

CONVERSION RATE OPTIMIZATION FOR **PHYSICAL STORES**

In Search of...

SUPER CONVERTERS



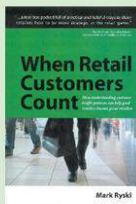
EVERY DAY SHOPPERS LEAVE WITHOUT BUYING

E-Book from leading authority on
retail traffic and conversion analytics

HeadCount[®]

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What is *Conversion Rate Optimization* for Physical Retail?

Many retailers continue to battle ongoing supply-chain issues, labor challenges as well as soft sales and even tighter margins, in part due to inflation not seen in decades. The need to focus on driving store sales has never been greater.

And while so much in the physical retail world has changed as a result of the COVID pandemic, the essence of what drives retail performance hasn't – marketing drives visitor traffic to stores, and store teams convert store visits into sales.

Today retailers must work even harder for every sale they make, and that's why focusing on converting more store visitor traffic into sales has never been more important.



Conversion Rate Optimization – The Science of Getting More Visitors to Buy

Online marketers long ago realized that they couldn't merely focus on generating website traffic to drive sales results, but rather they needed to also focus on conversion rates – that is, get more site visitors to buy or convert.

In the online world, Conversion Rate Optimization (CRO) is an industry unto itself, spawning a global community of consultants and service providers, formal methodologies and two hundred books dedicated to the topic on Amazon. There is only one book dedicated to brick-and-mortar store conversion listed on Amazon.¹

But as important as CRO is to online retailing, it is even more important in physical stores since it's where the vast majority of sales are transacted. Even at the height of the pandemic in April 2020 when online sales soared, 74.5% of retail sales were transacted in physical stores. And in 2021 – for the first time ever – physical store sales grew faster than online sales.²

Today most major retailers track store traffic and measure conversion rates in their physical stores. But while this data is valuable and critical to driving in-store conversion, the vast majority of retailers do not have – or have even considered – formally developing CRO strategies for their physical stores.

Every hour of every day shoppers leave retail stores without buying – despite the fact that they had intended to buy. This undeniable fact should make every retailer pause to consider the impact CRO can have on their in-store conversion rates, store experience and ultimately sales performance.

CRO is defined as a system for increasing the percentage of visitors that convert into customers.³ In the online world, conversion is a result of offers, website design and navigation; in physical stores, conversion is a result of specific actions that happen in the store which are primarily influenced by frontline store staff and field managers.

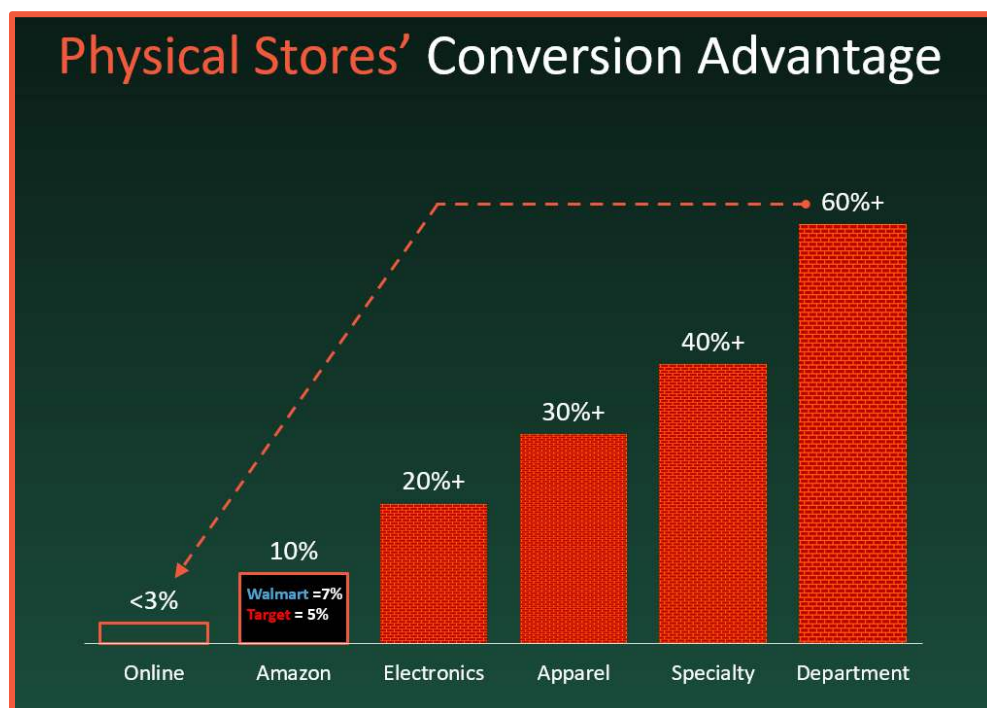
This E-book will explore CRO for physical stores and introduce methods and tactics that retailers can use today to inform decisions, guide strategies and ultimately sell more. Special emphasis on identifying and leveraging **Super Converters** – the stores that hold important secrets to unlocking chain-wide conversion rate improvement – will also be examined.

Physical Stores Convert Significantly Higher than Online – even Amazon

It's irrefutable that most consumers prefer purchasing goods in physical stores, and that's reflected in a comparison of online versus physical store conversion rates.

As the chart below shows, physical stores have a significant conversion advantage over online retailers – even compared to the very best online retailers.⁴

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 that do not.



Store Teams Drive Conversion – Every Hour or Every Day

Accurate store traffic counts to the hour of the day provide the essential foundation from which a CRO program is built.

Without accurate store traffic data, you can't calculate in-store conversion rates. And while some retailers still misguidedly believe that sales transaction counts provide a 'good enough' proxy for store traffic, the fact is they don't – and for many retailers, they are not even close.

Transaction counts only provide insight into the number of visitors who made a purchase, but no insight into how many shoppers visited and left the store without buying.

Since conversion rates are calculated by taking the ratio of sale transaction counts to store traffic counts, without store traffic data it's impossible to calculate conversion rates – and if you can't calculate conversion rates you most certainly can't optimize them.

Conversion rate insights enable retailers to pinpoint down to the hour where conversion opportunities are being missed.



