

When Retail Customers Count

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

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9

CHAPTER

The Strategic Value of Traffic Insights

Just as traffic information has a breadth of uses, it also has a depth of uses—from the part-time store manager to the CEO.

The Strategic Value of Traffic Insights

TRAFFIC INFORMATION, BY AND LARGE, is relegated to the less than high profile bastion of “tactical” management. OK, you can optimize staffing; yes, you can gauge the impact of advertising, and you can calculate conversion rates—great stuff. Traffic analysis is a useful tool for store managers to help them run the store better. But it’s not something senior executives need to concern themselves with. After all, senior executives need to focus on the big picture. They need to take a broader, longer term perspective on the business. In short, they need to be “strategic.” Traffic data isn’t strategic—is it?

STRATEGIC VALUE OF TRAFFIC

- Long-term trends
- Location strategies
- Corporate reporting
- Competitive analysis
- Planning and modeling
- Benchmarking

If strategic is to refer to things that are fundamental to the business, are critical to success, have multiple applications across an entire organization at all levels, and speak to the absolute lifeblood of what a retail business is, then I guess you might say traffic data is strategic. Of course traffic data is strategic! Or, more to the point, traffic data can be used for strategic purposes. From identifying long-term business trends, to corporate reporting, forecasting and

benchmarking, traffic information can be used in a myriad of ways for strategic purposes. In this chapter, we will cover some of the most important strategic uses of traffic information.

If you are a small chain retailer or operate only one location, don't skip this chapter—unless, of course, you want to stay small. Small retail operations need to deal with strategic issues just like large retail organizations. You may be small, but you need to think about the long-term. You need to plan and forecast, you need to consider your competition and you may be planning to expand. OK, maybe there are a few areas in this chapter that don't really apply—yet—but most of it will. Keep reading.

Long-term trends

If there is one thing every retailer knows, it is that things are constantly changing. Customers' needs change, the market is changing, the competitive landscape is changing, product offerings change—in short, everything is in a constant state of flux. That's why it is imperative to monitor traffic (and the other measures you currently look at) in order to not only be able to understand what may be happening, but more importantly, in order to influence the outcome. You can't influence the outcome if you have no idea of where things are going.

Let's start with something every retailer would agree is strategic—sales revenue trends.

Revenue trends

The chart in Figure 9-1 shows the long term sales revenue trend for a retail operation. All things being equal, this is not a bad trend. Yes, of course, we would always like to see revenue increasing, but based on this trend, the company has had pretty good revenue growth over the years. Although the last four years have been a little flat, there doesn't appear to be anything especially alarming about the trend. Of course, the retailer also would be watching margins and profitability along with revenue, but even these additional metrics may not indicate any ominous signs. But by looking at only financial metrics, this retailer just might not have a full understanding of what may be happening in the business.

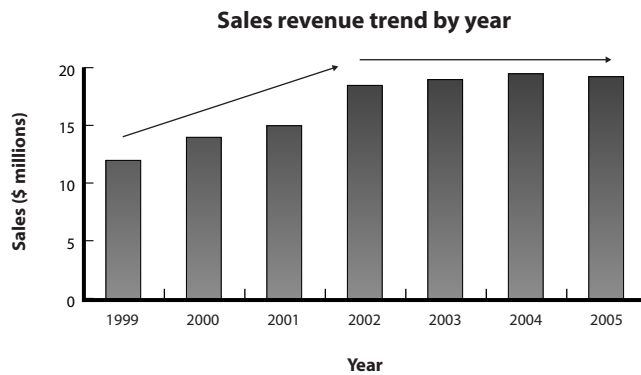


Figure 9-1

Traffic trends

The chart in Figure 9-2 shows the long term traffic trend for the same retailer. As you can see, this retailer had strong traffic growth from 1999 to 2002. After 2002, traffic started to decline. This decline in traffic could have been a result of a number of external or internal factors: competitors, changing customer behavior, changes in marketing spending by the retailer, or a host of other issues. The

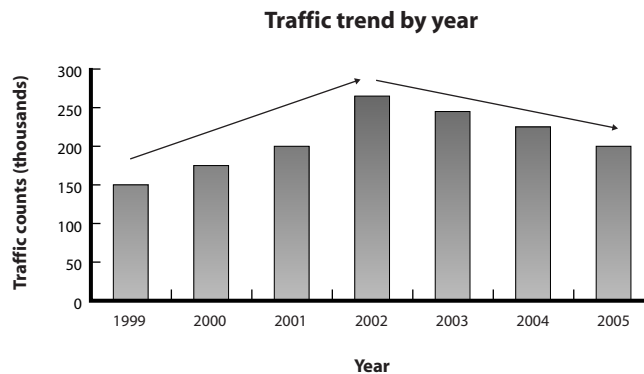


Figure 9-2

point is that the traffic volume has changed. The pattern is clear—since 2002, traffic has steadily decreased at an alarming rate.

