RETAILERS' DILEMMA:

Cut Costs, Not Sales

5 Data-Informed Strategies for Retail Operators & Decision Makers

A whitepaper from the leading authority on retail traffic and conversion analytics

HeadCount®

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About the Author

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Retailers' Dilemma – Cut Costs, Not Sales

Making the Right Decisions

Retail operators and decision makers are finding themselves in an especially challenging situation. They need to cut costs, but in a way that has minimal impact on sales.

It's a difficult balancing act.

As the CFO of Designer Brands Inc., owner of Designer Shoe Warehouse recently stated in a Retail Dive article, every expense line is being scrutinized. The sentiment expressed by this CFO is being played out in boardrooms across the country.

"Designer Brands underwent layoffs as it continues to work to pare back every line of spending possible including labor costs and management incentive compensation according to CFO Jared Poff."

Retail Dive - July 11, 2023

What's a Retailer To Do? And How?

Cutting cost is easy, but cutting too deep or in the wrong areas will surely lead to a reduction in store sales. And while there are no silver bullets to resolve what seems like conflicting objectives of 'cut costs, not sales', there are strategies that retail operators can employ to help navigate these critical decisions.

But cutting costs and driving sales are nothing new for retailers – this has always been part of retailing – what is different is how unpredictable consumers have become.

Historical buying patterns seem less predictable or don't apply like they used to. Given the economic tumult caused by historic inflation and increasing interest rates, on top of the long-tail pandemic impacts that still linger, it's no wonder that decisions about where to cut costs without impacting sales has never been more challenging as they are today.

Every retail organization is unique – resources, advantages and constraints. However, the strategies presented in this whitepaper can apply to virtually any retailer in any category.

Store traffic counts or footfall provide the most reliable store-level 'demand signal' available to retailers – not sales data, not sales transaction counts, but actual store visit counts.

Every retailer needs to track store traffic especially now when demand signals from sales data can appear confusing or counter-intuitive.

Insights from this data are also critical when the CFO demands that you cut costs, but not sales.