Store Teams Have The Greatest Influence over Conversion

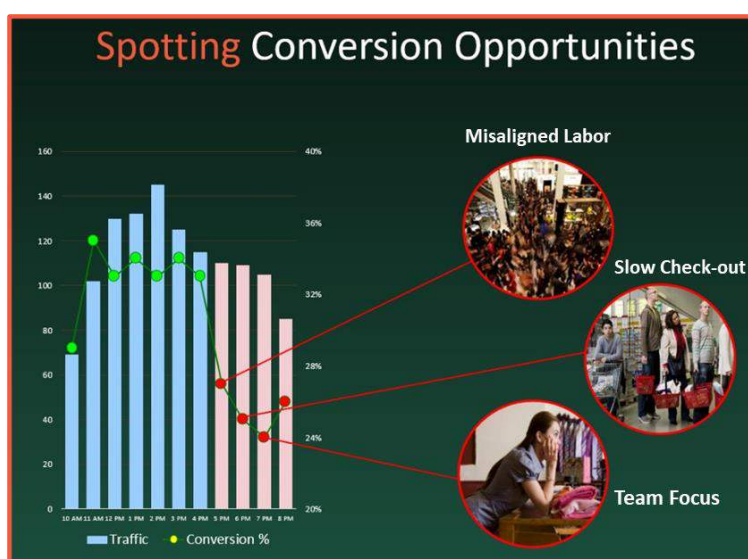
Every hour of every day shoppers visit stores and leave without buying. While some of these shoppers may not convert because of reasons that the store can't control, like stock-outs of high demand products, frontline store teams have the greatest ability to influence conversion.

Conversion rate 'sags' are a tell-tale sign that opportunities are being missed. Understaffing, slow check-out lines and focus on tasking instead of serving shoppers are some of the most common causes.

Despite the fact that store teams have the greatest ability to impact conversion, they often don't know where to look, or what to look for.

Arming store teams with easy-to-spot traffic and conversion insights down to the hour is critical to enabling them to pinpoint exactly where conversion opportunities are being missed.

And knowing where and when conversion opportunities are being missed is the key to improving conversion.



Benchmarking Conversion Performance – *Quadrant Analysis*

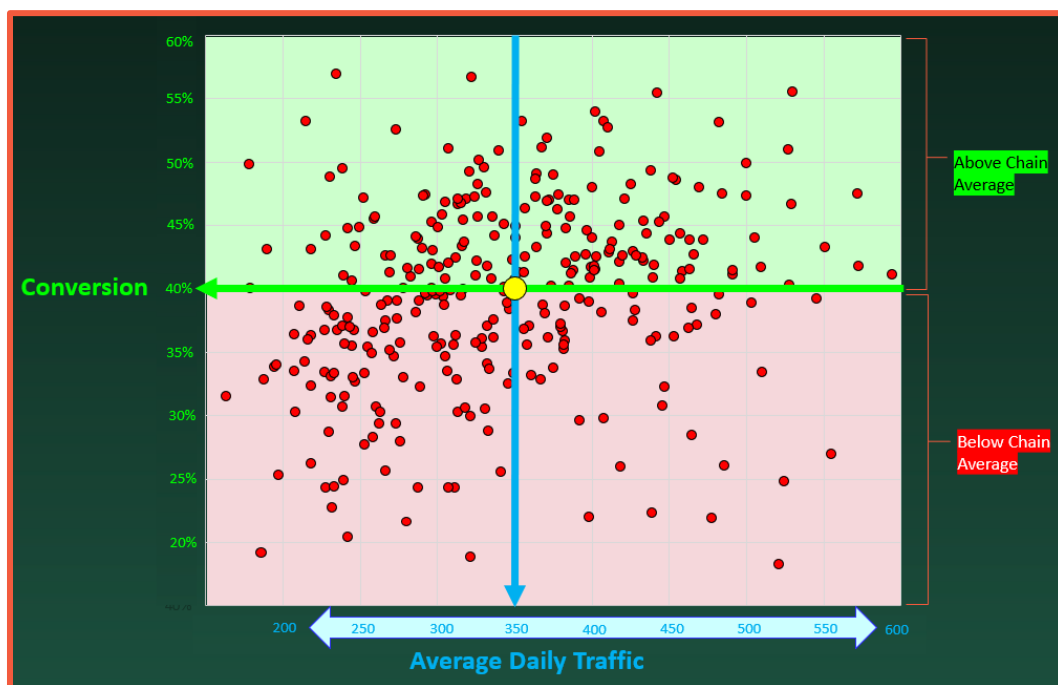
The first step in developing a CRO program for your physical stores is to benchmark the conversion performance of all your stores. This sounds simple enough, but it requires more than merely listing your highest to lowest converting stores. Here's why.

Conversion rates can vary dramatically across stores for myriad reasons, and one of those reasons is the volume and nature of traffic a store gets. For example, a high traffic store located in a mall will almost always have lower conversion rates than stores that are off-mall, and so looking at conversion rate performance in the context of the traffic a store receives is critical.

Store Traffic Contextualizes Conversion Rate Performance

The chart below is a scatter plot showing conversion rate on the vertical axis and average daily traffic volume on the horizontal axis. Each red dot represents the conversion performance and average daily traffic for each store in the chain. In this example, the green and blue arrows indicate the average results aggregated for the entire chain. Across this chain, stores receive 350 store visits per day on average and convert 40% of their store traffic into sales.

This is a useful way to analyze comparative store-level conversion performance because it enables decision makers to immediately see how all stores are performing relative to its unique store traffic opportunity as well as to all other stores in the chain. By displaying results this way it's apparent which stores are converting above or below the average conversion rate for the chain. It also helps inform the strategies and tactics that should guide field leaders as they focus on optimizing conversion rates and driving sales results in their stores.