Looking at the traffic trend in a year-over-year comparative as shown in Figure 9-3, we see a picture that looks even more disturbing. We can clearly see in the chart, traffic growth rates from 2000 to 2002 ranged from 14% in 2000 to a very healthy 33% in 2002. Starting in 2003, however, things began to change. Traffic in 2003 was down 8% from 2002. OK, no panic yet, after all, 2002 was an exceptional year, right? Unfortunately, the pattern continues. Traffic in 2004 was down another 8% and in 2005 traffic was down 11% from 2004. Think of it this way, traffic levels in 2005 were the same as they were in 2001—4 years earlier!

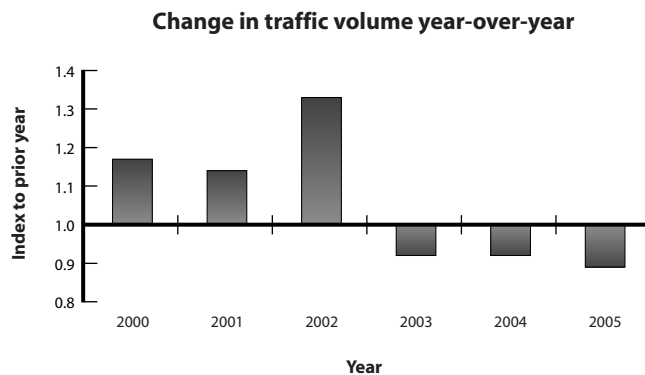


Figure 9-3

Traffic and revenue

When we combine our standard financial metrics with traffic, a more complete picture of the long-term trend becomes clear, as shown in Figure 9-4. Even though revenue builds and flattens out, traffic levels build and then drop. Interestingly, during 2004 and 2005, even though sales revenue is actually growing (albeit very modestly), traffic levels are dropping off significantly.

The only way it is possible for sales to increase while traffic decreases is if:

1. the average sales value per customer is increasing (because

customers are buying more items per transaction or because the cost of products has increased),

2. sales conversion rates are increasing (*i.e.* the retailer is actually converting more of the prospects that enter the store even though fewer are coming in) or

3. some combination of increased conversion rates and increasing average sales value.

The fact is, if the retailer was only looking at average sale value or sales conversion rates, they might conclude that their performance was actually improving. And, they would be right! If sales conversion rates and/or average sales values are increasing, performance is improving. What's really insidious is that these relatively positive performance metrics mask the fact that this retailer's traffic has consistently declined over the past three years. If I was this retailer, I would be worried. What's going on here? Eventually, conversion rates and average sale values will level out, leaving the retailer scratching his head wondering why his sales performance has stalled. By understanding the long-term traffic patterns, the retailer is in a position to take action on the traffic. If you can increase traffic in addition to increasing average sales value and conversion rates, we know what a powerfully positive impact it can have on sales performance. Furthermore, by recognizing that traffic is declining, the retailer can start to try to understand why—and then do something about it before it becomes a problem.

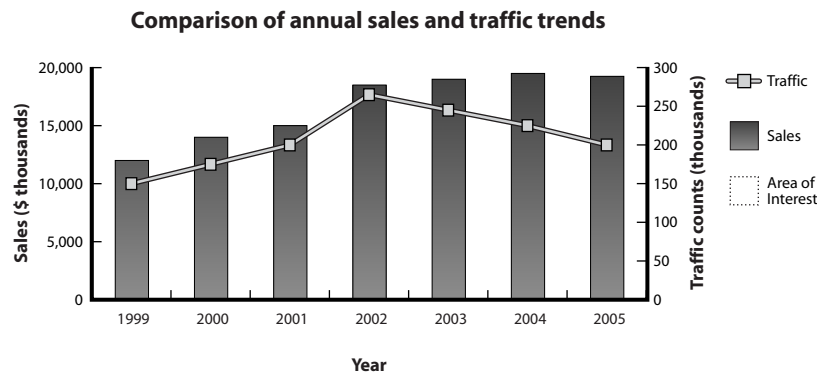


Figure 9-4

Location strategies

Notwithstanding some very unique or rare situations, retailers open additional stores (or close and move existing stores) in order to generate incremental traffic, and consequently, incremental sales. That's the intention anyway. Unfortunately, that's not always what happens. Location strategy, and the techniques for determining where to locate stores, has developed into a science—however, while some retailers are only doing high school biology, others are lecturing PhDs! Sophisticated population modeling, demographic profiling, and geographic information systems are proving to be important tools, but not every retail organization has the time, energy, and resources to put these techniques to use.