Strategy 1

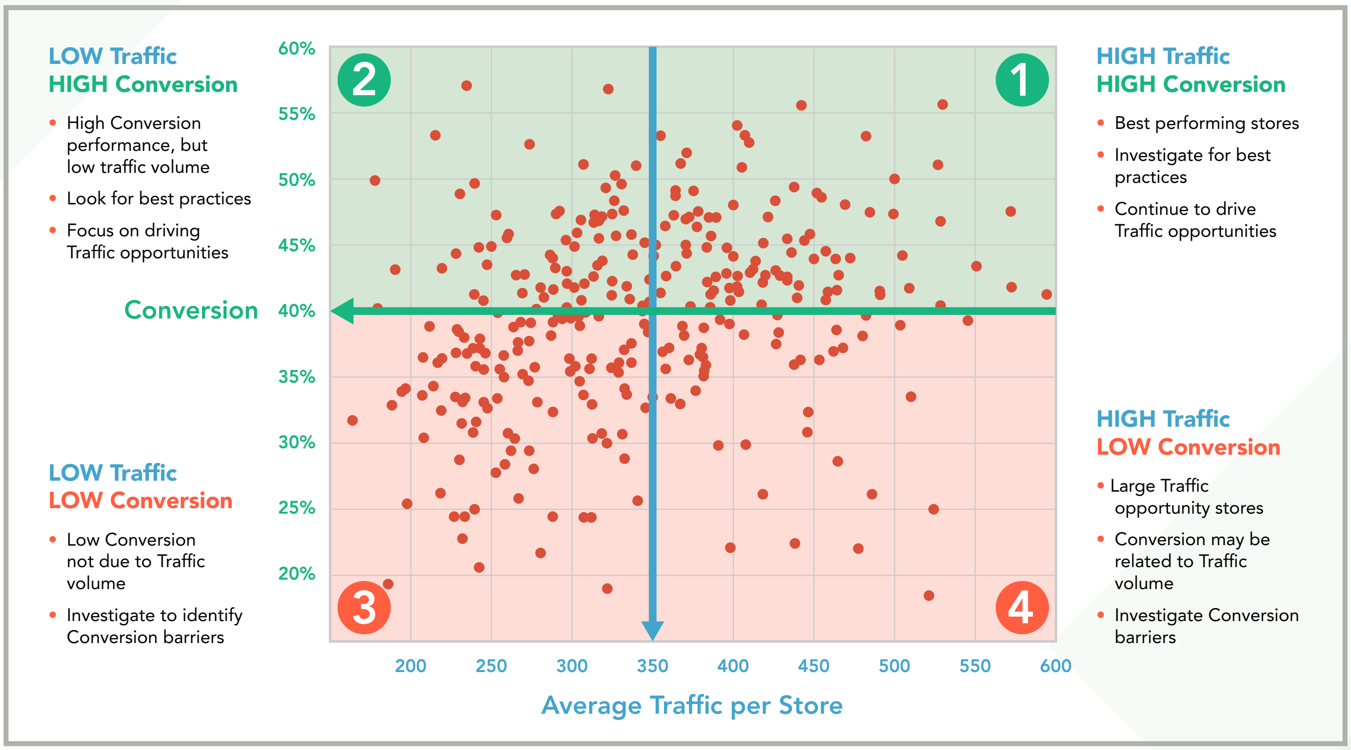
Map Performance of ALL Stores

How Are Your Stores Performing vs. The Traffic Opportunity?

Each store in your chain is unique and knowing how each store is performing compared to its traffic opportunity will help you drive sales improvements by informing field leaders of what they need to focus on to drive sales in each store. This analysis will also help you identity ways to cut costs.

Conceptually the methodology is simple. Create a scatter plot with average daily traffic on the horizontal axis and shopper conversion rates on the vertical axis like in the example below. The chain averages are indicated by the blue and green arrows.

Each store represented by a red dot falls into one of four quadrants, and each quadrant categorizes conversion performance relative to the stores' traffic opportunity.



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.

For these stores, the focus should be on driving up average sale values, since conversion and store traffic are both high. Your field leaders will save time by focusing on the most important sales drivers. Additionally, 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 low store traffic. A key sales driver for stores in this quadrant is store traffic. Field leaders can save time by focusing on stores in the other quadrants that require more attention. And like quadrant one, these stores should be investigated to identify conversion best practices that can be applied to under-performing stores.
- **Quadrant Three** Stores in this quadrant are the most challenged. These stores have lower store traffic and low conversion performance. Save money by not driving more traffic into these stores until you can improve conversion performance. Remember, store teams have no control over the amount of traffic they receive, so improving 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 and you can save marketing budget by reducing traffic stimulation to these stores.

This scatter plot analysis should be repeated by plotting average sale values vs. average daily traffic and sales per visit vs. average daily traffic. This will provide even more insight into which sales driver is most important for each store.

In order to drive sales performance, field leaders need to know what action to take. Each store presents a unique opportunity and performance mapping your stores will help your field leaders focus on the key performance drivers. Knowing where to look and what to look for is essential to driving sales performance and this simple analysis will inform these decisions.

But what about cost cutting?

The quadrant analysis can also provide important insights into where costs can be trimmed, specifically store labor and marketing. These topics will be explored in more depth in following sections, but here are two examples of how these insights can inform cost cutting.

Labor: the amount of labor allocated to each store should be relative to the traffic opportunity the store receives. Stores that have similar traffic volume should have similar labor allocations. Analyzing labor vs. store traffic will make labor misallocations immediately apparent – refining labor allocations based on store traffic will save money by reducing misallocations.

Marketing: one of the key imperatives of marketing is to drive prospects into the stores. Marketing creates sales opportunities, and the store teams are responsible for converting the opportunities into sales. Marketers can use this analysis to target their marketing spends to the stores that have the greatest ability to convert their store traffic into a sale, and not drive traffic into stores that are struggling with converting the traffic they already receive.

Take Action

Working with all stores at the same time is not possible. Perfection costs too much in time and resources.

Have a clear idea of where and how you really need to work with specific stores to get the biggest moves in sales increases.

HeadCount Help

"We know you have only so much time and you'd rather be working with stores than crunching numbers. That's where HeadCount can help. Our team of analysts will map your stores and provide you a Playbook for each store to help you drive sales in the most efficient way possible. You have the data. We will give you a new, practical way to look at it."

