

IN-STORE TRAFFIC AND CONVERSION STUDY: RETAILERS FIND KEYS TO IMPRESSIVE ROI



Based on research conducted by: **HeadCount**®

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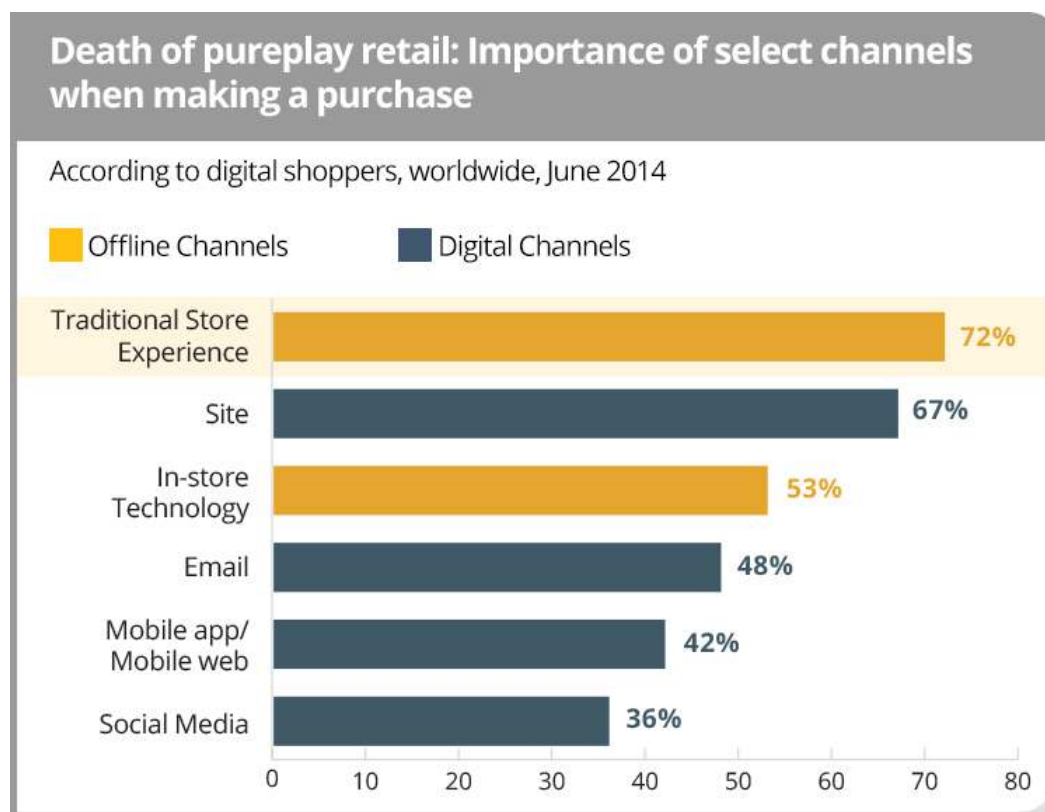
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Intro:

It's do or die for physical stores

Stores are in the midst of an existential crisis. That's not to say retailers today fail to see the value in physical stores. Even operators fully invested in digital channel expansion today recognize stores to be the linchpin of their omnichannel strategies.

And consumers haven't lost faith in stores either. According to an L2 Intelligence Report, 72 percent of digital shoppers cite "traditional store experience" as having key importance to making a purchase.



Source: L2 Intelligence Report: *The Death of Pure Play Retail*

While online sales during the 2015 holiday season, according to NRF, jumped 9 percent over the previous year, the International Council of Shopping Centers pointed out that 91 percent of holiday shoppers still made a purchase in a store.

And yet, the writing is on the wall: traffic counts are indeed eroding and the attention of digitally-attuned shoppers is splintering.

Execs are under increasing pressure to question every store's right to exist. Stores cost too much to get by on a pass — each location needs to prove it can be profitable. Operations need to run efficiently, of course, and marketing must be doing its job, but sales performance is typically the key metric that determines survival.

From Macy's and J.C. Penney to Aeropostale and Gap, hundreds of stores in the last year have failed the test, often in locations and with customer experiences that appeared to be winning formulas. Many stores today are failing, and yet operators seem unclear as to why. Often blanket judgments are made based on same-store sales declines or other general benchmarks that may obscure the real problems.

Many operators are rightly looking to analytics for answers. More specifically, they see detailed analysis of traffic counts and traffic's relationship to sales conversion as key to understanding how to make stores profitable again.

