

When Retail Customers Count

How understanding customer traffic patterns can help good retailers become great retailers

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CHAPTER

Sales Conversion

Turning shoppers into buyers

“Conversion rate is to retail what batting average is to baseball—without knowing it, you can say somebody had a hundred hits last season, but you don’t know whether he had three hundred at-bats or a thousand.”

– Paco Underhill,
Why We Buy: The Science of Shopping

Sales Conversion

WHEN YOU ASK A RETAILER the one very basic question every retailer MUST know the answer to—“Of the total number of prospects that visit your store, how many actually buy?”—the reaction you get is very interesting. First, the retailer looks at you like you’ve just asked him the most obvious question in the world—kind of like, “What’s your favorite color?” Then, as he starts to formulate his response, you can see the gears starting to turn—“OK, OK I know I’ve seen this on a management report somewhere... Hum... what’s that damn number...” A few seconds (or minutes) later, panic strikes. In that moment he realizes that he doesn’t know the answer. So like any good manager he takes a wild guess—but he says it with authority so that it sounds indisputable—“a very large percentage actually buys” or (I love this one) “industry stats say it’s about 25%.” Of course such statistics don’t really exist. Busted!

SALES CONVERSION

- Conversion defined
- No traffic, no conversion
- Sales vs. conversion
- Calculating conversion rates
- Conversion and traffic
- Factors affecting conversion
- Driving conversion rates

Whether you sell cars or cameras, shoes or shovels, and everything in between, you actually do have

a sales conversion rate—you just don't know it (yet). Sales conversion rates, like the weather, are constantly changing. So, like the weather, you need to check the temperature frequently and continually. However, unlike the weather, you can actually influence sales conversion rates in your store.

In this chapter we will explore sales conversion in great depth. It is the most fundamental and critical concept that a retailer—all retailers—must understand.

Sales conversion defined

To ensure an accurate calculation of sales conversion rates, we need to start with a mathematical basis or formula. The sales conversion formula is as follows:

$$\frac{\Sigma = .5\Pi(3.75y^2) \cong Z}{a + b + c}$$

Stop! Don't shut the book—I'm kidding. If the formula for calculating sales conversion rates really was this difficult, no retailer on the face of the planet would be able to calculate it! (Myself included.)

Actually, sales conversion is calculated very simply, as follows:

$$\text{Sales Conversion} = \frac{\text{Sales Transactions}}{\text{Traffic}}$$

For example, if on a particular day, your store did 500 transactions (or individual sales) and the total prospect traffic in your store during the day was 1,000, then your sales conversion rate for the day would be 0.5 or 50% (500/1000=0.5). Pretty simple.

No traffic, no conversion

“Transactions” are defined as unique sales, that is, a person who comes to the till with one or several items to buy. Virtually every retailer can tell you, without even a moment’s hesitation, precisely how many transactions or sales they have made in a day. Furthermore, retailers have sliced and diced these transaction numbers, plotted charts and graphs of them; they can even quote year-over-year comparatives, average number of items per transaction and average sale amounts. Are you kidding, every retailer worth her salt can tell you this! But, unfortunately, most can’t tell you what their sales conversion rate is because they don’t know their traffic count. As basic as the sales conversion formula is, without knowing your traffic count, you don’t have a denominator and therefore can’t complete the calculation.

It’s not that I particularly take pleasure in making retailers feel uncomfortable by asking the “conversion rate” question, but when I visit a retailer’s store and I don’t see any traffic counting mechanism, I know they cannot calculate conversion rates—it’s impossible without a traffic count. And if they don’t know what their sales conversion rate is, then they don’t fully understand how their business is performing. Period.

It’s all about sales—right?

On numerous occasions I’ve been taken to task by retailers on the importance of sales conversion. They say, “I track sales—sales are everything. If sales are going up, I know I’m doing well.” Well, it’s not usually a long argument, because I agree—sales are important. But, if you look at sales alone to measure your performance, you are not getting the whole story. Here’s why.

Let’s say that on Day 1 a retailer had \$31,500 in sales (based on 630 transactions) and on Day 2 sales jumped 40% to \$44,100 (based on 882 transactions). You can see the impact in Figure 4-1. The average sale value was \$50 on both days. Furthermore, let’s assume that profitability is the same percentage of sales on both days. Great! Most retailers would be very pleased with this result—why wouldn’t they?

OK, so far, so good. But here’s some additional information to consider.

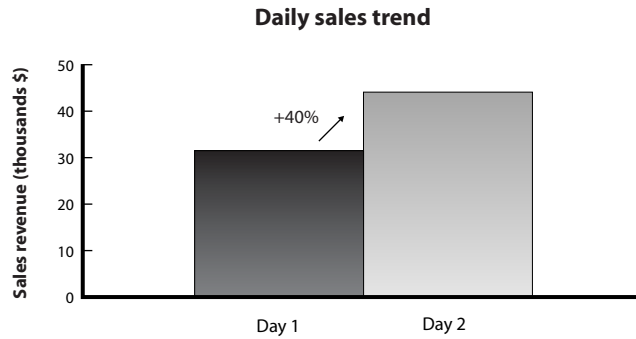


Figure 4-1

On Day 1, total customer traffic was 1,750 and 3,392 on Day 2. Of course, now that we have this information we can plug it into our new formula (the actual formula) to calculate sales conversion rates as shown below in Table 4-1.

Table 4-1

Conversion Rate = $\frac{\text{Transactions}}{\text{Traffic}}$	
Day 1	Day 2
$.36 = \frac{630}{1,750}$	$.26 = \frac{882}{3,392}$

Although transactions, or sales, went up by 40% on Day 2, the sales conversion rate actually went down ten percentage points or by 28%. As one retailer so succinctly put it—“So what? Sales still went up. I don’t get your point.”

Here’s the point. Although it is good that sales went up on Day 2,

the fact is, it could have been a lot better. To be more precise, if, on Day 2, the retailer could have maintained a 36% conversion rate (instead of dropping to 26%), then 1,221 total transactions would have been made—or 591 additional sales. Assuming the average sale was worth \$50 on both days, this would add up to an incremental \$29,550 in sales. Think about it. If conversion rates could have been held at 36% on both days, and the average sale remained \$50, then this retailer would have actually increased sales by 94% over Day 1! Magical, isn't it? Here's the math in Table 4-2 just to prove it:

Table 4-2

Performance vs. the sales opportunity

	Day 1	Day 2	
Conversion Rate	36% (Actual)	26% (Actual)	36% (Target)
Traffic	1,750	3,392	3,392
Transactions	630	882	1,221
Average Sale	\$50.00	\$50.00	\$50.00
Total Revenue	\$31,500	\$44,096	\$61,056

So, it's not that increasing sales isn't something to be happy about, but I'd be happier if I knew I was making the most of the opportunity. A 40% increase is nice, but a 94% increase is even nicer. I can only be unhappy with 40% if I know 94% was possible and I can only know that 94% was possible by knowing sales conversion rates.