Marlene McNaughton - SVP Client Services

Strategy 2

Focus on What Store Teams Can Influence & Incentivize The Right Behavior

Do Your District and Store Managers Know What to Focus on to Drive Sales?

To a great extent, sales outcomes define success in retail. And while increased sales are the outcomes that all retailers desire, it's important to remember what field managers can and can't control to deliver the sales.

It's vital that all field leaders – and the entire organization for that matter – understand that sales outcomes are greatly influenced by the amount of traffic a store receives.

However, store teams don't control the amount of traffic they receive, they can only serve the store traffic they do get.

Store traffic quantifies the size of the sales opportunity a store gets, and that's why it's so important to track. But once that visitor enters the store, it's up to the store team to deliver a shopping experience in a way that ends in a sale.

There really are only two ways for store teams to influence sales outcomes: [1] by increasing conversion rates – that is, convert more store traffic into buyers; and, [2] by increasing average sale values.

Another way to think about it is to say that store teams should be focused on increasing sales per visit – regardless of the amount of visits they receive and which they don't control.

Sales per visit is a very useful metric because it eliminates the store traffic impact on sales and focuses on the things store teams can influence, conversion rates and average sale values.

As the performance mapping exercise in Strategy #1 revealed, each store is uniquely positioned in one of four quadrants, and stores in each quadrant require a different focus. For example, some stores may be weak on conversion, but doing very well in average sale values. By knowing this, field leaders can focus the attention of the store teams accordingly.

It's imperative that all field leaders have a clear view of what's driving sales performance and what they need to focus on in each store to increase store sales.

However, even if you map store performance and focus your field leaders on key sales drivers, without meaningful incentives to encourage the right outcomes, improving results may be elusive.

Are You Incentivizing Your Store Teams On The Right Behaviors?

Most retailers today still compensate and incentivize their store teams and field leaders based on achieving sales goals.

And while sales goals are useful, since sales are greatly influenced by store traffic – a variable that store teams don't control – under-performing managers may be getting rewarded and recognized because they received more store traffic, not because of their superior execution or customer service. And conversely, store managers who may be very effective at generating sales per visit, may not be getting rewarded or recognized because their low store traffic stunts their ability to drive sales volume.

An example will help illustrate.

All the stores in a chain were ranked based on average daily sales and sales per visit. The results are shown below.

Store	Average Daily Sales	RANK	Sales per Visit RANK
Store A	$3,400	1 →	46
Store B	$2,400	2 →	60
Store C	$2,250	3 →	122

Stores A, B and C were the top performing selling stores ranking 1,2 and 3 respectively. However, when we compare the average daily sales rank to the sales per visit rank, there's a huge discrepancy. Store A is ranked #1 in the chain based on average daily sales, but only 46th based on sales per visit.

Store C was even more dramatic, ranking #3 in average daily sales, but only 122nd in sales per visit!

What this insight tells us is that these top ranked selling stores are achieving their results because they receive a lot more store traffic, not because of exceptional performance by the store teams.

Based on these modest sales per visit rankings, now what do you think about the performance of these top ranked stores?

Next, all stores were ranked based on sales per visit. Recall, sales per visit is not concerned with sales volume, but rather it focuses on how much in sales the store is producing for every store visit it gets. This enables us to compare sales per visit performance across all stores, regardless of how much store traffic it receives.

As you see in the table below, the top performing sales per visit stores are delivering only modest performance based on average daily sales.

Store	Sales per Visit	RANK	Average Daily Sales RANK
Store D	$33.00	1 →	69
Store E	$31.00	2 →	149
Store F	$28.00	3 →	71

For example, Store E had the 2nd highest sales per visit rank in the entire chain, but with an average daily sales rank of only 149th , this store team will likely not get the credit they deserve. Moreover, the chain may be overlooking top talent and missing opportunities to learn and leverage ideas from this team.

Getting line-of-sight with your field leaders and store teams about what to focus their attention on and how you measure and incentivize performance will save money by not over-compensating store teams that don't deserve it.

Furthermore, incentivizing performance based on sales per visit will help drive sales as store teams focus on the variables they can actually influence, and that directly tie to business outcomes.

Take Action

Every traffic count is precious and costly to get. Use Sales Per Visit to motivate and reward store teams.