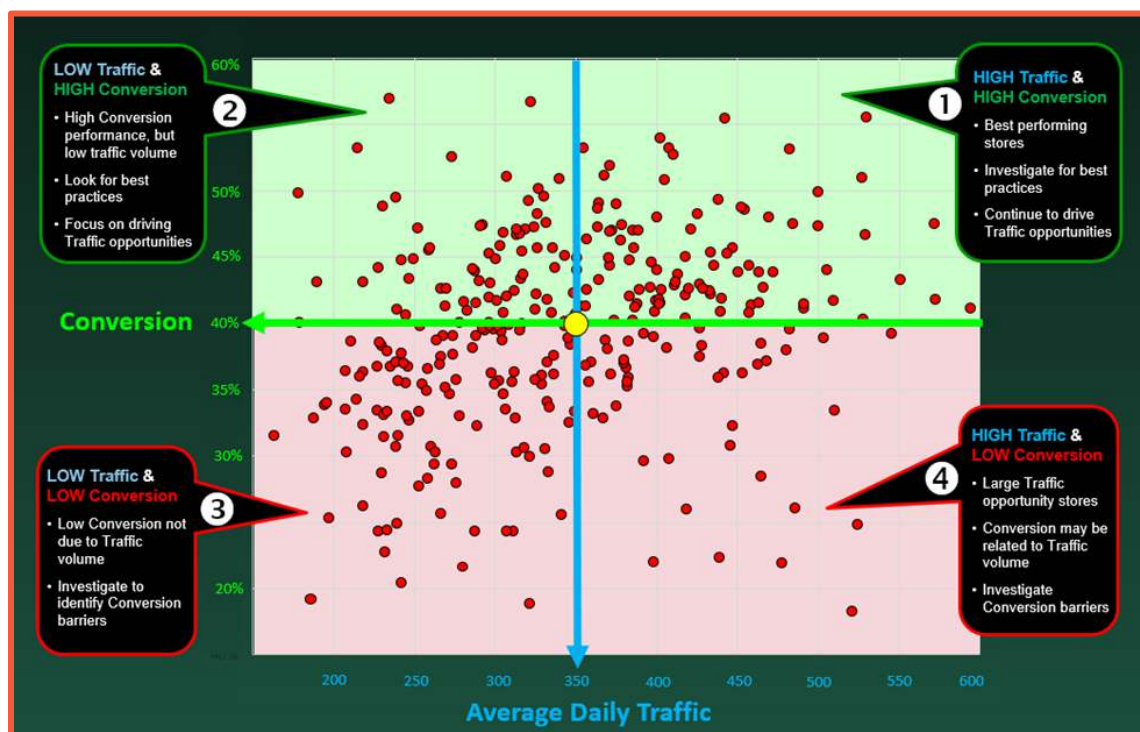


Quadrant Analysis – Focusing on Sales Drivers

Conversion rates vary considerably across retail categories, but they can also vary significantly within the same chain. This conversion performance variation is a result of many factors including store format (mall vs. off-mall), geographical location, product mix, inventory levels and, most importantly, store personnel who serve the shoppers. The reality is that each and every brick-and-mortar store is unique and in order to optimize conversion rates these unique characteristics need to be considered.

As the chart below shows, each store is located in one of four quadrants based on its average daily traffic and conversion rate performance, and each quadrant provides important insights to inform the strategies and tactics that should guide field leaders as they focus on optimizing conversion rates and drive sales results in their stores. Additionally, it enables marketing teams to pinpoint the stores and regions where traffic generation efforts would be most and least productive.

For example, generating more traffic for stores in quadrants one and two that have high conversion performance will deliver a greater sales impact than stores in quadrants three and four where conversion performance is lower. Driving traffic to stores that can't convert the traffic is inefficient, and can exacerbate the conversion issues that are already occurring in these stores.



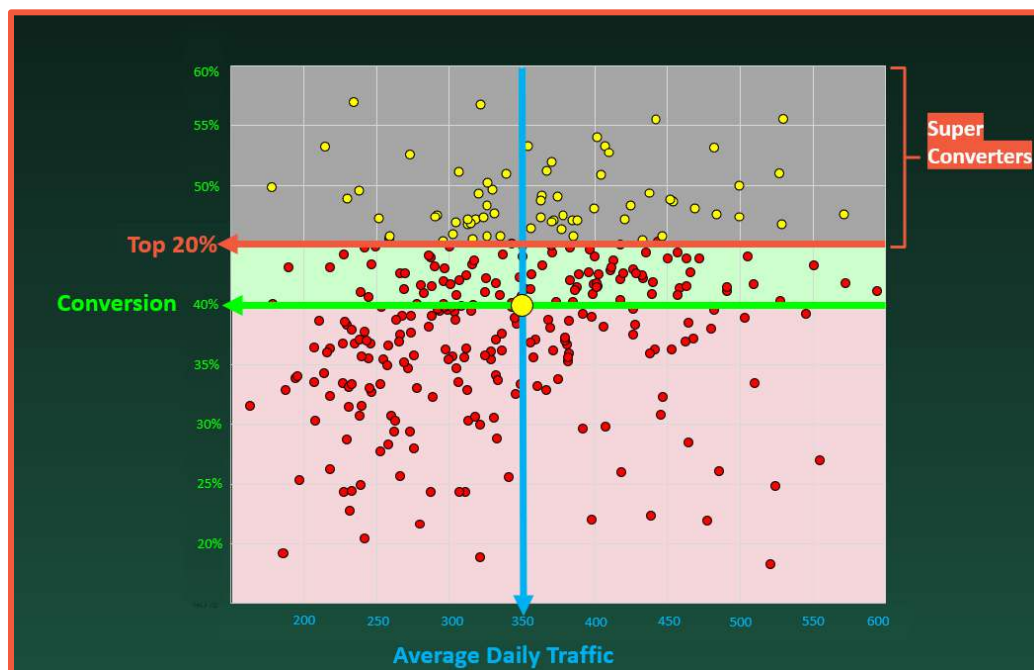
- **Quadrant One:** stores in this quadrant have high average daily traffic and high conversion rates. These are among the best performing stores with the largest traffic opportunities. These stores should be investigated to identify conversion best practices that can be leveraged across all stores.