Calculating conversion rates

Now that we've covered the general idea of sales conversion, let's start digging into some of the many nuances of calculating conversion rates. To accurately calculate conversion rates, you need to ensure that the variables in the sales conversion formula (*i.e.* number of

transaction counts and traffic counts) are accurate. If you suspected that this conversion stuff is not quite as easy as it looks, you would be correct. But it's not rocket science either. Let's start by looking at traffic counts, and then we'll take on transaction counts.

Traffic counting methods

If a retailer is counting traffic (most don't even bother), there are several ways they can actually collect traffic counts. And, depending upon how the retailer is actually counting traffic, the count precision can vary significantly. The method you use to count traffic will impact conversion rates so let's take a moment to review the three general categories of traffic counting methods:

- **Electronic traffic counting devices**

The most common electronic traffic equipment use infrared sensors at the store entrance to capture traffic counts and then transmit the data to a data collection device. The raw traffic data is then manipulated with reporting software. The downside to this technology is that it's not very smart. In other words, every time the electronic beam is broken (*i.e.* whenever anyone walks in or out through the door), a count is registered. There are more sophisticated video-capture and heat sensing solutions that can determine not only the traffic count but track the direction of the traffic (*i.e.* in or out) and even the general characteristics of the prospect entering the store (*i.e.* male or female). The downside to this technology is complexity and cost. These systems can be very expensive.

- **Mechanical turnstiles with "clicker" counters**

Capturing traffic counts with turnstiles is a low-tech way of getting some basic traffic information, but it's not necessarily cheap (turnstiles can be expensive) or practical for capturing traffic data. For example, you literally need to read the count off of each turnstile, so if you have several of these it can be a pain. And most retailers don't have time to regularly jot the traffic numbers down, so if they get the count once a day they're probably lucky. If you want to look at traffic counts on an hourly basis, it's even more of a pain. Lastly, turnstiles are not especially customer friendly. Generally, in this high-tech

day and age, customers don't like being herded through turnstiles. Furthermore, in many types of retail formats, turnstiles just wouldn't be practical.

- **Manual counts by staff**

Having staff manually count traffic can work in very low traffic volume scenarios, but it's still not especially practical. For example, it's not uncommon for a luxury auto dealer to have the receptionist count "ups." But during lunch breaks, or when the receptionist is distracted on the phone, counts get missed. Manual traffic counting is better than nothing, but not by much.

Refining the traffic count

In many ways, collecting the raw traffic data is the easy part. Refining the gross traffic count in order to determine the actual number of prospects that come into your store can be a challenge. Depending upon the retailer, there is always some level of traffic noise, that is, non-prospect traffic. Some retailers have a significant amount of non-prospect traffic while others have very little. Traffic noise can be caused by a number of factors, including:

1. customer movements,
2. buying group size, and
3. staff movements.

In our quest to refine our prospect counts, it is important to understand these causes.

- **Customer movements**

Depending on the type of retailer, prospects may need to enter and exit the store (sometimes many times) as part of the shopping process. For example, auto dealers have among the highest percentage of non-prospect traffic, ranging from 85% to 98%—that's a lot of noise! It almost seems impossible, doesn't it? Here's a scenario to help put this in perspective.

Shopping for a vehicle

A husband and wife enter the showroom (2 counts registered), and they chat with a sales person who walks them out to the lot to show them a brand new Ford Explorer (3 more counts). After a brief discussion, they all come into the showroom to start negotiating (3 more counts registered). During the discussions, it's decided that the couple would really prefer the red SUV instead of the blue one, so, you guessed it, they all head back out to the lot (3 more counts), go for a test drive, and then come back into the showroom to finalize the deal (3 more counts). One last thing, to finalize the deal, the couple needs to show their current vehicle insurance documentation which is out in their old car—so the husband runs out to the car and back (2 more counts). Finally the new, happy SUV buyers leave the showroom (2 more counts). Of course, the salesperson walks them out to their car, and then comes back into the showroom to complete the paperwork (2 more counts).

In this case, the auto dealer is very progressive and is using a typical electronic traffic monitoring system.

I think you get the point. In this very plausible scenario, 20 gross traffic counts were registered. Being a sharp retailer, the gross traffic count is cut in half to account for the in/out counting (*i.e.* what comes in must go out, so to get a count of only incoming traffic you would divide the total count in half). That leaves us with 10 'in' counts. How many actual prospects were there in this example? One. Yes, one. Although the husband and wife are in fact two people, they are technically only one buyer. So the traffic noise would be 9 out of the 10 counts or 90%.

- **Buying group size**

As the previous example nicely demonstrates, there is not always (and rarely there is) a one-to-one relationship between

traffic and prospects. Often people shop in groups—they're all not prospects. For example, entire families may visit a store together. Although all the family members may be possible buyers, at check out time they likely put all their purchases together for a single (albeit large) transaction. This would obviously understate the conversion rate. Buying group size can make it a challenge to get the precise number of prospects. As you will see later in this chapter, the work needed to refine the number may not be worth the effort.

- **Staff**

It's not hard to imagine that staff alone (including delivery people, cleaning staff, etc.) can generate a significant amount of superfluous counts. Lunch breaks, helping customers carry their purchases to their vehicles, and shift changes all add up. The more staff you have, generally the more non-prospect traffic you will have.

Transaction counts

Most retailers have a point-of-sale (POS) system that can churn out transaction counts—some systems provide retailers transaction counts by the hour or even the minute! Of course, this will vary depending upon the type of retailer. For example, an exclusive jewelry store may only have a handful of transactions per day. Generally, determining transaction counts should be straight-forward for virtually any retailer. That said, retailers that have retail and non-retail transactions (for example, retail, corporate or Web sales) sometimes can have challenges with breaking out transaction types—of course we would only want to include retail traffic to calculate retail sales conversion. Also, some POS systems include product returns in the transaction counts. Although these are technically transactions, this isn't what we're measuring and they will need to be excluded.

Reliable data

No system is perfect, and occasionally anomalies in transaction or traffic counts can crop up. You need to watch for these and occasionally even modify or correct the data. For example, one retailer with an electronic traffic counting system nicely decorated their front

entrance with garland for the Christmas season. A nice decorative touch, we thought. Unfortunately, the garland was only attached at the top of the door frame, allowing the ends of the garland to sway as the heat vents blew. These loose ends were blowing back and forth in front of their traffic monitoring sensors, generating thousands of counts! Boy, they had a pretty low conversion rate that day! The point is, stuff happens. You need to watch for days that seem way-off—there's a very good chance there are data issues.

