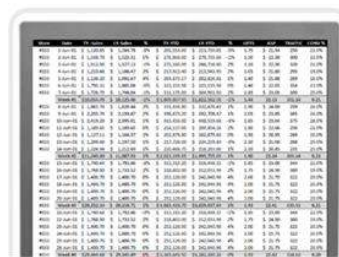
Here are the five top conversion coaching tips.

TIP #1: Make the Insights Easy to Spot

Can you see any insights in this?

Even HeadCount's team of trained analysts and experienced Conversion Coaches can't. Sadly, this is the way traffic and conversion insights are often presented to field managers – tabular, numeric data.

When data is presented simply and clearly so that managers can spot missed conversion opportunities, they have a significantly higher probability of acting on it.



TIP #2: Focus on Hourly Conversion Rates

Every hour of every day shoppers visit the store and leave without purchasing.

Store managers and associates need to win conversion every hour, not just the busiest hours of the day. Each hour needs a focus and a strategy informed by traffic. When stores win each hour, results roll right up the chain.



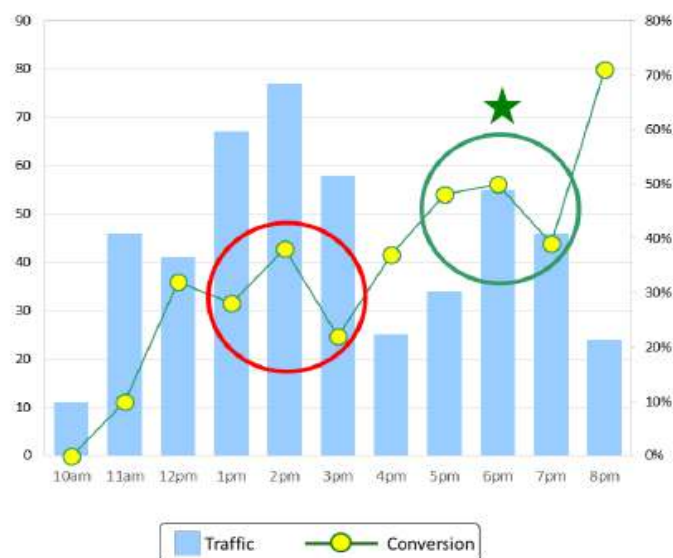
TIP #3: Set Conversion Goals and Recognize Wins

Conversion goals are typically set for the chain, region or district – if they are set at all. Surprisingly many retailers don't even set conversion goals.

Each store within a chain is unique and so conversion targets need to be set uniquely by store. It's not precise enough to set a conversion target for all mall stores or street stores – no two are alike.

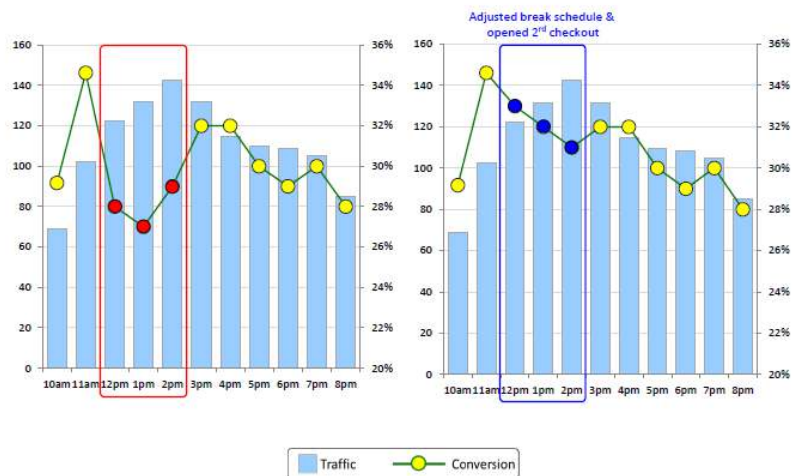
Store managers should be challenged to improve against their unique conversion goals for the store, and then they should challenge their store teams to improve conversion against daily and even hourly goals.

Setting conversion targets is critical, but so too is recognizing conversion wins. Managers should be encouraged to celebrate wins with their store teams which will help foster a positive environment and help make conversion a welcome KPI instead of one that store managers fear.



TIP #4: Connect Conversion Results to Behaviors

Store staff have the single largest ability to influence conversion rates in physical stores. Often conversion rate sags are directly attributable to actions and behaviors of the store staff, like scheduling breaks during peak traffic hours. But just as their actions can create conversion sags, they can also drive conversion lifts when they make smart decisions informed by traffic data – behaviors and actions drive conversion rate.



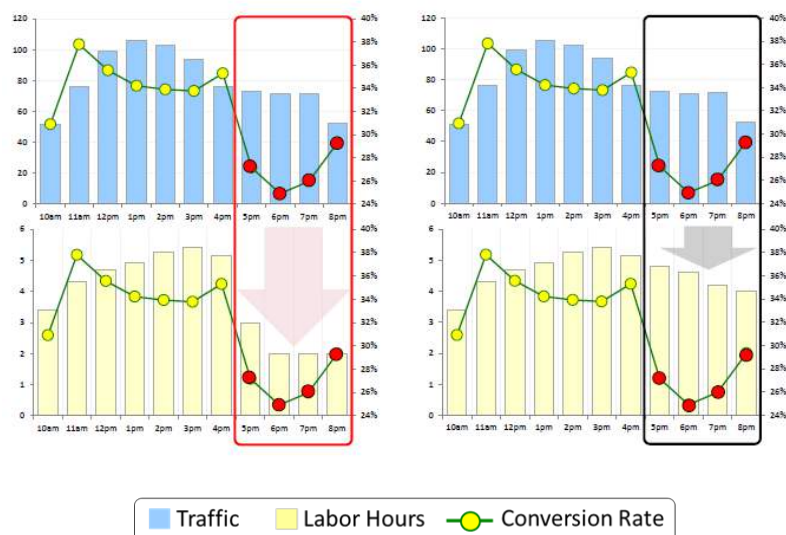
TIP #5: Staff for Conversion

Scheduling labor to store traffic is among the most important ways retailers can optimize conversion rates. Under-staffing during busy periods results in conversion sags; over-staffing during low traffic hours wastes precious labor budget.