To cut costs while increasing sales, you need to be as productive as possible. Sales Per Visit combines the only two levers store teams can use to drive sales and normalizes traffic volumes so you can compare all stores regardless of size.

HeadCount Help

"You have all the ingredients to put productivity front and center every single day – you're overflowing with data. But it takes time and effort to create a simple view that everyone can use. Who's got the time? We do. Our team of experts can provide you a Sales Per Visit special report that can arrive in your inbox every day…and the inboxes of every store manager who needs to drive more results with the same – or fewer – staff. We will develop, launch, and manage all distribution."

Marlene McNaughton - SVP Client Services

Strategy 3

Arm Your Store Teams With The InsightThey Need

Can Your Store Teams Spot Conversion Opportunities to the Hour?

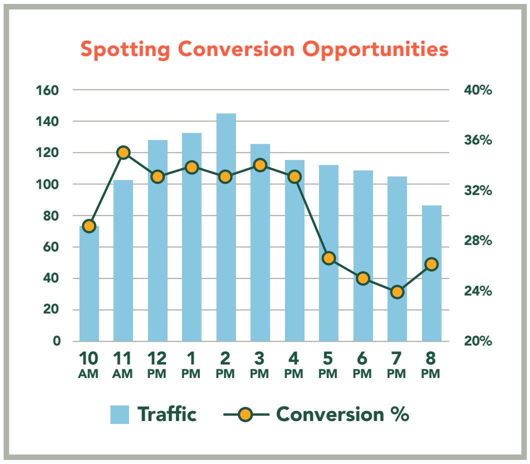
Every hour of every day shoppers visit stores and leave without buying. While some of these shoppers may not convert because of reasons the store can't control – like stock-outs of high demand products – in fact, store teams have the greatest ability to influence conversion.

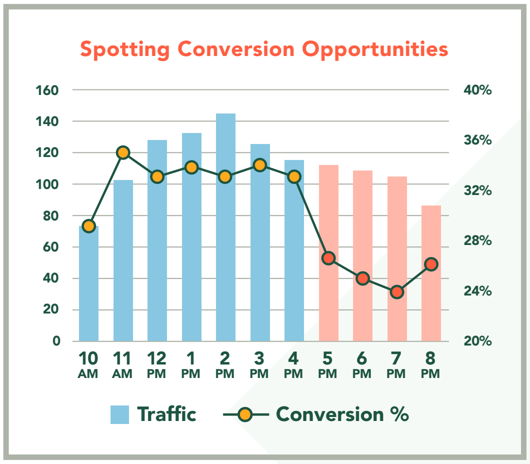
Despite the fact that store teams have the greatest ability to impact conversion, they often don't know where to look, or what to look for because they don't have access to the insights they need and/or they don't know what action to take.

The first step is to make missed conversion opportunities easy to spot.

Conversion rate 'sags' are a tell-tale sign that sales opportunities are being missed, and by knowing the exact timing of when these conversion sags occur, store teams are in a far better position to take action to capture more of these lost opportunities.

The charts below will help illustrate.





In this store, traffic and conversion rates are relatively high and consistent for most of the day, but conversion rates drop dramatically from 5 PM to the end of the day.

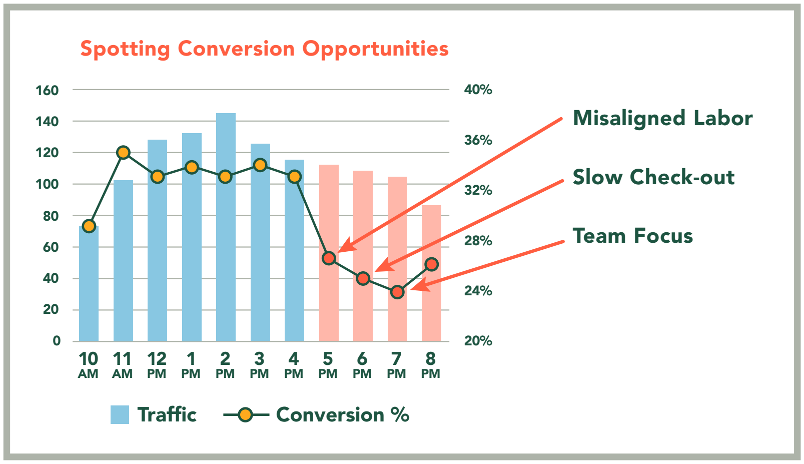
What this means is that shoppers are in the store, but they are leaving without buying. Armed with this insight, the store team will know exactly where to look. Presenting store traffic and conversion results this way makes it obvious – even to the most inexperienced manager.