Conversion rate precision

As you can see, calculating an absolutely precise conversion rate can be very difficult, if not impossible. Although it is easier to be more accurate in some retail formats than others (like in very low traffic/low transaction retailers for example), for most retailers, getting perfectly precise data is not practical. The good news is that retailers don't need absolutely precise numbers to get the critical insights that conversion rates can provide. In this section, we will describe a general framework for thinking about conversion rates and we will also discuss conversion rate granularity—what level of detail do you need?

All things being equal

Retailers often ask “How can I possibly calculate conversion rates when it's virtually impossible to get an accurate traffic count because there is so much non-customer traffic in my store?” In fact, this is likely why many retailers have not pursued conversion analysis sooner. When you have lots of staff coming and going, people shopping in buying groups and other factors already mentioned, it does seem insurmountable—well almost.

It is true that there can be a lot of noise in traffic data, but if the noise level is relatively consistent, it can be accounted for in the analysis. Here's an example:

A large technology retailer has 40 staff on the sales floor on any given day. Though the staff all come in from a special staff entrance, during the day, most of them will exit and re-enter from the main entrance numerous times—taking lunch breaks, helping customers carry purchases to their vehicles or simply to get some fresh air.

Over the course of the entire day, these staff counts can add-up to literally hundreds of non-customer counts.

Sound familiar? In this case, the retailer has two options for managing the traffic impact:

1. ignore the impact of staff counts or
2. estimate and eliminate the staff counts.

1. Ignore staff counts and focus on the percentages

If you assume that staff movements occur consistently, that is, on any given day these 40 staffers are going to be coming and going about the same number of times (which is very often the case), then you can ignore them and focus on conversion percentage increases and decreases or the conversion rate factor. For example, if the daily conversion rate (including all the staff noise in the traffic variable) is 50%, then this becomes the conversion rate factor or benchmark. Day in and day out, management should then focus on driving the conversion rate factor up – as long as the conversion rate factor stays at 50% or higher, management will know that they are holding their own from a conversion perspective.

As the chart in Figure 4-2 shows, even with the staff noise included, management has the ability to monitor conversion rates. Although data anomalies may come up, over time and with enough data

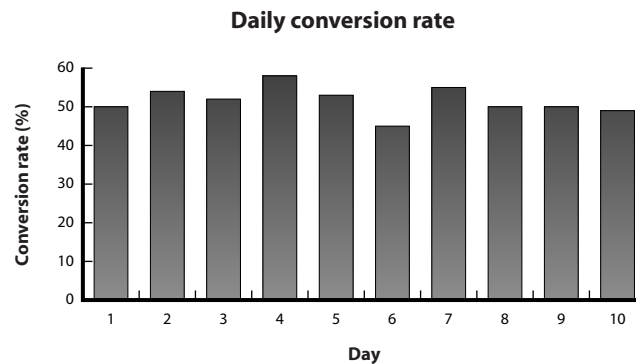


Figure 4-2

points, management will have a very good understanding of conversion rate changes. By including staff counts, the actual conversion rates will be understated because the traffic count is actually higher (*i.e.* because of staff) than the actual prospect count. The calculated conversion rate would be higher if you calculated the conversion rate based on the actual number of prospects (*i.e.* total traffic *less* staff counts). That all said, the important thing for management to monitor is how conversion rates are changing—either going up, staying flat or going down.

Table 4-3

Factoring out staff counts from the conversion rate

Description	
Daily gross traffic count including staff movements	2,000
Estimated movements of 40 staff during the day (assume staff generate 5 counts each per day)	200
Traffic excluding staff	1,800
Transaction count	1,000
Conversion Rate (excluding staff counts)	56%
Conversion Rate (including staff counts)	50%

2. Estimate and eliminate staff counts

In this approach management would estimate the staff impact on total counts, and then eliminate these staff counts from the total counts in order to more accurately estimate prospect traffic. In auto or furniture retailers, for example, where personal selling is a critical success factor, a more precise prospect count may be useful. Here's how the numbers might look if the computer store management decided to estimate and eliminate the staff counts:

As Table 4-3 shows, when staff counts are eliminated, the conversion rate increases. The staff elimination approach is not as problematic as it might have seemed at first. By simply adding up total staff numbers and estimating movements, management can develop quite an accurate estimate of the number of staff counts.

If more precision is desired, this can be accomplished through basic observation sampling. In other words, management would need to have staff count their movements for a day or two to get an estimate or have someone monitor staff, noting the total number of staff movements. Once a factor has been identified, this can be used on an on-going basis. Management might want to conduct periodic sampling just to be certain that the staff estimates haven't changed too much. It won't be perfect, but it will be close enough to provide management with a pretty good idea.

Conversion rate granularity—too much information!

The amount of granularity or level of detail that a retailer needs varies—one size does not fit all in this case. Some retailers can effectively use conversion rates by the hour; other retailers are better off looking at conversion on a weekly or even a monthly basis. The key here is using conversion rates effectively. There really is no point to going to all the effort of calculating conversion rates by the hour if you're only going to practically use daily conversion rates. Here are two ends of the spectrum to consider—most retailers will fall somewhere in between:

1. a large high volume mass consumer products retailer and
2. an auto dealer.

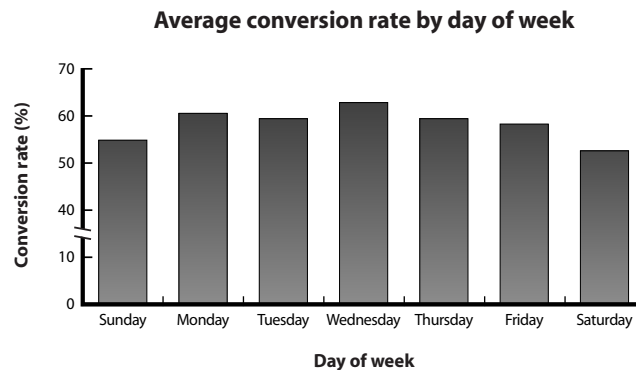


Figure 4-3

Example 1: Consumer products retailer

A high volume consumer products retailer is definitely interested in daily and even hourly conversion rates. As the chart in Figure 4-3 shows, there is variation in conversion rate by day-of-week and it is important for the retailer to understand the conversion rate patterns.

With an understanding of conversion rates by day, this retailer would also want to understand conversion rates by the hour of the day.