Challenges:

Managers face impediments to putting insights into action

How are we doing, anyway?

In efforts to improve business results, retailers are experimenting with all sorts of customer engagement systems and analytics. However, implementing these new systems with the hope of improving sales can be like taking a homeopathic remedy. “I think I feel better, but was it the Echinacea or the bed rest? And maybe I would have gotten better on my own anyway.” Without consistent measurement and expert analysis, there is no way of knowing a retail system designed to enhance the customer experience or improve productivity should be credited with a rise in sales, blamed for a slide, or written off as inconsequential.



And yet the main selling point for in-store analytics is clear: retailers need a view into what is really happening at each location, hour-per-hour. Once in use, they see lots of data being generated from such programs and may successfully derive insights from that data. But when it comes to follow-through — using those insights to convert browsers into buyers — they fall short of their ROI goals. And when they do experiment with new selling and customer service approaches, they struggle to connect cause and effect, thereby making proof of ROI difficult.

Many retailers fault the cookie-cutter approach of the programs they implement.

“Despite all the talk about data and customization, most CX initiatives still have a ‘one size fits all’ flavor to them,” wrote Peter Fader, professor of marketing, The Wharton School on RetailWire.com. “It’s just another band-aid that retailers are putting on a gaping wound caused by their inability to truly understand and leverage customer-level data.”

How traffic relates to conversion

When gauging how their stores are doing, retailers have for good reason relied heavily on store traffic counts. And yet the logic that “more traffic gets you more sales” is one-dimensional.

“The measurements in most stores are at a very ‘gross’ or macro level — far too simplistic to be meaningful or diagnostic,” says retail business analytics consultant Chris Petersen. “Simply counting traffic in the door and then counting sales tells you virtually nothing from a diagnostic standpoint.”

While there’s no doubt filling the aisles with shoppers is important, most boots-on-the-ground store managers know that the relationship between traffic and sales is sort of like modern love — it’s complicated. In fact, at times, managers see an inverse relationship — sales dropping as sales floors crowd up.

The formula for converting traffic to sales varies considerably by location, product category, selling season and a host of other variables, all influenced greatly by in-store merchandising, environmental design, operational efficiency and, perhaps most importantly, employee engagement.

So, yes, it’s complicated. And that’s where analytical tracking comes in. But again, what to do with all that data even with the automated report generators available?

“Retailers have been sitting on a gold mine of valuable shopper data for a long time and have not yet fully leveraged this asset and turned it into value on a consistent basis,” wrote Graeme McVie, VP & GM, Business Development, Precima on RetailWire.com. “Retailers ... need mechanisms in place that interpret the analytic outputs and enable the decision-makers across the company to take concrete actions based upon the analytical insights.”

Analytics for store and district managers

Collecting data and deploying analytics tools is an important first step, but if insights can’t be extracted from the data and then acted upon, results won’t improve.

Store and district managers are interacting with customers every day and are in the best position to influence results. The problem, according to HeadCount Founder and CEO Mark Ryski, is that most analytics programs overlook the reality of a store and district managers’ work life. These systems seem to be designed for data analysts or specialists and not managers in the field.

Most field managers, according to Mr. Ryski, lack the training, aptitude and often the time to interpret the data they are given access to. Even when data is presented in a

simple and easy-to-digest format, it seems that field managers need additional support to connect the insights to actions.