But knowing where and when conversion opportunities are being missed to the hour is only step one.

The next steps are to determine *why* conversion is sagging during these hours and to identify what *actions* the store team can take to improve conversion performance.

There are many reasons why shoppers visit and leave without buying. And it's important to realize that not every shopper actually intends to buy – 100% conversion is unrealistic.

However, many causes of conversion sags can be controlled or influenced. Misaligned store labor, slow check-out and store teams focused on tasking rather than serving customers are some of the most common causes.



To really affect change, store teams need help. District managers play a critical role in assisting store teams to identify and then eliminate or minimize the conversion sags.

It's essential that there is a shared understanding between the district manager and store teams, because store teams often need perspective and encouragement to make a change or adjust a behavior. District managers should also be sharing best practices from high converting stores.

Arming store teams with easy-to-spot store traffic and conversion insights to the hour will enable them to pinpoint exactly where conversion opportunities are being missed – every hour of every day.

And when you combine easy to spot insights with district manager support, improvements in conversion and sales per visit will follow.

Take Action

Focus on the behavior you want to change. Increased sales aren't a behavior.

Help your managers by showing them precisely which hours of each day in the upcoming week they are forecasted to lose their sales, despite having shoppers in their stores. Knowing this, they can efficiently focus even limited store teams on customer service.

HeadCount Help

"Decisions should be based on data. That's simple. What isn't simple is getting quick-to-action insights to the people who can make the sales happen. That's where HeadCount can help. We have perfected store-level scorecards that remove any doubt as to where your store teams are losing sales and how they can get them back. It doesn't matter who you count traffic with – we can easily import your data into a new set of scorecards and have them to your teams in under a week."

Marlene McNaughton - SVP Client Services

Strategy 4

Assess Store Labor Allocation & Productivity Based On Traffic

Are You Allocating Labor & Measuring Productivity by Sales?

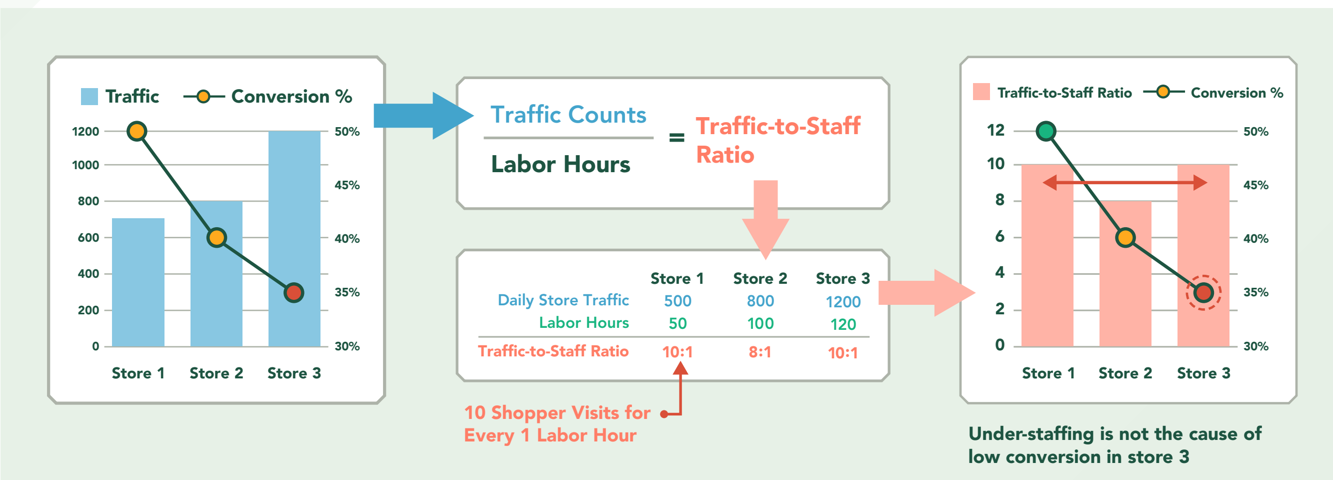
The importance of allocating store labor effectively cannot be overstated. Regardless of whether your chain is cutting or adding labor, store traffic insights can help you minimize labor misallocations and save money.