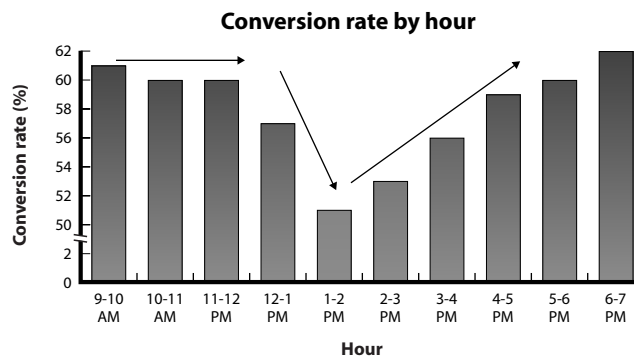


Figure 4-4

As the chart in Figure 4-4 shows, conversion rates can vary by the hour of the day. In this case, conversion rates dropped at 1 PM and then slowly tracked back up until closing. Upon further investigation it became clear that the conversion rates were decreasing because staff were taking lunch breaks from 1 PM to 3 PM. An understanding of these patterns can be very useful to management in this type of retail environment.

Example 2: Auto dealer

As described earlier, auto dealers have a significant amount of non-prospect traffic. And, by the very nature of how people shop for cars, the amount of movement in and out of the showroom is significant. This, along with the fact that comparatively speaking, auto dealers have relatively low transaction counts (*i.e.* a lot of traffic is generated—mostly noise—compared to the number of deals written

or transactions on a given day) does strange things to conversion rates. Conversion rates by hour or even by day in this case, are not

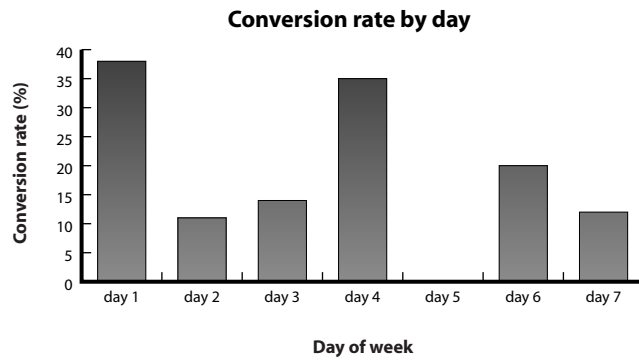


Figure 4-5

particularly meaningful to management. Interestingly, conversion rates become more meaningful in this type of retail environment when we look at them in aggregate on a weekly or monthly basis. As the chart in Figure 4-5 shows, conversion rates for auto dealers can swing dramatically from day to day. Although some of this can

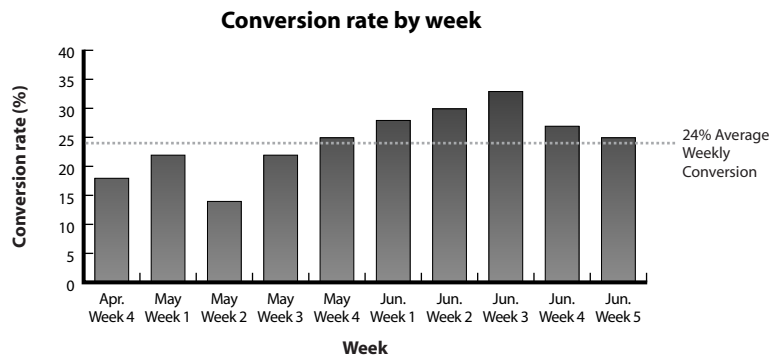


Figure 4-6

be explained by sales staff effectiveness, to a greater extent, it is a result of the noise in the traffic data.

Although looking at daily conversion rates may not be especially meaningful to auto dealers, conversion analysis becomes quite useful when we look at weekly and monthly averages. As the chart in Figure 4-6 shows, the conversion pattern becomes clearer when we look at more aggregated data.

When the data is REALLY noisy

When there is a lot of noise in the traffic data, it may be worth doing some basic observational surveying to estimate a prospect ratio. Again, auto dealers are a good example of this. To estimate a prospect ratio, simply have someone count actual prospects that come into the store over a period of time, compare these prospect counts to gross traffic counts for the same period and calculate the prospect ratio. Here's an example.

Prospect traffic in an auto dealer was monitored over several weeks during weekdays and weekends. This was done because the prospect counts were felt to be different on weekdays compared to weekends. This makes sense, as people tend to shop together as a family unit more on weekends than on weekdays.

As Table 4-4 shows, based on this sample during the weekday actual prospects made up only 4% of the gross traffic counts, while on the weekend the prospect traffic was 9% of the total traffic. In this case, prospect was defined as one buying group. So for example, a husband and wife may have come into the showroom together to shop for a vehicle, but they were counted as only one prospect. With the prospect ratios identified, we can now apply these ratios to total store traffic to calculate the estimated number of prospects that come into the dealership on any given day. Will these factors change? Yes, of course, they will change, but again consistency is the key. If the dealership consistently uses the same prospect ratios for weekdays and weekends, over time the conversion rates will be comparable and therefore provide management with a basis to gage relative conversion performance.

Conversion precision—final thoughts

Conversion rate precision is all about finding the level of detail that is appropriate for your needs—as you can see, it can vary significantly. When it comes to calculating conversion rates, precision

Table 4-4

Prospect count vs. gross traffic count

Weekday			
	Prospect Count	Traffic Count	Customer Ratio
9 to 10 AM	1	28	4%
10 to 11 AM	0	41	0%
11 to 12 PM	2	47	4%
12 to 1 PM	1	29	3%
1 to 2 PM	2	45	4%
2 to 3 PM	1	29	3%
3 to 4 PM	2	39	5%
4 to 5 PM	3	48	6%
Total	12	306	4%
Weekend			
	Prospect Count	Traffic Count	Customer Ratio
9 to 10 AM	3	40	8%
10 to 11 AM	4	51	8%
11 to 12 PM	5	55	9%
12 to 1 PM	5	62	8%
1 to 2 PM	6	70	9%
2 to 3 PM	7	75	9%
3 to 4 PM	5	60	8%
4 to 5 PM	5	54	9%
Total	40	467	9%

is nice, but it's not absolutely critical. Calculating conversion rates using a consistent basis is far more important.

Conversion rates and traffic patterns

OK, now that we've beaten sales conversion rate calculation to death, let's look at how conversion rates relate to traffic patterns. First, a quick review of terminology:

- **Customer** – a person who comes into your store and makes a purchase;
- **Non-buyer** – a person who visits your store, but doesn't make a purchase;
- **Traffic** – the total number of counts in your store; this includes customers, non-buyers and potentially non-customer traffic.