- **Quadrant Two:** stores in this quadrant receive lower store traffic, but have high conversion rate performance. These high conversion performance stores suffer from lower traffic opportunities. Like quadrant one, these stores should be investigated to identify conversion best practices that can be applied to under-performing stores. A key sales driver for stores in this quadrant is traffic.
- **Quadrant Three:** stores in this quadrant are the most challenged. These stores have lower store traffic and low conversion performance. Store teams have very little control over the amount of traffic they receive, so driving conversion to maximize sales is imperative.
- **Quadrant Four:** stores in this quadrant have high traffic, but low conversion. Improving conversion performance in these stores is especially important since they already have an abundance of traffic. Store traffic defines the sales opportunity size, so stores in this quadrant present exciting opportunities to drive sales results through improved conversion performance.

Quadrant analysis provides an effective way to establish conversion performance benchmarks and inform performance improvement tactics, but there's another group of stores that warrant much more examination, and they are the ***Super Converters***.

Identifying and Leveraging SUPER CONVERTER Stores

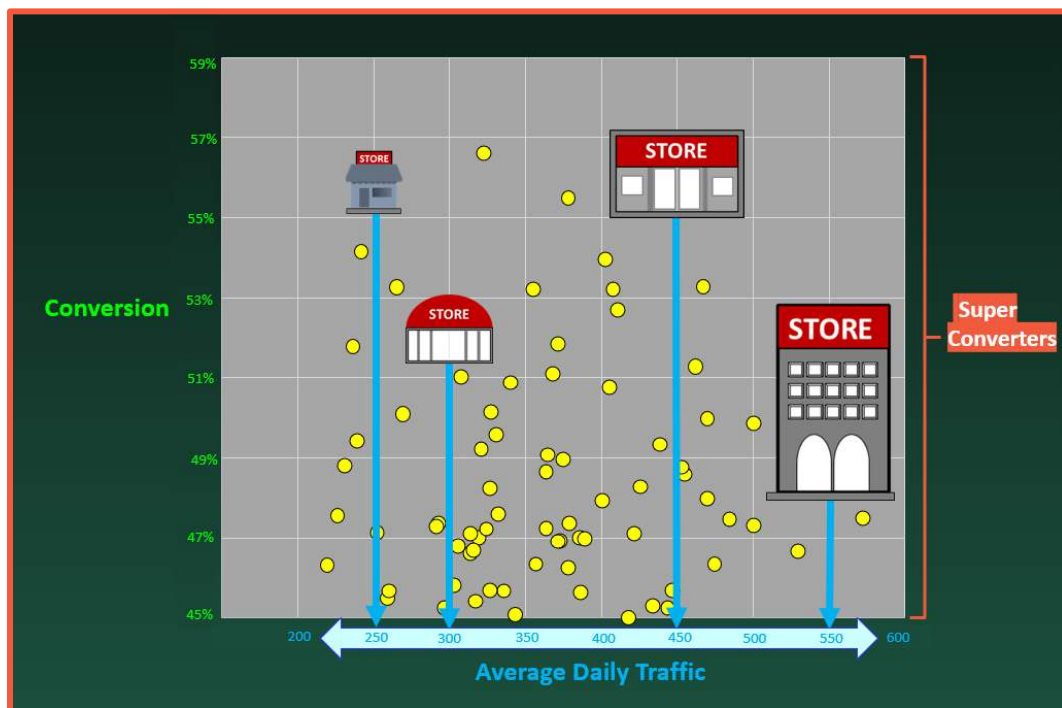
Achieving conversion rates above the chain average is commendable, but there is a group of stores that significantly out-performs the chain average. While the benchmark for what defines a Super Converter will vary by chain, a good heuristic is the top 20% of all stores in the chain.



When you examine Super Converter stores more closely you will discover that these stores are a diverse group.

Super Converters can be new stores or old stores; small stores or big stores; high sales or even low sales volume stores and everything in between. Regardless of the differences, these stores all have one thing in common: they convert significantly more of their store traffic into sales than the vast majority of stores in the chain.

Since Super Converters can be found at every traffic volume level, it begs the question: If these stores are Super Converters, can all stores be Super Converters?



Leveraging Super Converters

Once you have identified the Super Converters, the next step is to understand what's driving their extraordinary conversion performance. The objective is to identify specific actions, activities, processes or behaviors these store teams do that can be replicated and shared across all stores in the chain.

Since it's possible that some Super Converters may be achieving their outstanding results because of factors not related to their actual performance, it's important to analyze conversion drivers and barriers to understand what's replicable and what's not. For example, if a Super Converter store had a much higher allocation of labor relative to other stores with similar traffic volume, then it could be that their conversion performance is merely a function of having more store labor.

- **Labor Allocation and Conversion Performance:**

Store personnel have the greatest ability to influence conversion since they are closest to the shopper and facilitate the sales transaction. Therefore, the amount of labor and, even more importantly, how this labor is deployed at store level is among the most important drivers of conversion performance.

Conducting a labor allocation and productivity analysis comparing Super Converters to all other stores in the chain is an important step. The methodology for doing this is explained in the next section *Connecting Store Labor to Conversion*.

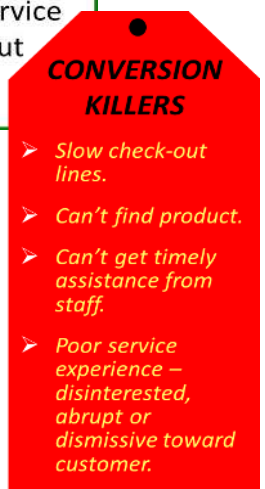
- **The Very Best ‘Best Practices’ come from Super Converters:**

Identifying ‘best practices’ of top performing stores is an obvious activity that all retailers should do. However, the problem is that too often “top performing” stores are defined by the sales results they deliver, and not conversion performance.

The bias to use sales outcomes as the primary measure of store performance is understandable, but the consequence is that stores with low traffic and super conversion performance are overlooked. Any best practices or insights from these stores is never even considered.

The opposite case also holds. For example, a store may have high sales performance because traffic in their store increased – store traffic volume directly influences sales, but the store team doesn’t directly control or influence it. In fact, a store may see increased sales because of higher traffic, despite having relatively poor conversion performance. These are not the stores that should be investigated for conversion best practices! Ironically, sales outcomes can obfuscate conversion performance – even for Super Converters.