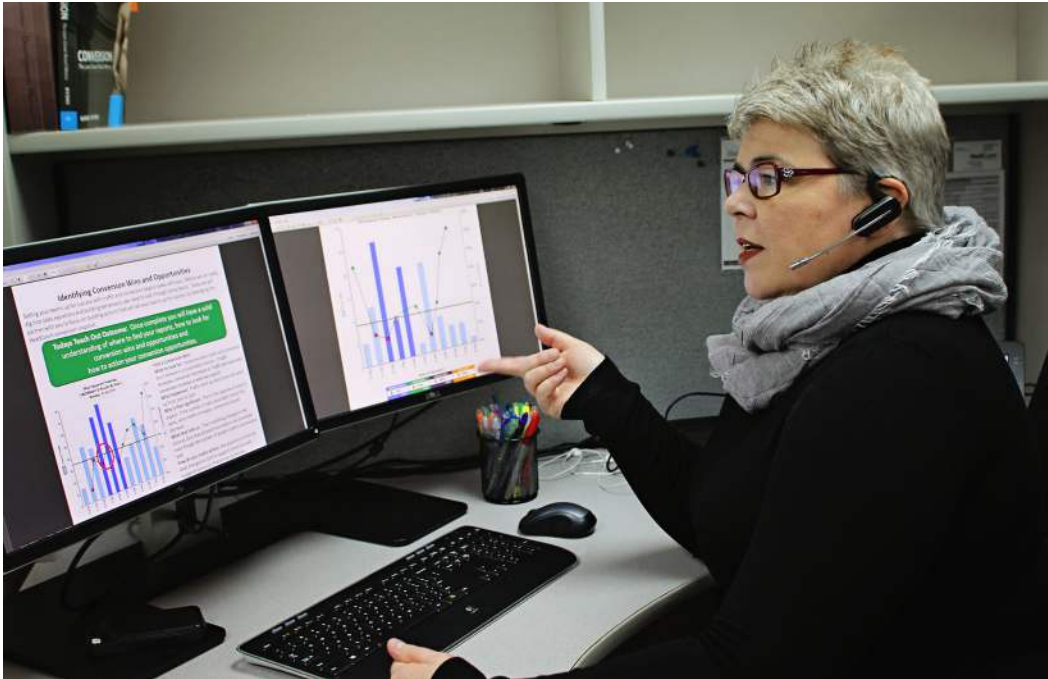
As Richard Sefcik, VP client management at HeadCount, says, "Providing store and district managers with access to data and then expecting better business results is like giving someone a grand piano and expecting them to play beautiful music — it's unrealistic."

Oftentimes the system itself throws up roadblocks as well. Having a store or district manager log onto a web portal to pull down reporting can be cumbersome and may create a real barrier to use. Data presentation can also be a problem. Data is often made available to managers in tabular form, which makes it difficult to spot trends.

In short, many retailers have invested in store traffic counting, conversion tracking and other in-store analytical programs to the extent that all the elements necessary for success seem to be present, and yet few have connected A-to-B-to-C in order to yield the R-O-I they seek.

"Delivering reporting to store and district managers in easy-to-use formats is a solvable problem," said Mr. Ryski, "but in our experience, reporting alone won't deliver better results. So we turned our attention to how we could help managers 'action' the insights, and that led us to data-driven coaching." "This is a big gap," said Mr. Ryski, "and, in our experience, it's a gap that most retailers have not addressed."

The Study: Testing the effects of combining data-driven coaching with analytics



Chrysi Rubin, TalkTraffic Coach, conducting a Teach Out with a client to identify conversion wins and opportunities.

HeadCount, a pioneer in the science of store traffic and conversion measurement, has worked with many retailers for more than a decade on improving conversion rates and sales productivity. However, the idea of using the stores' data to actively coach store and district managers on how to apply the insights was innovative.

"The reality is that many of their systems fall short — way short of the promises," commented Mr. Ryski. "Retailers have become skeptical and, frankly, they should be," says Mr. Ryski.

HeadCount conducted a number of tests, using A/B methodology, to measure the potential financial benefits of combining data-driven coaching with simplified reporting.

"Any provider that claims that their solution can deliver an outcome should be able to prove it," emphasized Mr. Ryski. "Our goals were twofold: first, to prove the efficacy of our approach to conversion improvement, and; second, to encourage retailers to embrace the A/B test methodology as a way to evaluate solutions like ours."

Jesse Robbins, VP Analytics and Reporting at HeadCount, headed the research project.

“Going into the study, our hypothesis was that the insights from customer traffic data, when properly operationalized in the field, had significant value in helping retailers improve their productivity,” said Mr. Robbins. “Intuitively, and through the work we’ve done with retailers over the years, we knew this to be true, but without conducting discrete tests, where we compare results against a control group, there was no way to quantify exactly how significant of an impact the data can have.”

Methodology

- HeadCount compiled the results of seven discrete experiments spanning four retail verticals and involving over 600 stores;
- For each experiment, sample stores were clustered into test and control groups;
- In all stores, store traffic and conversion rate data were collected and analyzed over a period of 11 weeks to 43 weeks;
- Test store managers were provided with simplified daily scorecards showing their store’s traffic and conversion rates by hour;
- Additionally, test store and district managers participated in a series of brief coaching sessions delivered by phone and webinar to help them interpret the data for use in improving sales performance;
- Results were analyzed on four dimensions, contrasting test vs. control stores both before and after the test periods. In cases when year-over-year data was unavailable, results were viewed relative to a baseline period.