The reason it is important to be clear about these terms is that some retailers refer to their transaction count as their customer count. Strictly speaking this is correct; however, some retailers erroneously equate "customer count" with "traffic count." Clearly this is not the same thing. For example, 1,000 prospects may visit a store (traffic count), but only 500 of these may actually purchase something (customer count). When retailers tell me they know their customer

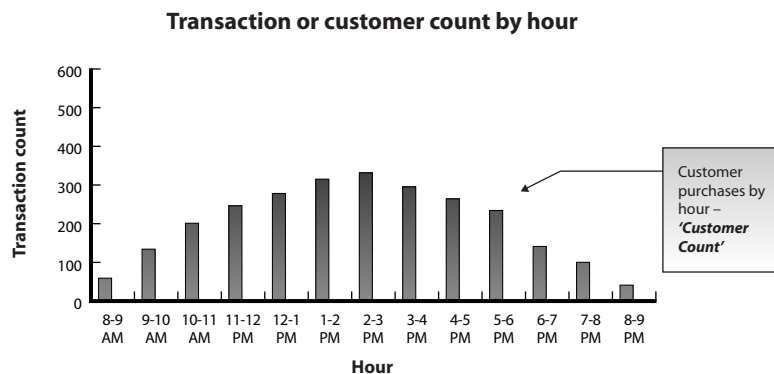


Figure 4-7

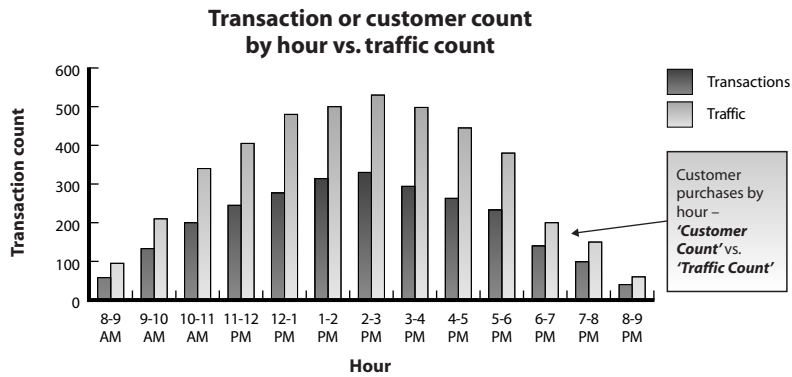


Figure 4-8

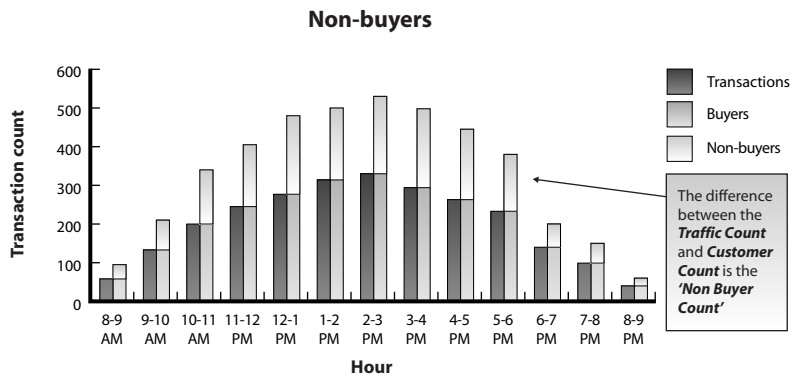


Figure 4-9

counts and therefore have no need to count the number of people who enter their store, I get nervous. Why? Because, managing 500 visitors is very different than managing 1,000 visitors. By saying your customer count is 500, you may be sub-optimizing (for example, under staffing) based on these actual buyers instead of focusing on the number of prospects—which may be a significantly higher number. The following charts in Figures 4-7, 4-8 and 4-9 provide a visual representation of the three categories of traffic counts.

So, let me get this straight: these non-buying prospects came to your store, wandered around, but didn't buy anything? Aren't you just a little curious about why?

Conversion is about the people who DON'T buy

Retailers are utterly obsessed with the number of customers who buy, or transactions. OK, I can understand this, but if you want to drive sales performance in your store, you need to focus on the prospects who DON'T buy! The customer who bought something must have been satisfied in some way; those that weren't satisfied obviously left without making a purchase. I'd want to know who these

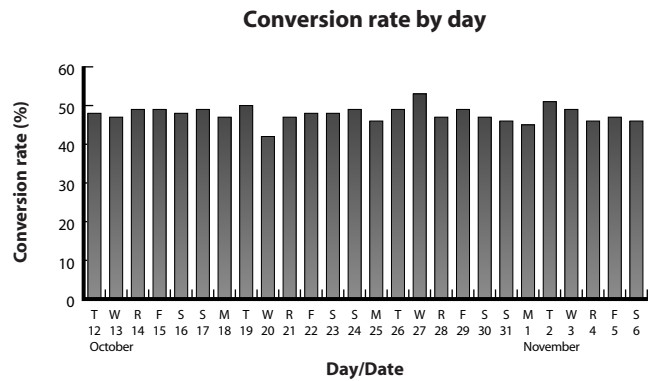


Figure 4-10

people are, how many of them there were, and most importantly, why they didn't buy.

In order to understand how many prospects you have, you need to start with the traffic counts—the volume and timing of the non-buyer traffic can tell you a lot about what you might need to do to turn more of these prospects into buyers. Let's start by looking at a range of conversion rates by day as illustrated in the chart in Figure 4-10.

For a moment, let's focus on the lowest conversion day (*i.e.* 42% on October 20th) and the highest conversion day (*i.e.* 53% on October 27th) which are highlighted in Figure 4-11. As it turns out, both of these days are Wednesdays. So, the question becomes, "What's

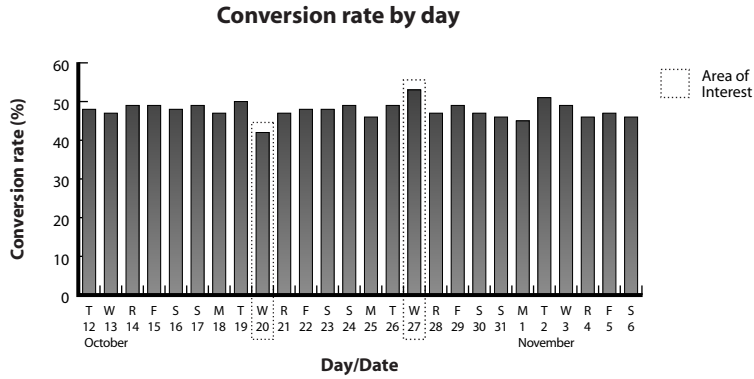


Figure 4-11

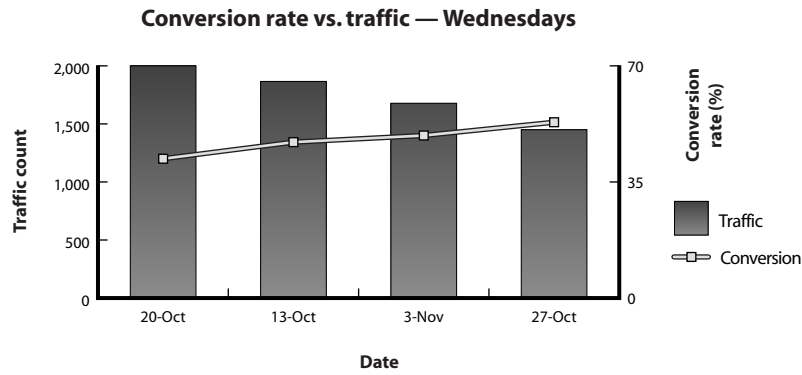


Figure 4-12

different about these two Wednesdays?” This is where the traffic data comes in.