Having an understanding of traffic patterns and volumes can be very helpful in location decisions and strategy. Not only can traffic be used to help identify potential locations for new stores, but it can also provide invaluable insight into the impact of the decision on existing locations—was it a good decision are not?

New markets

Obviously, when a retailer decides to open a new store in a new market (*i.e.* a market where they don't already have a store), there is no risk of cannibalizing traffic or sales from a current location. By analyzing traffic patterns and volume from existing stores with similar characteristics as the new proposed store, management can get important clues about what to look for in the ideal location. For example, if a retailer knows that, based on current store performance, the type of location that received the most traffic is a free standing building located within close proximity to a major retail “power center,” then the retailer can start refining his search in the new market for a site that has these characteristics. Of course, there are no guarantees—every location and market is different, but with a well-developed profile of the characteristics of a location that has proven to work in one market, the retailer is armed with information to improve the odds of success in a new market.

Existing markets

Opening additional stores in a market where you have existing stores is a trickier business. The ultimate objective of opening an

additional location is to generate incremental traffic and sales. That said, retailers need to be careful to avoid opening a location that cannibalizes traffic and sales from an existing location—or, at least, they need to ensure that the cannibalization effect is minimized.

Impact on existing stores

Opening another location (or locations) in a market where you have an existing location is exciting and nerve-racking. If you place the new store in a great location, you will increase your profile within the market and capture incremental sales—and you'll be able to serve customers better. Growth is fun! That said, if, at the end of the day, your new location simply shifts traffic and sales from an existing location to your new location, are you really ahead? Probably not. You have just sunk a bunch of money into building or renovating the new location, hired more staff, bought more inventory, and significantly increased the complexity of managing your business for a lot less than you were expecting in additional sales revenue.

Although it is impossible to predict exactly what impact a new location will have on existing locations, understanding traffic patterns and volume levels at the existing sites can certainly help you make a better location decision. Naturally, you will also need to consider all the many factors that go into a good location decision, like competitor locations, the location of complimentary businesses, zoning restrictions, lease and land costs, general accessibility, and more. The point is, location decisions are big bets and there are many, many factors that need to be considered.

Although all the gory details of location strategy are better left to location gurus, the following example will show you how you can use traffic information as an important input into location decisions.

Tamiko Furniture: A case study in location analysis

Tamiko Furniture is a successful, retail chain located in San Francisco. Tamiko specializes in fashionable, mid-market furniture from Japan. With the popularity of Feng Shui, Tamiko Matsuda's furniture has become very popular. During her 7 years since opening her first store, Tamiko now has three locations throughout the Bay area. Although Tamiko is pleased with her growth, she feels she could

reach even more customers (and existing ones better) with a fourth location.

The chart in Figure 9-5 shows traffic levels for each current location over the past year. While store #2 and #3 have traffic levels that are very similar, Store #1 has consistently higher traffic volumes. Interestingly, sales revenue from store #1, although higher than #2 and #3, is not significantly higher.

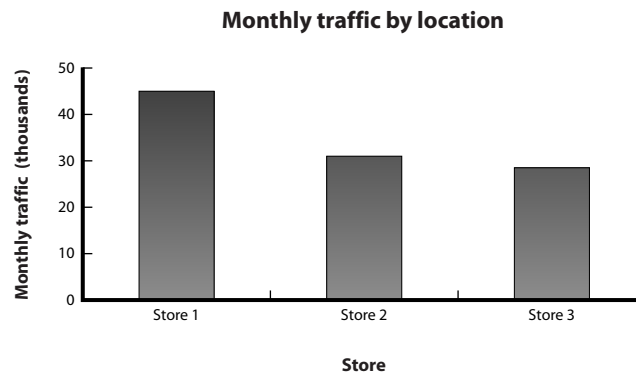


Figure 9-5

Tamiko (because she's already read *Chapter 4* on sales conversion) has noted that conversion rates at Store #1 are lower than the other stores. She believes she's already done every thing she can to maximize conversion in Store #1, and that it's simply "maxed-out". Tamiko, concluded that if she could find a location for her new store somewhere closer to store #1, she could potentially shift some traffic to the new store and capture incremental business as well. Her hope is to not negatively affect stores #2 and #3. After considering all the various options, Tamiko has three choices: A, B or C.