Labor misallocations often occur when labor is allocated based on store sales. Most retailers still allocate store labor based on sales. Consequently, stores that have higher sales get more labor. And 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: traffic-to-staff ratios.

This simple metric normalizes labor allocations by comparing the ratio of store traffic to labor hours available in the store.

The example below illustrates how this works.



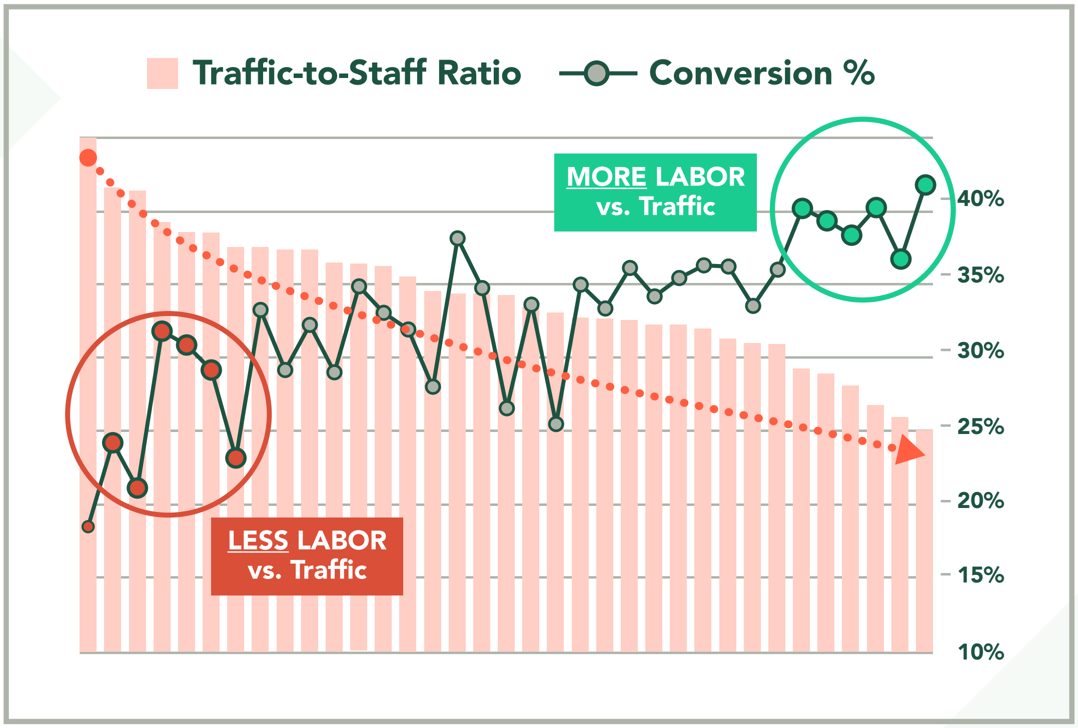
Store 1 had the least traffic and highest conversion rate, and Store 3 had the highest traffic, and lowest conversion rate. Traffic-to-staff ratios are calculated by dividing the store's traffic counts by the labor hours it gets. Store 1 receives 500 traffic counts on average per day, and has 50 labor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

When you calculate traffic-to-staff ratios and overlay conversion results across all stores in the chain, important insights emerge about how effectively labor is being allocated to stores.

While every retailer is different and results will vary, in general, as the traffic-to-staff ratio decreases, conversion performance tends to increase, as illustrated in the chart below.



This tendency makes perfect sense since stores that have a more favorable traffic-to-staff ratio have fewer shoppers to serve for every labor hour they have, and consequently should be able to convert more of their store traffic into a sale.

Analyzing relative labor allocation and productivity with traffic-to-staff ratios provides the operations and workforce management decision makers with a more effective, data-informed way to determine where to apply precious and increasingly expensive store labor resources.