The chart in Figure 4-12 shows conversion rates compared to traffic volume for the four Wednesdays in the data sample. Interestingly, when traffic volume is high (*i.e.* 2,000 counts on October 20th) the conversion rate is at its lowest—42%. As traffic volume progressively decreases, conversion rates progressively increase.

On the lowest traffic day only 1,450 prospect counts were registered, but the conversion rate jumped to 53%. Do you get the feeling that traffic volume and conversion rate are related?

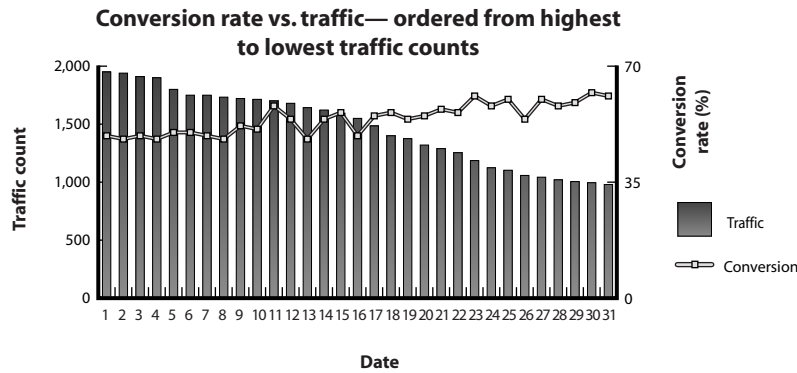


Figure 4-13

In order to see the broader relationship between traffic volume and conversion rates, we plotted the entire data sample of traffic volumes and conversion rates in the chart in Figure 4-13. As you can see, as traffic volumes increase, conversion rates generally tend to decrease. The opposite also holds true—when traffic volume decreases, conversion rates tend to increase. To be even more precise, you would want to compare similar days of the week. For example, the next step in this analysis would be to compare Mondays to Mondays, Saturdays to Saturdays, and so on.

With an understanding of the relationship between traffic and conversion rates, retailers are able to identify potential opportunities to drive overall sales performance. Now that we know that traffic and conversion rates are related, we'll turn our attention to the other factors that can influence conversion rates.

Factors that influence conversion rates

Almost without fail, once retailers discover the significance of conversion rates, their attention very quickly turns to influencing conversion. As one retailer put it, “OK, so now I know my conversion

rate—what can I do about it?” This is, of course, the important question. The answer, however, is that there is no one right answer. Every retailer is different and every store (even stores in the same chain and same market) have different characteristics. While only you will know what the answer is for your store, let’s review some of the key conversion drivers.

Sales staff effectiveness

For retailers who sell high involvement, expensive or complex products, personal selling is probably the key driver in sales conversion. Think of automobiles, jewelry, home entertainment products—all pretty good examples where personal selling is a significant factor in whether a prospect gets converted into a customer. Invariably, this comes down to a discussion about the characteristics that make for a good, or even great, salesperson. Here are a few things to consider:

- **Product Knowledge**

There’s nothing worse than rearranging your life to make time to visit a store that has something you’re interested in buying, only to find yourself talking to a salesperson who knows a lot less about the product than you do. I realize that product knowledge is Sales 101, but you would be surprised at how often this can happen. If personal selling is important to your business, make sure you provide your sales staff with the time and tools to learn the product at a level necessary to make the sale. If you provide the time and tools, but some sales staff don’t use them, get new sales staff.

- **Sales Training**

Beyond a solid understanding of the products you carry (which is an absolute minimum), good salespeople also have a good understanding of selling. There are techniques and strategies to being a good salesperson—very few people are naturals. But the good news is that these techniques can be taught.

- **Appearance and professionalism**

If product knowledge is Sales 101, then appearance and professionalism are Sales 100. As you will learn in any sales training, looks count. Again, it never ceases to amaze me

how many retailers apparently tolerate sloppy appearance. Professional salespeople never look like they just rolled out of bed. Although it is a fine line between personal style and appropriateness, most retail managers know what's right for their store—don't be shy about communicating it to your salespeople.

- **Compensation plan**

Of course, there is no one right compensation plan; every retailer is truly different in this regard. The point here, however, is that if you want to drive conversion rates, you need to make sure your compensation plan encourages conversion. All the elements of the compensation plan like commission versus salary, bonus levels, targets and stretch targets need to reconcile with your sales objectives. A conversion rate target should be included in your list.

Staff levels

Just having the right number of staff in your store can significantly impact conversion rates. For example, if you are a large general merchandise retailer, you will want to make sure your staff schedules are mapped to traffic levels so that you can ensure you have proper coverage (more on this in *Chapter 5*). Especially in big box stores, you would be surprised how many prospects don't buy, not because the store didn't have what they wanted or even the right price, but simply because they couldn't find it!

Merchandising

Good merchandising is all about making products easy to find and buy. The more effective your merchandising, the more easily prospects will find what they're looking for. Again, this is especially critical in large format stores where thousands of prospects may visit during the day. In this case, the product displays will have to do a certain amount of the selling. Disheveled displays, mixed up product and general disorganization gets in the way of a sale. If the prospect needs to track down a staffer to find a product, the probability of losing the sale goes up (*i.e.* they might not find a staffer). Furthermore, really effective merchandising may mean you don't need as many staff!

Till availability

How many times have you dashed into the mega-store and loaded up your arms with those odds and ends you needed, only to discover that the line-up at the till is the length of a football field! To add insult to injury, the mega-store has 22 check-out lanes, but only three are open! Retailers have been trying to solve the till availability problem for a long time—and some are actually pretty good at it. But many retailers still look only at customer or transaction counts to determine till staffing needs. Remember, this only tells them how many made it through the till, not how many who left because the lines were too long!

Promotional strategy

There's no question about it, hot deals will drive up conversion rates. Loss leaders, door crashes or other one-of-a-kind buys will drive up conversion rates as customers stream into your store to take advantage of the great offer. Unfortunately, these deals don't always drive conversion rates up as high as retailers would like. Also, these hot deals are usually made possible by slashing margins—you may generate more sales, but it's rarely profitable. Of course, the hope is that customers buy some other products to go along with the hot deal or sale item.