Mark Ryski, author, CEO & Founder of HeadCount Corporation, delivering a coaching session to a group of district managers.

The Metrics

Bearing in mind that traffic and conversion rates can often be inversely related, researchers zeroed in on sales generated per traffic count — or traffic productivity — as the key measure. In essence merging conversion rate and average sale value, in the researchers' view, is the metric that most accurately represents how effectively stores convert sales opportunities (store traffic) into sales results.

The researchers also took pains to avoid misleading conclusions. For example, it was important that improvements in sales productivity could be attributed to actions taken by store managers and staff, as opposed to uncontrollable circumstances such as spikes in store traffic. By focusing on sales dollars generated per traffic count (traffic productivity), the research team looked to get a clear view of the program's influence on results.

In addition to quantitatively measuring the traffic productivity impact of test vs. control groups, researchers also captured qualitative feedback from store managers as part of the study.

Explained Mr. Robbins, "The quantitative data in our study allowed us to answer the 'what' — how big of an impact these insights could have, measured primarily in terms of revenue per traffic count. The qualitative feedback from managers allowed us to answer the 'how' by connecting the insights back to the actual behaviors in the field which led to those better results."

The Results:

Net improvement of 500+ basis points



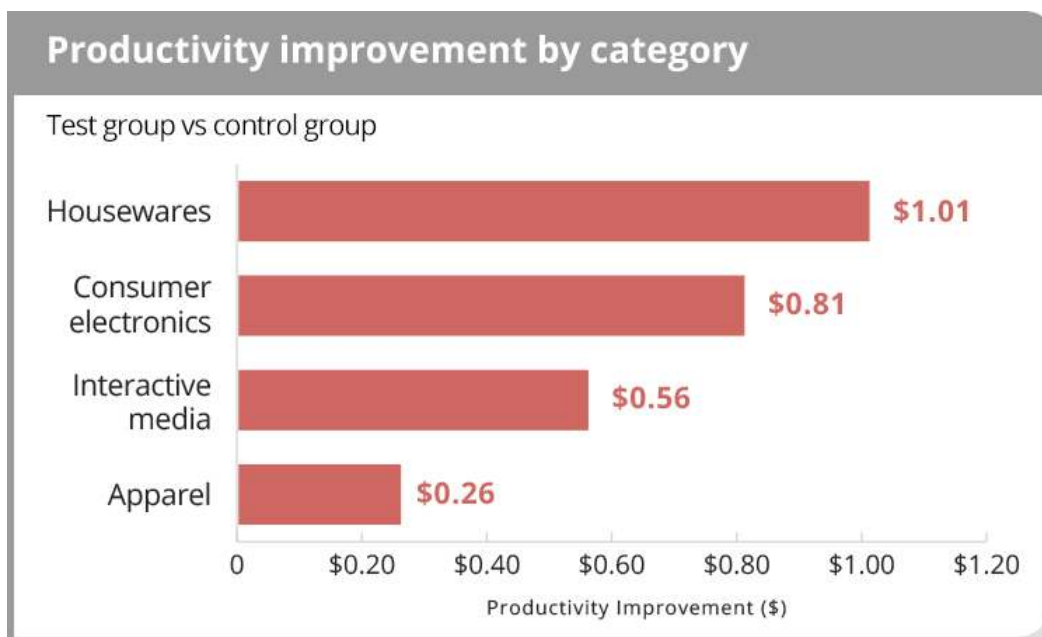
Mark Ryski reviewing test results with HeadCount team members.

Results varied, as one might expect, store-to-store and category-to-category, but overall, the test stores made impressive sales productivity gains vs. the control counterparts.

- Aggregate results across all seven experiments showed that the test group had **a net sales productivity improvement of 537 basis points**. By another measure, that's a \$0.67 gain on average over the control group for every traffic count logged;
- Calculated at the category level, test store results ranged from a 210 basis point improvement in apparel to a 772 basis point gain in housewares;
- In financial terms, the net productivity gains translated into increases that ranged from \$1.01 per traffic count logged in housewares to \$0.26 per traffic count in the apparel category.



Three of the seven experiments delivered traffic productivity gains of approximately \$1.00 per for every traffic count logged. With some stores seeing over 1,000 traffic counts per day, these yields could add up to many thousands of incremental sales dollars for the store and millions across the chain.