As reluctant as some retailers are to add more labor hours, sometimes it's necessary – this is clear on the left side of the chart.

However, more labor doesn't always deliver higher conversion rates. On the right side of the chart, it's clear that there is ample labor in the store, yet conversion rates still sag.

Too much staff can create a sense of complacency and/or if staff are focused on tasking instead of serving customers, conversion rates will suffer. So before even one more labor hour is allocated, retailers need to ensure that they are making the most of the labor they already have.

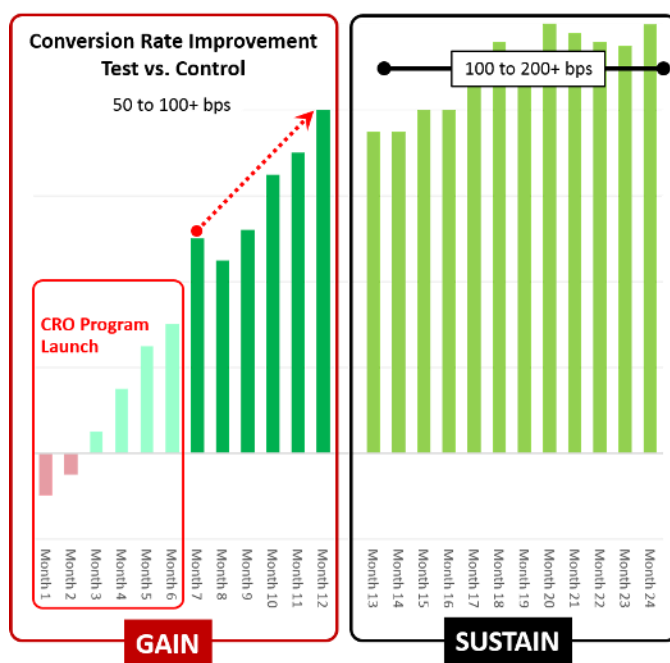


Conversion Lift Expectations

Once a retailer decides to undertake a conversion rate optimization program, the attention almost immediately turns to results – what kind of conversion lift can I expect?

Of course the answer will depend on a multitude of factors, however, based on real-world results achieved with HeadCount's Conversion Coaching program, conversion rate improvements of 50 to 100 basis points in the first year and an additional 50 to 100 basis point lift in the second year is a realistic expectation for most retailers.

While every retail executive desires higher conversion rates – and the financial impact it delivers – it's important to realize that results don't happen overnight. An effective CRO program takes time to deliver. It's helpful to think of conversion lift in two stages: gain and sustain.



Gain and Sustain

CRO is largely influenced by actions and behaviors of front-line staff – it takes time to identify the right behaviors and to establish good habits. Counter-intuitively, it's not uncommon for conversion rates to decline in the early months of a CRO program. Remember, CRO is about changing behaviors and this takes repetition, encouragement and time.

Once past the initial program launch, an effective CRO program should start to get traction and conversion rates should continue to build. During this GAIN stage, field managers are learning the basics and starting to see the impact they can have on conversion results – success is inspiring.

The SUSTAIN stage of the CRO program is about maintaining the conversion gains achieved. While additional conversion lift is often achieved during this stage, the reality is that conversion rates will plateau. As retail executives sometimes need to be reminded, maintaining high conversion rates is just as important as increasing them in the first place.

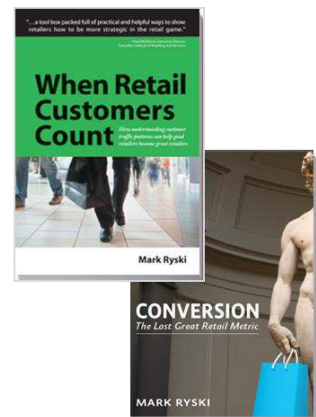
Retail is changing and so too must retailers. In a world where store visitation is declining, focusing on conversion rates has never been more important. For retailers who have traffic count data but have never implemented a formal CRO program, now's the time. For retailers who do not have traffic count data or rely on sales transaction counts as a proxy for traffic, you are flying blind in perilous times – implementing an effective traffic and conversion program should be your top priority.

Endnotes

- 1) (i) *Retail's Death Rattle*, Jim Quinn: seekingalpha.com/instablog/239719-james-quinn/2634041-the-retail-death-rattle; (ii) *Traffic Trouble*, www.retail-insider.com/retail-insider/2016/9/traffic-trouble -- Retail Insider
- 2) bloomberg.com/news/articles/2016-11-22/departments-stores-change-tactics-as-they-lose-ground-to-screens
- 3) Amazon.com *Conversion: The Last Great Retail Metric*, by Mark Ryski
- 4) Nationaljeweler.com/independents/retail-surveys/4461-business-pulse-do-jewelers-track-store-traffic (July 2016)
- 5) (i) smartinsights.com/ecommerce/ecommerce-analytics/ecommerce-conversion-rates; (ii) recurly.com/amazon-conversion-rates-make-their-results-your-own; (iii) HeadCount Corporation
- 6) Quicksprout.com/the-definitive-guide-to-conversion-optimization-chapter-1
- 7) HeadCount Corporation exit studies

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—Mark Ryski, Author, CEO & Founder of HeadCount Corporation



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