After reviewing her options carefully as shown in Figure 9-6, Tamiko decides that site B would be the best choice to alleviate some traffic pressure from store #1 without having a significant impact on traffic at stores #2 and #3.

Once the new store was up and running, Tamiko anxiously compared the traffic patterns among all her stores. As it turned out, traffic was still very high at store #1— higher than she would have

New store location options

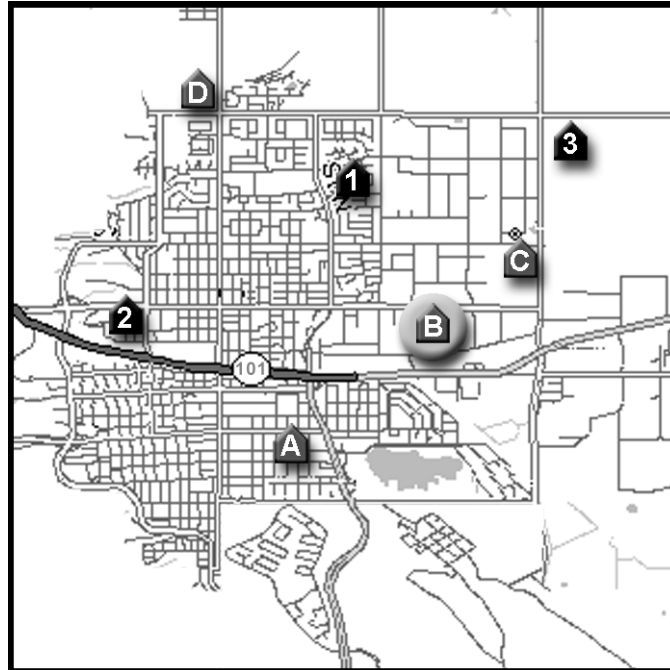


Figure 9-6

liked; however, traffic levels at store #2 and #3 were unaffected. Apparently, the new location was indeed generating incremental

Monthly traffic by location

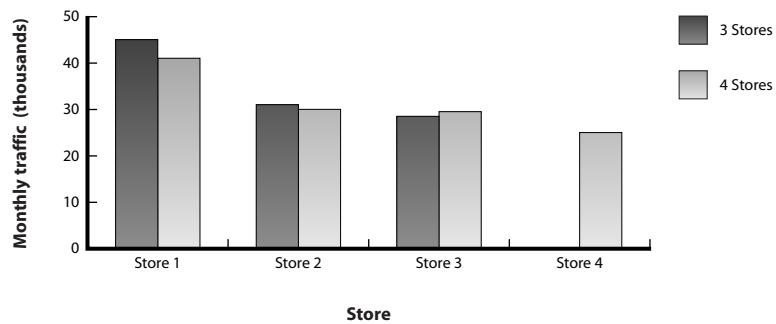
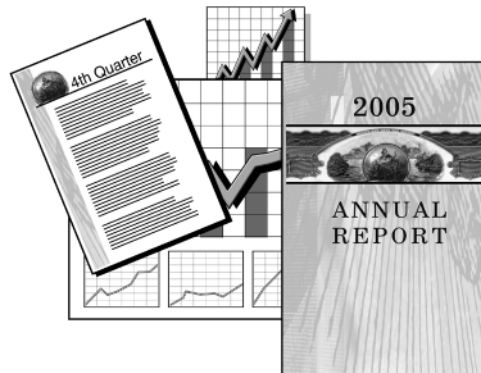


Figure 9-7

traffic as the chart in Figure 9-7 shows. As for the low conversion rates at store #1, unfortunately Tamiko will have to try to solve this in some other way—unless of course she wants to consider store #5!