While collecting general best practices from other types of retailers may provide some value, the very best, most meaningful, relevant and replicable best practices will come from your very own Super Converting stores. These stores carry the same or similar products, serve similar customers, and likely have many of the same advantages and disadvantages as all the other stores in the chain do.



Connecting Store Labor to Conversion Performance

Frontline store teams have the greatest ability to influence conversion performance. That's why it's critical to examine how labor is being applied in Super Converters compared to other stores that have the same or similar traffic volume. In order to accurately compare labor productivity across stores, labor allocations must be normalized relative to the store's traffic volume.

Staff-to-Traffic Ratio – A Measure of Relative Labor Allocation & Productivity

For most retailers, labor is allocated to stores based on sales budgets. Stores that have higher sales get more labor. But as logical as this appears, it can lead to labor misallocations.

So how do you know if you are allocating labor effectively across all your stores when labor allocations can vary dramatically by store? The answer: Staff-to-Traffic Ratios.

This largely under-utilized metric normalizes labor allocations by comparing the ratio of store traffic to labor hours available in the store. The examples below illustrate how this works.

Store 1 had the least traffic and highest conversion rate, and Store 3 had the highest traffic, and lowest conversion rate. Staff-to-Traffic Ratios are calculated by dividing the store's traffic counts by the labor hours it gets. Store 1 receives 500 traffic counts on average per day, and has 50 labor hours per day; Store 3 receives 1,200 traffic counts on average per day, and has 120 labor hours per day.

When you calculate the Staff-to-Traffic Ratios you can see that they are exactly the same in Store 1 and Store 3 – each store has one labor hour for every ten traffic counts it receives. Said another way, these stores have the same relative labor allocation, so we can rule out the amount of labor as the likely cause of the poor conversion performance in Store 3.



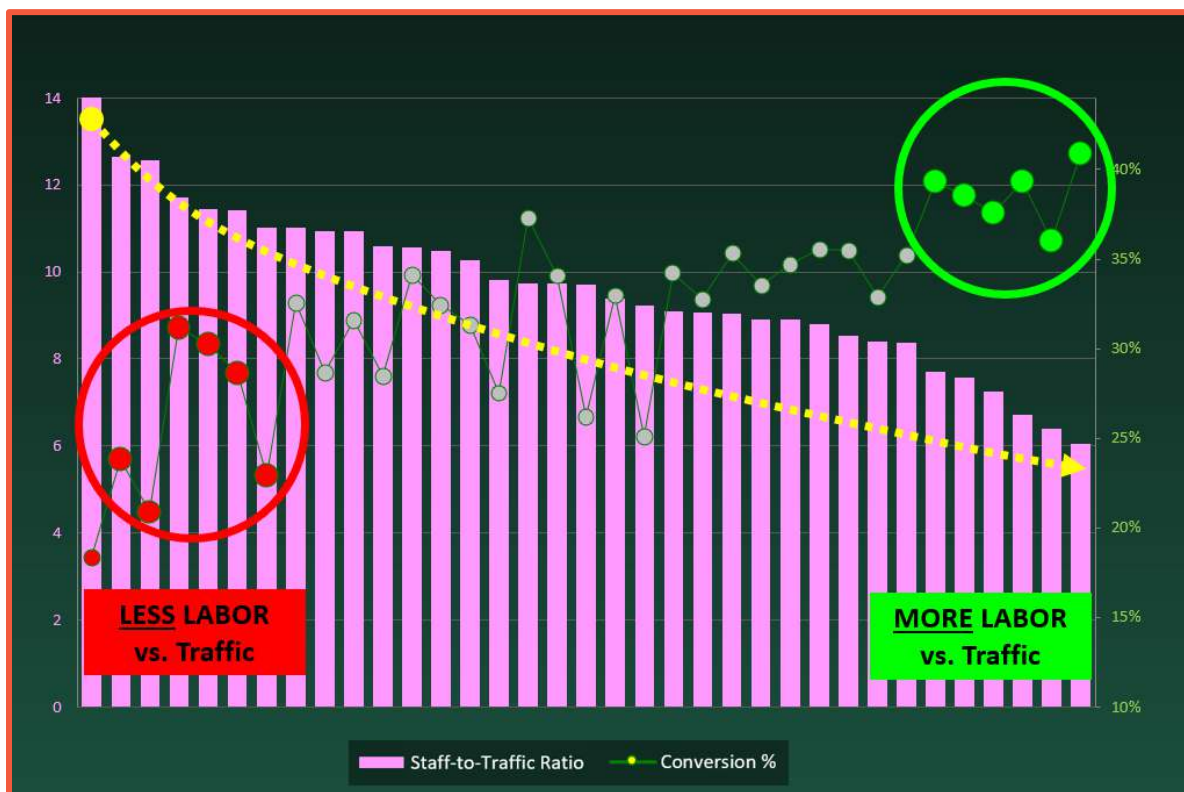
Curiously, Store 2 actually had the most favorable Staff-to-Traffic Ratio at eight traffic counts for every one labor hour, yet its conversion rate performance was lower than Store 1. This finding suggests that Store 2 has plenty of labor, but the labor is not being directed in a way that results in conversion. This insight could only have been acquired by comparing Staff-to-Traffic Ratios, and that's why it's such an important metric.

When you calculate Staff-to-Traffic Ratios and overlay conversion results across all stores in the chain, as illustrated in the example below, important insights begin to emerge about how effectively labor is being allocated to stores.

While every retailer is different and results will vary, in general, as the Staff-to-Traffic Ratio decreases, conversion performance tends to increase. This tendency makes perfect sense since stores that have a more favorable Staff-to-Traffic Ratio have fewer shoppers to serve for every labor hour they have.

Analyzing *relative* labor allocation and productivity with Staff-to-Traffic Ratios will enable you to identify the true Super Converters in your chain, and it will provide the workforce management decision makers with a more effective way to determine where to apply precious and increasingly expensive store labor resources.

Since conversion rate performance is most impacted by the actions and behaviors of frontline store teams, it's imperative to connect labor with conversion performance in order to optimize and increase conversion performance.