Product mix, availability and price

You need to have what people want, when they want it, at a price they're willing to pay. It is what retail lives (and dies) for. Obviously, stock-outs will hurt conversion rates—it's not hard to understand why.

Buying group size

Although buying group has been mentioned previously, it is important to understand that buying group size will impact conversion rates. Here's how. Depending on the type of retailer, people may shop alone or in groups. For example, furniture shopping is often done with a spouse or other family members. Although sometimes people will shop alone, more frequently it is in a group. On the other hand, shopping for personal items—shoes, cosmetics or books—is more often done in buying groups of one.

There isn't really anything a retailer can do to encourage or discourage buying group size. More than anything it's just important to understand what the buying group size is and factor it into the conversion rate calculation. It is important to realize, however, that buying group sizes can change over the course of a week. For example, buying groups tend to be larger on the weekends than weekdays, as one would expect. As a result, it follows that conversion rates will likely be lower on a Saturday than a Wednesday.

Competitive environment

Consumers have choice. Often, lots of choice. If your competitor is having a grand opening or some other major sales event, this could naturally impact your conversion rates—at least temporarily. Again, retailers, by and large, are already keenly aware of their competitors and what they are up to. It is not something you can actually control, but it is important to understand it. The fact is, competitors' activities can affect your traffic levels, and potentially, conversion rates.

Conversion factors summary

One of the great challenges retail managers face is in trying to identify the biggest sales conversion levers for their stores—which may be any one or a combination of some of the factors just discussed. Once the manager identifies the key conversion factors, she needs to formulate strategies and execute against these strategies in an effort to positively affect conversion rates. Most retailers already have an intuitive sense about what will drive conversion in their stores—there rarely is a “knock-out” punch or obvious tactic that hadn't been considered at some point. The difference is, now with a way to actually measure conversion rates, managers can begin to experiment—implement a program and see if conversion rates change. It's OK to experiment now that you have a way to measure. Here's a list of the conversion factors again for your reference:

- Sales staff effectiveness
- Staffing levels
- Merchandising
- Till availability

- Promotional strategy
- Product mix, availability and price
- Buying group size
- Competitive environment

Driving sales performance with conversion rates

Conversion rate is one of the most critical retail performance metrics—if not the most important. By consistently tracking conversion rates and refining processes that drive the biggest conversion levers, retail managers can drive significant sales performance gains in their stores. But, as I'm sure some of the readers have already figured out, conversion rates alone will not win the game.

Retail sales performance equation

The following equation identifies the three key variables that generate the sales result:

$$\text{Sales Revenue} = \text{Traffic} \times \text{Conversion} \times \frac{\text{Average Sale Value}}$$

According to the formula, sales revenue is a function of three variables: traffic volume (TRAFFIC), sales conversion rate (CONVERSION) and average sale value (AVERAGE SALE). Here's an example to illustrate the point. In order to generate \$50,000 in sales, this retailer had to convert 50% of the 1,000 prospects who visited her store and had an average sale value of \$100.

$$\mathbf{\$50,000 = 1,000 \times 50\% \times \$100}$$

If this retailer wants to drive sales performance up to \$75,000, there are a number of different ways this can be achieved:

1. Increase traffic volume

If the retailer were able to drive traffic volume up by 50% to 1,500 prospects (*i.e.* through increased advertising or promotions) and at the same time was able to maintain a 50% conversion rate and \$100 average sale, then she would achieve \$75,000 in sales.

$$\mathbf{\$75,000 = 1,500 \times 50\% \times \$100}$$

2. Increase conversion rate

If the retailer were able to drive her conversion rate up to 75% (*e.g.* through sales training) even if prospect traffic remained constant at 1,000 and average sale at \$100, then she could achieve \$75,000 in sales.

$$\mathbf{\$75,000 = 1,000 \times 75\% \times \$100}$$

3. Increase average sale

If the retailer were able to increase her average sale from \$100 to \$150 (*e.g.* through offering a new higher-end product line or increasing add-on sales) even if prospect traffic remained constant at 1,000 and conversion rate at 50%, then she could achieve \$75,000 in sales again.

$$\mathbf{\$75,000 = 1,000 \times 50\% \times \$150}$$

4. Any combination of the other variables

As demonstrated, increasing any of the three variables can have a positive impact on sales performance (assuming the other two variables remain constant). However, if a retailer can positively impact more than one variable, the result is a “multiplier effect” that can

produce a dramatic impact on sales performance. For example, if the retailer could increase her conversion rate by an additional ten percentage points to 60% and drive 500 incremental prospects into her store (*i.e.* from 1000 to 1500), even holding the average sale constant, the net effect on sales is significant.

$$\mathbf{\$90,000 = 1,500 \times 60\% \times \$100}$$

Sales Conversion: Final Thoughts

As we have demonstrated, there are a number of ways retailers can drive sales results, but focusing on sales conversion is among the most important—in fact, I think it’s the most important. Why? Driving more traffic into your store is great and trying to increase average sale values is important, no question about it. However, sales conversion really speaks to making the most out of the opportunity you have. Whereas driving more traffic usually requires an investment in advertising and trying to drive up average sale values is often a function of your product mix, focusing on sales conversion doesn’t necessarily cost you more—you already have the staff, inventory, and merchandising. Sales conversion simply forces retailers to think about how to be more effective with what they have.

As the chart in Figure 4-14 shows, we can readily see how each variable in the sales performance equation contributes to the end sales result. In this case, traffic increased, sales conversion rates increased while average sale value remained flat. This pattern could result from a retailer heavily promoting a sales event featuring “loss leader” products. Though more people visited the store and actually made a purchase, they tended to buy the lower valued items. In the next example in Figure 4-15, traffic was flat, however conversion rates and average sale values increased. In this case, the advertising may have attracted more qualified buyers—though the total traffic volume didn’t increase, more of the prospects who visited did make a purchase, and they bought more or higher value items.

By breaking the sales result into these three underlying variables as shown in Figure 4-16, retailers will understand how the sales results are being driven, and consequently be in a far better position to influence the outcome.