Corporate reporting

No matter what your corporate structure—sole operator or publicly-traded corporate colossus, there are stakeholders who will want to, or need to, understand how your business is performing. Even if you're not a publicly-traded company, there are probably a number of outside stakeholders interested in your performance such as private investors, banks, your accountant, *etc.* Obviously, disclosure requirements for publicly-traded corporations are more complex and regulated by various governing bodies. These big retailers are also constantly on the road making presentations to investment banks and other financial “players” in an effort to explain to the market how successful they are and why they will continue to be successful in the future.



If you spend any time listening to earnings announcements by large retail corporations, you will get a good sense of what they feel is important. What do companies like Target, Pier 1 Imports or Sears talk about? How do the senior executives of these kinds of companies talk about their stores' performance?

The fact is, some retailers talk a lot about traffic volume, traffic trends, and sales conversion rates in detail, while others simply do not. Part of the reason many retailers don't discuss traffic and

conversion is that they don't actually monitor traffic, and as we have already learned, without traffic data there is no way to calculate conversion rates.

All retailers talk about sales growth. Often sales are discussed in the context of "comps" or comparable store sales as a measure of overall performance. And this is a good metric to discuss, no question.

The fact is, traffic and conversion are just not discussed enough when retailers are presenting results to stakeholders—period. And they should be. If I was a stock analyst or an investor or a head office executive, I would want to know that management is monitoring traffic trends, that they understand conversion and are focused on driving traffic and conversion.

Increasingly, traffic is a subject of discussion in quarterly earnings results conference calls. These conference calls have become commonplace for publicly-traded companies today. These conference calls usually take place between the senior executives of the company (usually the CEO and Chief Financial Officer) on one end, and a cadre of financial analysts from the many brokerage firms that are covering the company's particular stock. The purpose of the call is to present the current quarter's financial results, provide additional context and perspective on the results, and answer any questions the analysts may have.

Using traffic and sales conversion information as part of the results presentation can be very compelling and useful to management. For the most part, analysts want to understand the underlying drivers behind the revenue and profit performance presented by management. Here's is an example of what one of these conference calls might sound like. In this first case, the sporting goods retailer does not have traffic and conversion data available to help explain the results:

Retailer: "We are pleased with our sales growth in Q3 and are confident that our marketing initiatives in Q4 will help drive sales."

Analyst: "Could you describe specifically what it is about your marketing initiatives that make you believe you will be successful?"

Retailer: "We spend \$40 million on advertising, mostly in

flyers and circulars. When we drop a flyer we know exactly what happens in sales. Although it doesn't always go as you expect—for instance, you feature ski equipment and clothing, and the weather turns unseasonably warm—but for the most part, we know our marketing works.”

I find this type of explanation of limited value. What does it mean? Essentially, this retailer is saying “just trust me—I know what works.” Frankly, it is very difficult to understand what the performance is, and what the underlying performance drivers are, with this type of information.

Let's look at another example, though this time the retailer uses traffic and sales conversion information to provide additional context to help explain performance and support his strategy:

Retailer: “We are pleased with our sales growth in Q3 and are confident that our marketing initiatives in Q4 will drive traffic into our stores. In fact, we are expecting same store traffic volumes to increase by 10%.”

Analyst: “The traffic is good but what are you basing the estimated 10% traffic increase on? And what are you doing to ensure that this traffic turns into higher sales?”

Retailer: “First, we have been testing some new flyer concepts and are pleased with the traffic increases that these new formats have been generating in the test markets. In fact, based on the test results, a 10% traffic increase could be conservative. Second, we have been working really hard on improving our sales conversion rates across the entire chain. In Q3, our sales conversion was up 8% compared to Q2. We have been closely monitoring conversion rates, and have identified a number of locations for additional sales training.”

When it comes to corporate reporting, stakeholders want to understand what is driving the performance. Among the many strategic uses of traffic data and analysis, using the information as part of the corporate reporting and communications process can be very effective and compelling.

Competitive analysis and traffic

There are many things we can control in our business—decisions we make, strategies we employ. Pricing, advertising, staffing, product mix—there are a multitude of critical factors we make decisions about and control. Of course, there are also a whole host of factors we don't control, and competition is principal among these. Every retailer faces competition in some way. And, depending on the voracity of the competitive environment, retailers may be heavily influenced by what their competitors are doing. In this section, we will discuss how retailers can use traffic and sales conversion analysis to understand the impact of competition.

Identifying the competition

In order to understand the impact competitors may be having on your business, first you need to identify who the competitors are. Although it may seem like an obvious point—who doesn't know who his competitors are? It is a useful exercise to write them down, both the direct (the obvious ones) and the indirect competitors (the less obvious ones).