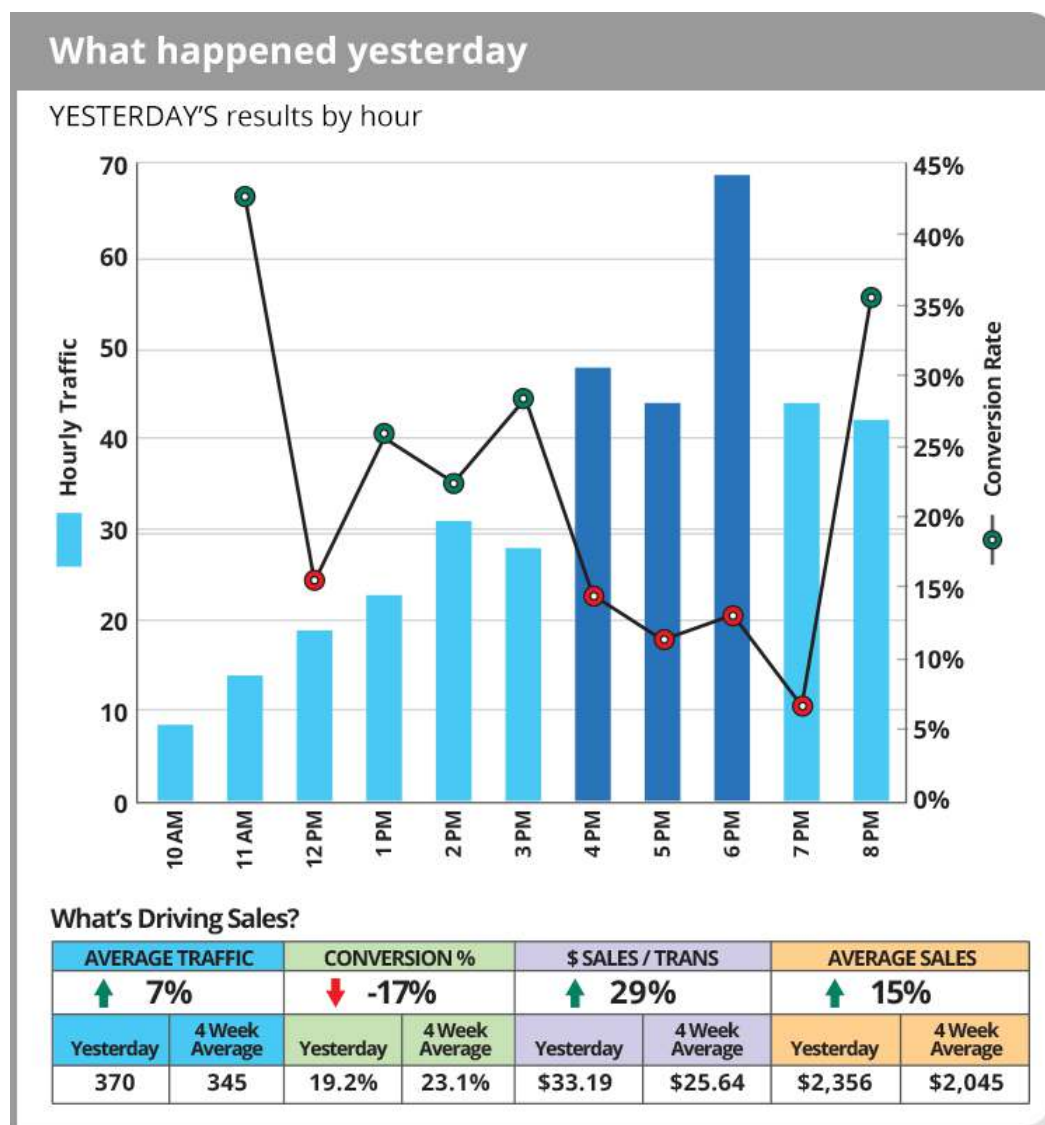


In several cases, retailers conducted their own internal analysis of the results to verify that these substantial gains were accurate. While each retailer's approach to validating results was unique, the results were corroborated in all cases.

The Learnings: Analytics with coaching made the difference

Simplified reporting

As opposed to tabular data, simplified, visual traffic and conversion reporting emerged as a key catalyst for change in the experiments. The researchers developed a short-form daily scorecard for test store managers that laid out the previous day's traffic and conversion trends by hour, indicating where loss was occurring.



Source: HeadCount sample scorecard



Richard Sefcik, Vice President Client Management conducting a TalkTraffic Kick-off Briefing.