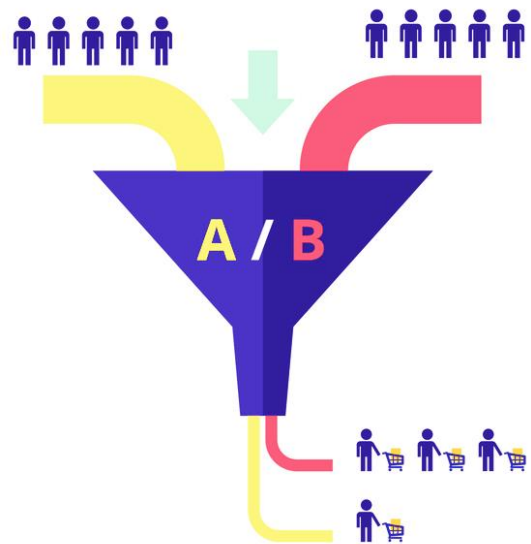


Why A/B Experimentation in Physical Stores is Important

Conversion Rate Optimization is a continual process of finding better ways to serve customers. Once a retailer identifies a conversion improvement tactic that results in improved conversion rates, it should be tested to validate the result and quantify the impact.

This can best be accomplished by conducting A/B experimentation in your stores.

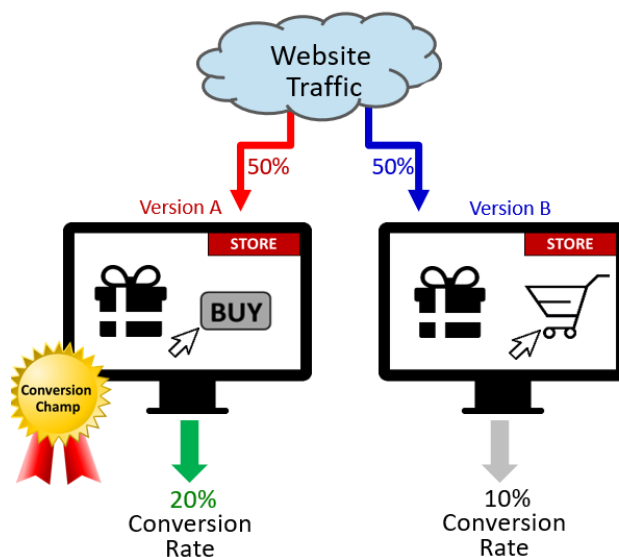
A/B experimentation was first introduced more than 100 years ago, and the basic approach has not significantly changed.⁵ Today, A/B experimentation is most commonly associated with optimizing performance of websites where the practice is used extensively.



Conducting A/B Conversion Experiments in Physical Stores

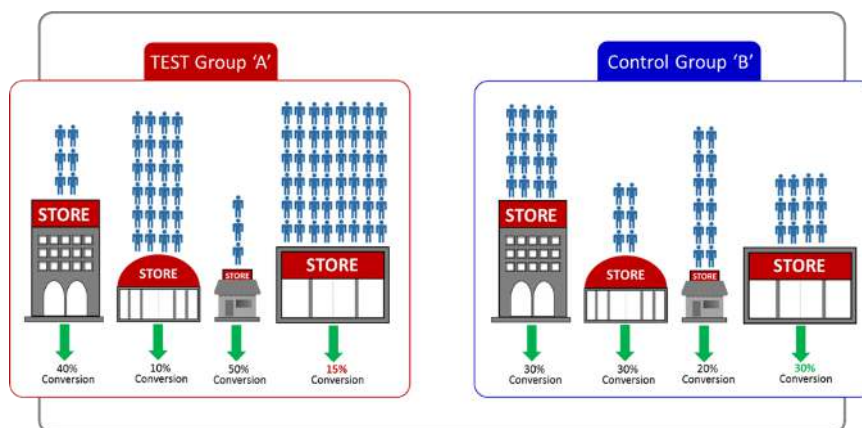
If you are an online retailer looking to optimize your conversion rates, it's relatively simple. You have two versions of your online store: Version A and Version B. You direct an equal amount of website traffic to each one of the sites that have variations in layout, color, navigation and other design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

You calculate conversion rates of each site and you declare a winner. Then you continue to repeat this process over and over. While this is a gross simplification of the process, it is essentially how online A/B experimentation is conducted and a key element of conversion rate optimization.



Having two or even multiple versions of a website is relatively straightforward to modify and test, but how does it work in physical stores?

Unlike websites that can be manipulated and deployed consistently, the same is not true for physical stores and that's in part what makes it more challenging – every physical store is unique. Stores are located in different geographies, they draw consumers from different demographics, they may have different product mixes, and most importantly, they have different store managers and frontline teams that operate those stores. All this variation makes it harder to control the experiment.

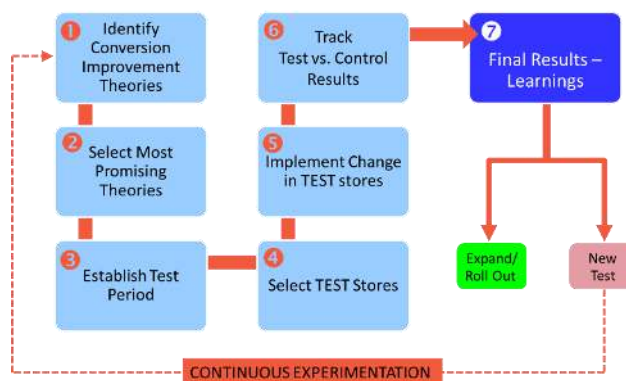


Despite these challenges, A/B experimentation in physical stores is still worth the effort. And while it is impossible to control the precise amount of traffic any given physical store gets, or to completely ensure consistent execution of a conversion tactic being tested across stores, meaningful insights into the impact of a conversion tactic can be achieved by comparing aggregate results of two store groups. See *CRO Delivers Meaningful and Measurable Impact – Mini Case* on page 17.

What Should You Test?

Deciding what to test is the first step in the experimentation process. The best way to identify conversion improvement theories is to engage your store teams and field leaders who run and manage the Super Converter stores.