- **Direct Competitors**

These competitors are very easy to pick out, and you probably already know exactly who they are. Direct competitors are the retailers that are in your market space. They have a similar product offering and they are the stores that your customers would also think of when they need to buy something.

- **Indirect Competitors**

These competitors are less obvious and may be companies that you don't fully view as competitors. These companies may or may not be carrying the same types of products you carry, but either don't offer the products the same way as you do or offer substitutions to what you offer. For example, if you ran a chain of small, neighborhood hardware stores, in addition to all the other small hardware stores in the market that are obviously direct competitors, you would be in competition against the big box hardware mega-stores, as well

as other department stores that offer a limited selection of hardware products.

Let's look at an example to demonstrate how traffic data can be used to assess the impact of a new competitor.

Uh-oh, you have a new neighbor: A case study in competitive analysis

Handys Hardware is a smart little retail operation of 7 stores operating in Phoenix. The company has flourished, despite pressure from the big box home improvement chains, in part because the Handys stores are mostly located away from the big retail power centers, and as a result, they have been able to avoid having to go head-to-head with these big retailers. Unfortunately, that's just changed. A brand new power center just opened 3 blocks east of the Handys store in north Phoenix on Camelback Road, and one of the anchor tenants is Build All, a giant home improvement chain.

Naturally, management at Handys is concerned about how this new Build All store will impact sales at the Camelback location. Frankly, they are expecting the worst. Build All has a vast array of home improvement and gardening products—you name it, they have it. And because of their size, they have buying power that is virtually unmatched in the industry. They buy in mass volume and offer products at prices that just can't be beat.

Traffic before and after

The chart in Figure 9-8 shows daily traffic levels at Handys before and after the grand opening of the Build All store. As you can clearly see, the grand opening greatly affected traffic at the Handys store; however, a week later, traffic levels began to rise and four weeks after the grand opening traffic levels had actually increased over historical levels!

How could this be possible? Why hasn't traffic at Handys simply dwindled to virtually nothing? Why hasn't Build All, with their vast product offering and rock bottom prices, annihilated Handys?

In this case, the traffic response to the new competitor is not completely unexpected. Though the grand opening of Build All did negatively impact traffic in the short term, the impact apparently

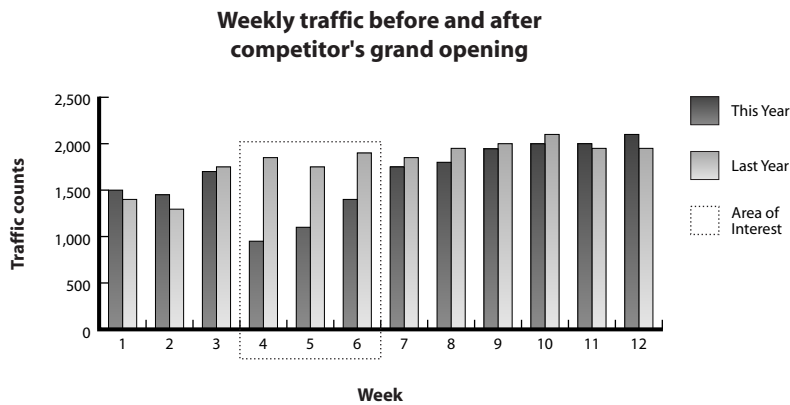


Figure 9-8

was not sustained. This could be explained by customers sampling the new mega store—naturally customers will be curious and will want to see what the new store is all about. However, there is no guarantee that they will appreciate what they see. In this case, the Build All store is many times larger than the Handys store, which to some customers means that it's a lot harder to find what they're looking for. And as far as pricing is concerned, Build All has great pricing—even a lot better than Handys—but the line-ups at the cash outs and the congestion in the parking lot make it a real hassle to shop there. Lastly, because Build All spends a significant amount on advertising and promotions, they attracted more prospect customers into the entire trading area. Some of these new prospects that might not have visited the area otherwise, came out to Camelback Road, where, because of the close proximity, also saw the Handys store and stopped by.

Using traffic data as a competitive advantage

In the Handys Hardware example, the story has a happy ending—traffic actually went up as a result of a competitor. However, clearly that's not always the case. In fact, the story could have had a very unhappy outcome if, for example, traffic at the Handys store dropped by 50% during the Build All grand opening and then stayed there! This could prove to be fatal, at least for this one location. So as a

retailer, how can you use traffic information to help you combat the competition?