The test group managers received the simplified scorecard by 9 AM each morning via e-mail. Managers said that they found the “push” reporting far more convenient than pulling data down from the web, or accessing it from a portal, making it that much more likely to be reviewed.

Data-driven coaching

The act of compiling the most salient information and presenting it to managers in digestible bites proved to be important enablers, and yet the researchers saw that managers still need guidance on the best ways to apply the insights.

Richard Sefcik – VP Client Management, HeadCount:

“We use data-driven coaching to keep store leaders engaged. Rather than provide generic training, we provide coaching based on the store’s actual data. We keep them focused on controlling what they can control and what will drive conversion.”

As part of the experiment, the research team provided test group store and district managers with both individual and group coaching.

Coaching was customized by retailer, and conducted separately for store managers vs. district managers:

- Store manager sessions focused on capturing opportunities in the store, with an emphasis on staff scheduling and adjusting behaviors based on traffic cadence;
- District manager sessions focused on store-to-store comparisons across the district and ways to support store managers.

Engagement monitoring

Unlike typical “once-and-done” training, the coaches strove to adjust the “narrative” as required throughout the test period based on the stores’ data and according to each manager’s learning style.

Kevin Graff, President, Graff Retail:

“I work with dozens of chains that work with traffic counting systems and can tell you without question that the measurement of traffic and the related conversion rate metrics drive results. Staff become far more concentrated on getting to customers, resulting in a better customer experience and increased sales.”

The researchers saw this extended, adaptive coaching style as essential to inspiring a higher-level of engagement in the managers.

Engagement is also seen as the key to minimizing the “pop and atrophy” effect that leads to disappointment down the road, according to Mr. Robbins.

“We have seen that retailers will often get good early returns, or a ‘pop’ in their results, when first introducing traffic analytics into the field,” said Mr. Robbins. “Particularly those who are more data minded are able to identify some of the ‘low hanging fruit’ opportunities in their stores. But if the retailers fail to create sustained engagement with the data, those early positive results will ‘atrophy’ over time.”

The key to realizing the long-term value of the analytics, says Mr. Robbins, is to keep managers engaged with the data on an ongoing basis, making traffic analytics, and its related KPIs, a part of the day-to-day store culture.

What about beacons and other new in-store technologies?

Mark Ryski, Founder and CEO, HeadCount:

"While our primary objective was to quantify the impact of our approach to analytics and data coaching, we realized that traffic and conversion data could also provide critical context to help retailers measure the impact of new technologies, such as beacons.

"If deploying beacons as a way to drive up sales, reasonably a retailer would analyze sales results in a test group of stores with beacons compared to a control group. If the test stores didn't see a sales lift compared to the control stores, the retailer might conclude that the beacons were ineffectual.

"However, with traffic and conversion data we might, for example, discover that traffic had actually decreased in the test stores at the same time that conversion rates were increasing. The beacon test might have looked like a dud because of the overall decrease in sales caused by lower traffic when, in fact, the beacons may have been very effective. A well-constructed traffic and conversion test can answer not only the 'did we convert' question but also isolate what worked and how well it worked."

Five Key Takeaways

Any high school French teacher can tell you that unless students immerse themselves in the new language soon after their course of study, their time in class will be wasted. The process begins with giving students the right tools, but success hinges on real-life engagement and ongoing reinforcement.

For retailers investing in in-store analytics, HeadCount's exhaustive study illustrates important principles about deriving ROI from such programs:

1. Stores are the new internet:

In this data-driven, customer-centric age, retail stores will live or die on the strength and effectiveness of their data management and analytics initiatives.

2. The ultimate destination for insights is the front line:

Those most likely to exercise the greatest influence over sales performance — store and district managers — are given the best opportunity to do so when they are afforded the necessary insights, skills and ongoing support.

3. Traffic and conversion are your watchwords:

Of the wealth of resources available to retailers, basic store traffic and conversion data should be prioritized because of its usefulness in understanding precisely how sales productivity can be improved;

5. People are not computers:

Big Data gets more (astoundingly) complex every day, making it that much more important to have a process in place for harvesting the key insights, presenting them to managers in digestible bites, and inspiring action that delivers meaningful and measurable results;

6. Replace “once-and-done” with “forever learning”:

Everything in retail changes, all the time. Adapt — continually — or die. To avoid the quick “pop and atrophy” syndrome experienced when the initial glow of a new traffic and conversion program quickly wanes, retailers need to support store and district managers with ongoing coaching to help them interpret and apply the insights.

Following Up

More resources from HeadCount



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