Cutting store labor is never an easy decision. However, when you analyze the store labor relative to store traffic and measure how productive stores are with the labor they have, these decisions become much easier to make.

Take Action

Staffing is more complicated than just aligning to traffic volume. We get it. But it is certainly the place you need to start.

Are your teams actually staffing to when the store is busiest? Are you sure? Your executive team needs a bird's eye 'data' view of this critical question. Traffic-to-Staff ratios give you that view.

HeadCount Help

"You're cutting costs not adding data analytics heads. Traffic-to-staff ratio analysis would be great but it also needs to be set up and regularly updated for it to be valuable. Who's got the time? HeadCount can help. All we need is data you already have and we will give it back to you with deep analysis on where you may be under- or over-staffed; or where your staff volumes seem fine but store team distraction could be hurting conversion.

We can deliver hourly traffic-to-staff ratios for each store and a roll-up report comparing all stores by different time periods for your district managers and head-office leaders."

Marlene McNaughton - SVP Client Services

Strategy 5

Focus Your Marketing Investments on Store Traffic Stimulation

Are Your Marketing Investments Driving Store Traffic?

Driving prospects into stores should be the primary objective of retail marketing. If your marketing isn't driving prospects to your stores, then you're wasting precious budget.

Measuring marketing impact has been – and continues to be – the aspiration of marketers, but too often sales outcomes are used as the ultimate measure of success. And while marketing and sales should be correlated, often they are not.

Part of the problem is in using sales as the measure.

A marketing campaign may be very effective at driving prospects into the stores, but if these prospects aren't converted into a sale, then your marketing will appear ineffective, despite the fact that it was effective at stimulating store traffic. It's not marketing's job to close the sale – that's the store team's job.

A simple example will help illustrate.

This retailer ran a promotion on the third Saturday of the month. Based on the sales results, this was not a successful promotion – the third Saturday had the lowest sales compared to the other Saturdays in the month.

But when you contextualize the sales results with store traffic data, you reach a completely different conclusion – this promotion was actually very effective.

Sales were low on Saturday #3 promotion day, but traffic was up significantly. This promotion was effective at driving store traffic, but the stores didn't convert the traffic and consequently sales were low.

There are two primary ways to reduce marketing costs and deliver better sales with store traffic insights:

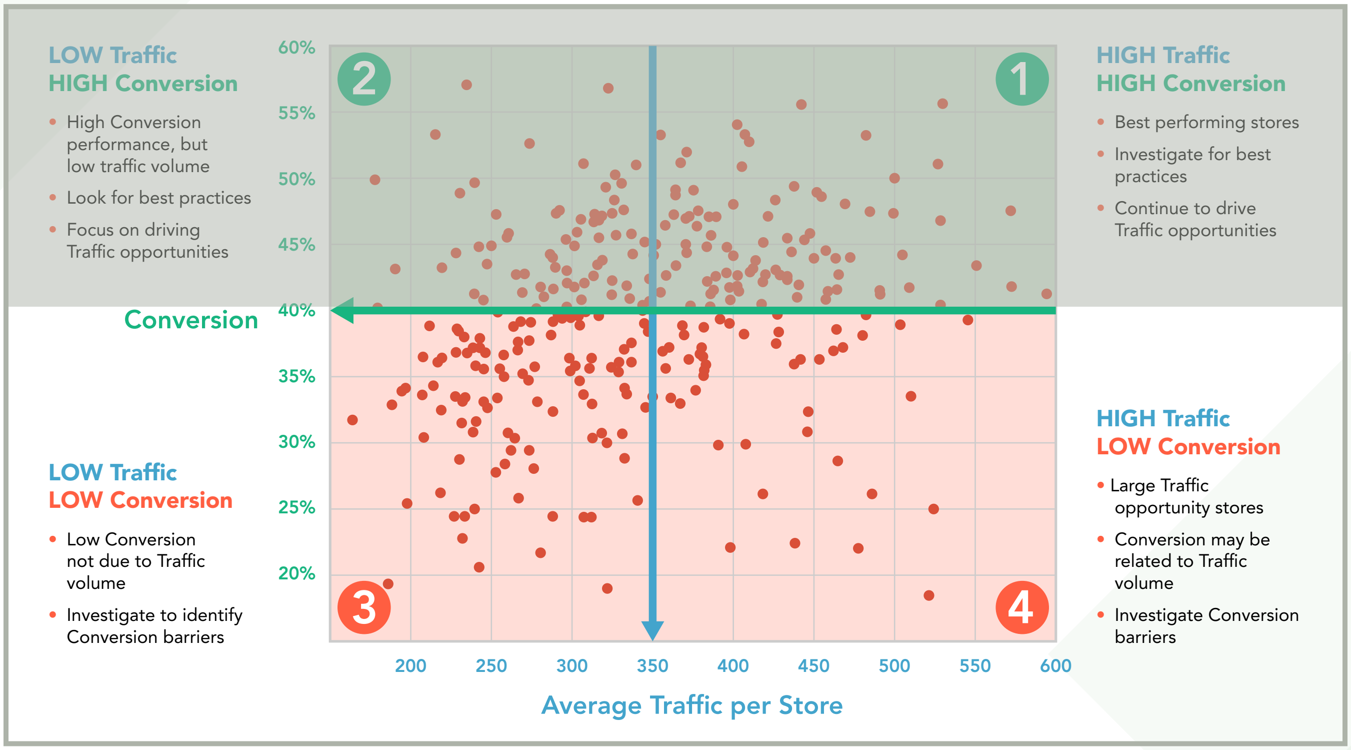
[1] By simply ensuring that your marketing efforts are focused on driving store traffic.