Step 1: Measure the traffic impact

As we saw in the Handys example, you won't understand what the impact is unless you measure it. Analyze traffic levels by day, and even by hour, through the grand opening and the subsequent weeks. Look for any changes to the patterns and volumes. Make sure you compare traffic level trends as well as year-over-year comparatives. You need to ensure that you are not just seeing changes in general business seasonality. If traffic has decreased and sustains at lower levels, obviously, management needs to be concerned with traffic and may want to consider investing in traffic stimulation activities, like advertising, to help bring more prospects into the store.

Step 2: Analyze the impact on sales conversion

In addition to traffic, management needs to understand what impact (if any) there was on sales conversion rates. Even though traffic has decreased, if conversion rates have increased (*i.e.* because staff are able to serve the fewer customers that come into the store better), the net financial impact on the retailer may be minimized. If management can't find the money to do expensive traffic stimulation advertising, they need to ensure they make the most of every sales opportunity that comes into the store. Sales conversion rates will be the key measure of whether the retailer is being more efficient and effective in the face of reduced traffic. If traffic and sales conversion rates are dropping, this is a very serious situation for management. In this case, management can continue to monitor the situation—do nothing, in other words. Or, management can devise new strategies to help drive the business—use advertising to drive traffic, improve conversion rates through sales training, increase staffing levels, change product mix in order to differentiate from the competitor, to name a few. The fact is, if traffic and conversion have dropped significantly and appear to be sustaining at a lower level, management needs to do something.

Step 3: Identify areas to exploit, make changes and re-measure

Regardless of what strategies management ultimately decides to

pursue, the key is to measure and re-measure. What's happening to traffic? Sales conversion rates? By analyzing traffic and sales conversion, management will know what impact, if any, their strategies are having. If the strategy isn't working, it's back to the drawing board.

Although we can't control the competition, it is vital that we understand what impact the competition is having on our business. Jumping to conclusions about the magnitude of the impact can be debilitating to management—what if Handys just decided they couldn't compete with Build All and packed up the store? In this case, it would have been a bad move, but the point is you need to understand what the impact is, and traffic data will provide management with very specific and quantitative feedback about that impact. When sales conversion is also considered, management will have a very good understanding of what's happening in their business.

There are no easy answers when it comes to dealing with a potentially aggressive competitor, but if retailers don't have traffic and conversion data, they can't truly measure the impact of the competitor, they won't be able to identify what to focus on (traffic, sales conversion, or both), and lastly, they won't be able to see if any changes they've implemented are actually making a difference.

Planning and modeling

Because of the inherently quantitative nature of traffic data, it is extremely useful for all types of planning and financial analysis. If traffic data is available for multiple years, it also can be very useful in forecasting future performance. In this section we will review some of the ways traffic data can be used for budgeting and financial modeling.

Advertising planning

When it's time to prepare the annual marketing plan, many retailers will turn to sales in order to determine the best time to invest in advertising. Notwithstanding the normal retail events that may impact business (*e.g.* Christmas, Back-to-School, *etc.*) using traffic data to determine when to advertise can be more effective than looking at sales data alone. For example, the chart in Figure 9-9 shows traffic volume by month for a retailer. If this retailer

compared sales by month, the spike in January, February, and August may or may not be evident. Here's why. In this case, the retailer sells consumer electronic products including personal computers, home theatres, high-end sound systems and other electronic equipment. By and large, the products are expensive and definitely fall into the category of high-involvement purchase. That is, prospects don't typically purchase right away—there may be several visits to the store to discuss the feature products available, the specifics of a customized package, and of course, financing.

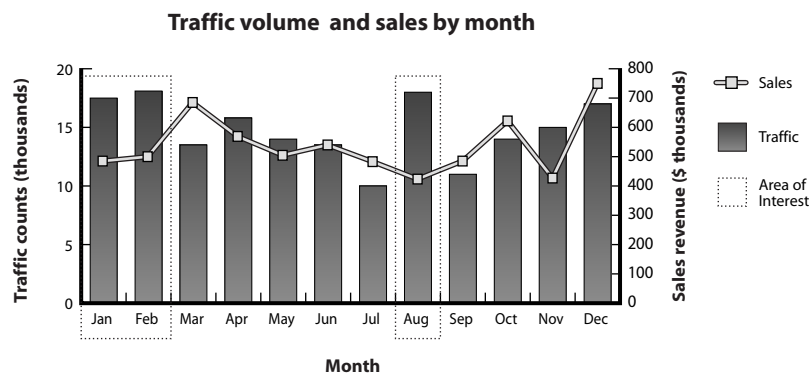


Figure 9-9

In this example, the actual buying cycle typically takes two or three months. Identifying when prospects actually visit the store is a better indicator of buying predisposition and will provide management with an important perspective on when to schedule advertising activities.