These managers are closest to actual shoppers and have the greatest ability to influence conversion. Furthermore, these same managers will also be responsible for implementing any conversion tactics you test, so having them be part of the process is critical to success. Once the most promising conversion improvement theory is identified, the process is relatively straight-forward.



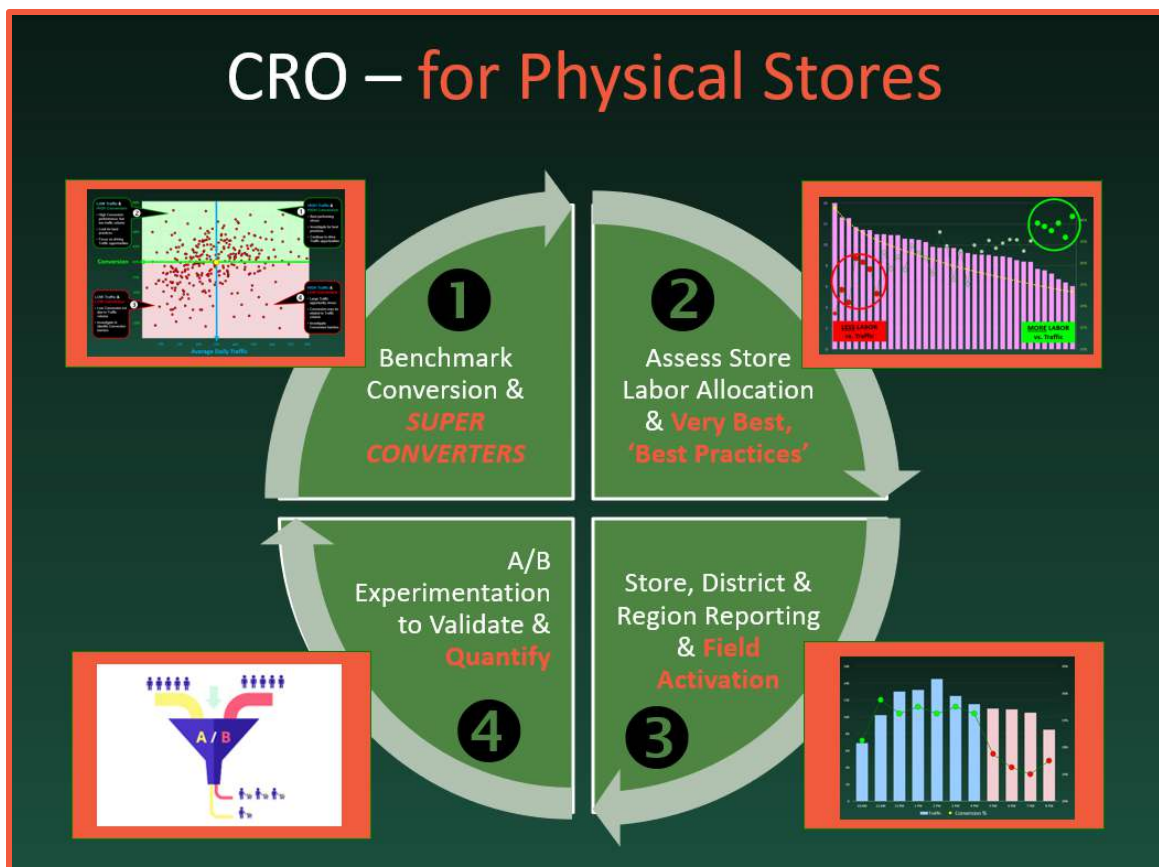
CRO for Physical Retail – Methodology Overview

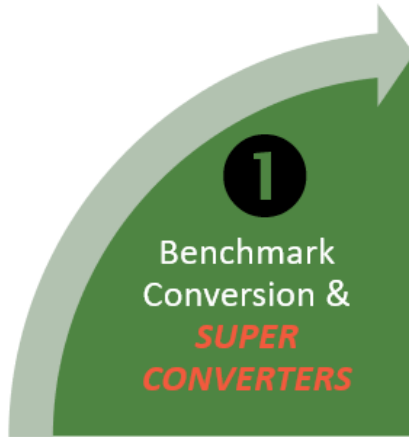
While CRO is a well established practice in the online world with literally thousands of firms offering CRO services⁶ this is not the case for CRO in physical stores. In fact, CRO is largely untapped by retailers in their physical stores, and that's why it presents an exciting opportunity for most retailers.

Another reason – and perhaps the most important – is that improving conversion rates directly impacts business results. Given the significant conversion advantage physical stores have combined with the return of traffic to physical stores post-pandemic, it behooves every retailer to apply effort to improving and refining conversion performance in their physical stores with CRO.

After what can only be described as cataclysmic disruption caused by the COVID pandemic, few retailers can afford to squander the traffic opportunities in their stores.

Every retail chain is unique so how they apply CRO in their business will vary, but the basic process of how to conduct CRO is substantially the same as described below.



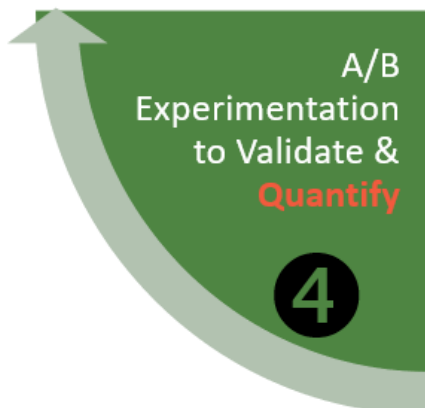


In order to improve conversion rates, you must first know how all of your stores are performing. Determining conversion benchmarks starts the CRO process. Once benchmarks have been established, you can identify your 'Super Converter' stores. These Super Converts inform what's possible in conversion performance – after all, these stores are actually achieving extraordinary conversion results. These stores also help inform conversion goals that can be applied across the chain.

The very best 'best practices' come from your own stores, and more specifically your Super Converter stores. But before you begin to acquire and implement these best practices, you must confirm that their conversion performance is not merely a result of having more labor relative to the traffic they receive compared to non-Super Converters. Calculating and comparing *Staff-to-Traffic Ratios* will answer this question and help you measure how productively labor is being utilized in stores.