**Underlying drivers to sales results—increased traffic and sales conversion;
flat average sale values**

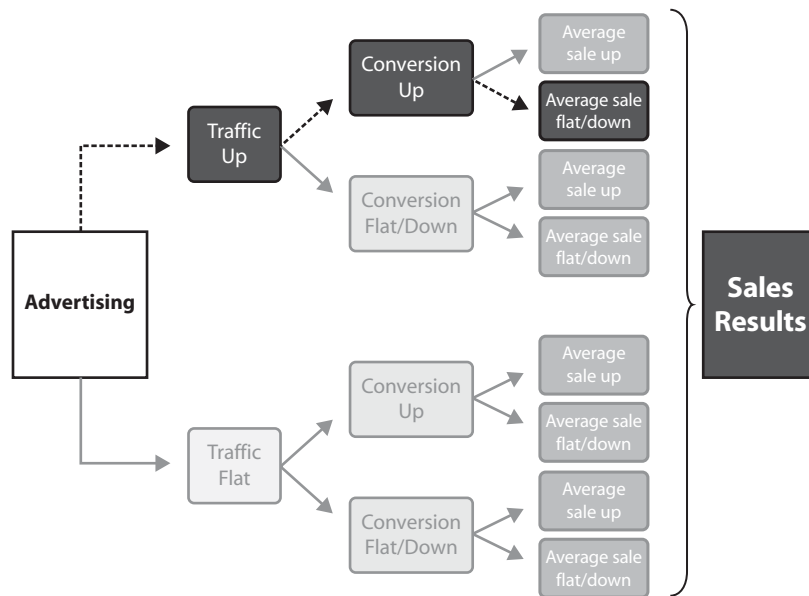


Figure 4-14

**Underlying drivers to sales results—flat traffic;
increased sales conversion and average sale values**

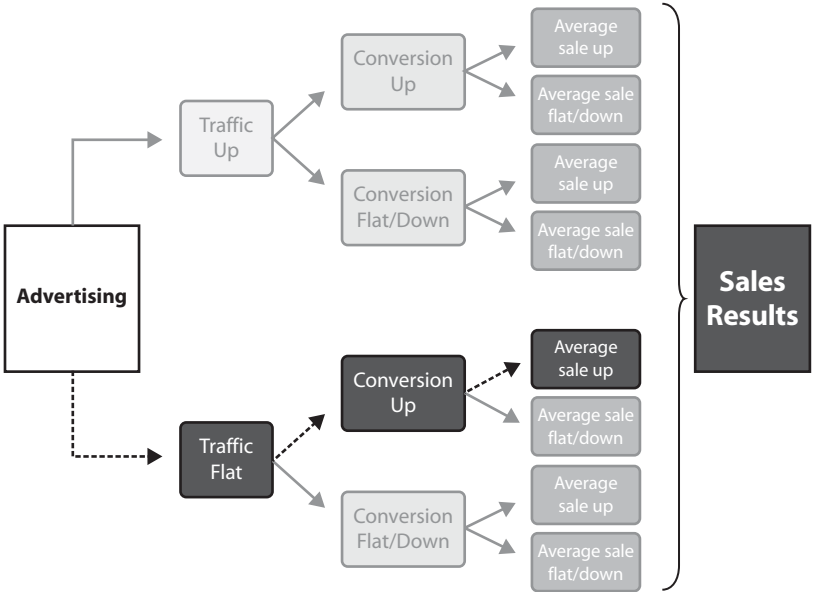


Figure 4-15

Underlying drivers to sales results

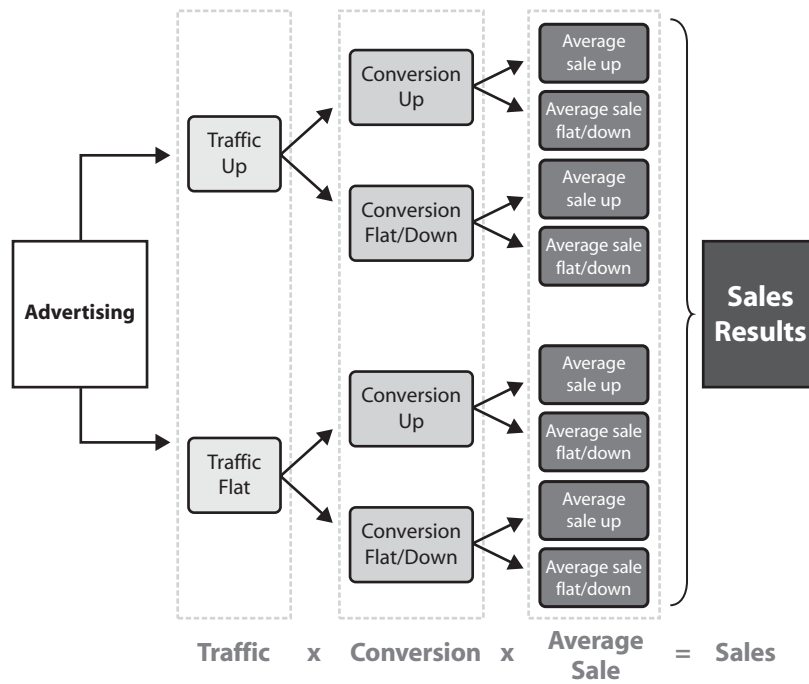


Figure 4-16

Chapter Summary

- Sales conversion is among the most critical retail metrics. Unfortunately, most retailers can't tell you what their sales conversion rate is. They can't tell you because they don't track traffic, and without knowing traffic, they can't calculate sales conversion.
- Sales conversion is simply calculated by dividing total transactions by total traffic and is represented as a percentage of total traffic. For example, if 1,000 prospects visit a retail store and at the end of the day 500 sales transactions are made, then that retailer's conversion rate is $500/1000 = 50\%$. As the formula implies, without knowing traffic, you cannot calculate conversion.
- Some retailers are so focused on sales growth that they don't believe that conversion rates tell them anything that they don't already know. However, sales alone cannot provide any insight about how the retailer performed compared to the sales opportunity.
- Given that traffic counts are essential in calculating conversion rates, retailers need to start by counting traffic. There are a number of ways they can do this, including electronic traffic counting devices, mechanical turnstiles and manually. Getting a precise traffic count can be tricky. There are a number of factors that can impact traffic counts, including staff movements, non-prospect traffic, prospect movements, buying group size and more. However, there are a number of strategies that can be used to help clarify the traffic data and provide retailers with a useful traffic measure.
- Sales conversion is not about the customers who make a purchase, but rather those prospects that visit your store and don't purchase. There are a number of factors that impact sales conversion, including sales staff effectiveness, staffing levels, merchandising, till availability, promotional strategy,

product mix, inventory levels, pricing, buying group size, and the competitive environment.

- In order to drive sales performance, retailers need to understand the variables that drive sales: traffic volume, sales conversion, and average sale value. These variables can be expressed as a formula as follows:

$$\text{Sales Revenue} = \text{Traffic} \times \text{Conversion} \times \text{Average Sale Value}$$

- By positively influencing any of these three variables (while the others remain constant), a retailer can drive sales performance. If a retailer can positively influence two or more of these variables, the result is a multiplier effect whereby the sales result is even more positively impacted.
- Although all three variables are important, sales conversion is particularly critical because it is the one variable that retailers have the most ability to influence—and it doesn't necessarily take additional investments to do it.