This requires nothing more than having your marketing team analyze store traffic vs. marketing investments on a regular and ongoing basis.

[2] By targeting your store traffic stimulation efforts to the stores that have the greatest ability to convert the traffic into sales, and by eliminating or reducing marketing spends that direct traffic to stores that have low conversion rates and/or low sales per visit results. For this, the quadrant analysis outlined in Strategy #1 will help with targeting.

In the chart below, stores positioned in Quadrant #3 have low traffic and low conversion – driving more traffic into these stores will likely not produce the best return on the marketing investment. This budget could be eliminated or redirected to stores positioned in Quadrants #1 or #2 – both high converting.

Traffic stimulation should also be avoided for stores positioned in Quadrant #4. These stores already have an abundance of store traffic, but they too have low conversion rates.



Marketing remains part art and part science, and so there is no foolproof way to know what will or won't resonate with your shoppers. But analyzing marketing efforts relative to store traffic can go a long way to helping your marketing team get more bang for the marketing buck – helping them deliver more traffic and reduce marketing cost.

Take Action

Test geo-targeted marketing on a block of stores to see if you can attract more shoppers and opportunity to sell for stores that lack traffic.

HeadCount Help

"Corporate data resources are maxed out measuring national campaigns and short-term marketing efforts just don't get prioritized in the queue. We hear it all the time. But, lack of analytics resources should not prevent you from helping stores sell more by experimenting with traffic stimulation efforts. Yet, you need data to prove what's working. Our team can help you measure marketing impact when your inhouse resources just don't have the time but you still need results."

Marlene McNaughton - SVP Client Services

Conclusion

Virtually all retailers are confronting the conflicting objectives to cut cost, but not sales.

It's difficult to find the right balance and not cut costs too deeply or in the wrong places as this will surely and negatively impact sales.

However, as this whitepaper illustrates, when you use store traffic data to contextualize store performance you significantly improve your ability to find opportunities to cut costs while minimizing and even driving sales – despite the cost cutting.

There is no shortage of experts with advice on what retailers should do to navigate these uncertain and challenging times. But often this advice is all about the 'what' without much insight into the 'how' of actually doing it. This whitepaper presented five data-informed strategies that describe the 'how', that any retailer can immediately use.

For those retailers that don't have store traffic data or are not using the store traffic data they have because they don't trust it, your first step is to acquire accurate traffic data. Without this data, none of the strategies presented can be applied.

For those retailers that do have reliable store traffic data, there's no time like the present to implement these strategies and deliver better business outcomes.

About HeadCount

With a 20-year track record, HeadCount is a recognized leader in helping organizations improve the accuracy of store traffic data and deliver better results through the use and application of traffic and conversion insights.

For HeadCount services visit **headcount.com**

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