To improve conversion, store managers need to know where the opportunities are. Simple, visual reporting that clearly shows conversion rate sags down to the hour of the day is required. District and regional managers also need reporting to know how their stores are performing, and which stores they need to focus their attention on.



A/B experimentation helps to validate conversion improvement initiatives, which is important since what works in one store may not work in others. Additionally, A/B experimentation will help prioritize conversion improvement initiatives and enable you to calculate the ROI on any costs associated with an initiative.

CRO Delivers Meaningful and Measurable Impact – *MINI CASE*

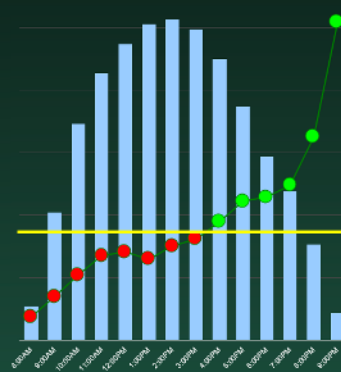
Background: During an annual executive team presentation to review store traffic and conversion performance across the chain, an important insight was identified: conversion performance during the early part of the day was consistently under-performing conversion performance in the latter part of the day. Further analysis confirmed that this early day-part conversion sag was occurring every day of the week and systemically across virtually all stores.⁷

Insight Leads To Testable Hypotheses:

Based on this insight, management hypothesized that if the early day-part conversion sag was occurring systemically, then it's possible that conversion performance could be systemically improved across all stores. A series of follow-up meetings were conducted with the field leadership team including the head of store operations and district managers to identify possible theories for why it was occurring and tactics to improve conversion performance.

INSIGHT: Systemically Low Conversion between 9 AM – Noon

WHY?



- Labor allocation?
- Labor scheduling?
- Labor focus – tasking vs. serving?
- Cashier availability?
- Shopper behavior?
- Other factors?

The Experiment:

The field leadership team identified 'labor focus' as the likely cause of the systemic conversion sags. Store teams can become very focused on tasks, especially in the early hours as they prepare the store for the day ahead, and this can take away focus from serving shoppers. A sample of stores from each district was selected as the Test group, with the remaining stores in each district as the Control group. Test stores were required to focus their effort on serving shoppers between the hours of 9 AM and Noon. There was no additional labor required. The experiment was conducted over a four-week period.

CRO in Physical Stores – **WORKS!**



The Results:

Test stores outperformed Control stores each week of the experiment, resulting in an overall conversion improvement of 80 basis points. This translated into a sales lift of approximately \$42,000 over the four weeks in the small Test group with the potential to deliver over a \$1M across the chain. As this case makes clear, when it comes to CRO in physical stores, even modest increases can have a material impact on business results.

Conclusions and Key Takeaways

Can every store be a Super Converter? It's a question every retailer should explore and CRO is the method for finding out. While it's unlikely that every store can be a Super Converter, every store can convert more of the traffic it receives – every hour of every day.

As retailers face the current and emerging challenges of retailing in the 21st century, it may seem surprising that simple store traffic and conversion data can provide meaningful insights. After all, counting store traffic has been part of retailing for decades with the first electronic traffic counters coming to market in the mid-1970s.

Store traffic is simple data, but that doesn't mean it can't reveal important and even profound insights. It clearly can and those retailers who use and apply insights from these data will have an advantage over those retailers that do not.

As exciting as the insights that can come from these data are, merely collecting store traffic data and calculating conversion rates are only useful if the insights are used to measure performance, inform decisions and guide strategies.

Unfortunately, too many retailers are simply not leveraging this data as much as they could or should be. In a survey of retailers who have store traffic data, only 59% said their executives 'Always' use store traffic data. And even more surprising was that less than 50% of respondents indicated that their marketing, workforce management, customer experience and store teams 'Always' use store traffic data.⁸

Retailers are grappling with so many challenges today, it's understandable that they are distracted. But the fact is, retailers will not find a more reliable demand signal for store activity than store traffic counts, nor a performance metric as robust and reliable as conversion rates – just as the online world discovered many years ago.

CRO and Beyond – Store Traffic Connects to Everything

Almost every decision that retailers make connects in some way to their physical stores. Consequently, every functional team can gain insight from understanding how their efforts translate into results generated in-store.

Since the majority of retailers today already have store traffic data, the only thing missing is the will to do something with it. There's never been a better time to do it than now.



Endnotes

- 1) Amazon.com - *Conversion: The Last Great Retail Metric*, 2011 by Mark Ryski
- 2) *Forbes.com*, February 16, 2022 – Jason Goldberg. *Brick And Mortar Sales Grew Faster Than E-Commerce In 2021* - forbes.com/sites/jasongoldberg/2022/02/16/brick-and-mortar-sales-grew-faster-than-e-commerce-in-2021/?sh=67dffa9fdde5
- 3) [Quicksprout.com/the-definitive-guide-to-conversion-optimization-chapter-1](https://quicksprout.com/the-definitive-guide-to-conversion-optimization-chapter-1)
- 4) Physical Stores' Conversion Advantage: (i) *Forbes.com* – May 13, 2021 – Shelley E. Kohan. [Forbes.com/sites/shelleykohan/2021/05/13/new-data-reveals-website-visits-slow-for-walmart-and-remain-steady-for-amazon/?sh=10ab8cd9363a](https://forbes.com/sites/shelleykohan/2021/05/13/new-data-reveals-website-visits-slow-for-walmart-and-remain-steady-for-amazon/?sh=10ab8cd9363a); (ii) HeadCount Corporation
- 5) Harvard Business Review, June 2017 – Amy Gallo - <https://hbr.org/2017/06/a-refresher-on-ab-testing>
- 6) clutch.co/agencies/conversion-optimization – 4,387 firms listed. August 2022
- 7) HeadCount Corporation – proprietary study, July 2022
- 8) Proprietary market study conducted by Retail Dive for HeadCount Corporation, July 2022.



Traffic & CRO Services for Brick-and-mortar Stores

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