Identifying long-term staffing requirements

With an understanding of traffic patterns and how they may be changing over time, management can use traffic data to refine their staffing assumptions, and consequently, use it to help with long-term staff planning. For example, if a large national retail chain had the traffic trend data from each location in the chain, this data could be compiled and aggregated to provide head office with a view of what the store level staffing requirement might be based on the trends. Figure 9-10 illustrates how this information could be rolled-up

across the chain. In this example, let's say traffic was up 15% in Territory 1, up 10% in Territory 2, and flat in Territory 3. Based on these trends, head office might forecast a commensurate increase in staff levels for the areas that had the strong traffic growth trends. Although not every employee in a large retail organization is hired as front line, the vast majority of personnel are hired to serve customers, and by knowing how many customers are visiting the stores, management can gain insight into their long-term staffing needs.

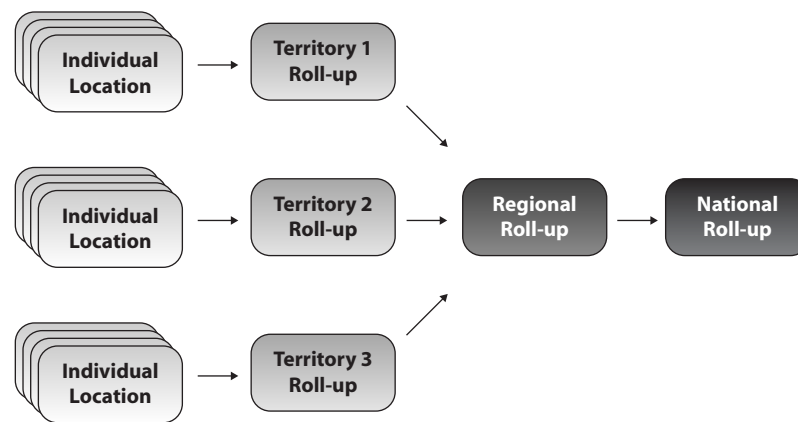


Figure 9-10

Forecasting new market opportunities

Opening a new location or launching a store in a new market represents huge investments and potentially huge risks for retailers. Obviously, retailers are advised to think carefully about the decision, and there are a multitude of analysis techniques they should employ before deciding to proceed. Traffic data can provide some important insights into expected performance in a new location, and can, very quickly after launch, provide critical measures about how the new location is actually performing.

Based on the size and location of the new store, management can estimate what the traffic and sales conversion should be for the new location. Once the store opens, management can immediately look at the traffic and conversion data in order to gauge if the store, even in these very early days, is performing as expected.

Benchmarking and performance targets

As discussed in previous chapters, understanding true performance is critical. Specifically, understanding how effective any given store is at converting its traffic into sales is critical. Although each location is unique, and consequently will have slightly different performance imperatives, it makes sense for performance targets to be set across the entire chain by senior management. Let's review some examples of performance targets that could be identified using traffic data.

- **Traffic volume targets**

In order to focus the marketing department's effort on driving prospects, management could devise traffic volume targets. These targets would set out the level of traffic volume management expects the marketing efforts to generate. Without prospect traffic coming in the store, there is no opportunity for conversion so it is imperative that the marketing investments (or at least a big portion of them) are used to stimulate a traffic response. Traffic targets could help with this. For example, all A stores in the chain are expected to receive a minimum of 30,000 prospects per month during Q3.

- **Sales conversion targets**

Although there are factors that will influence conversion as discussed in *Chapter 4*, setting general guidelines for sales conversion rates across the chain will focus sales management efforts on ensuring that the targets are met or exceeded. For example, all stores must achieve a 35% average sales conversion rate during August.

- **Staffing guidelines**

With a sufficient amount of traffic data at their disposal, it would be a relatively straight-forward exercise to create some general staffing level guidelines that could be used by store level managers to guide their day-to-day staffing decisions. For example, based on data from numerous locations, management has identified optimal staffing levels based on traffic levels and have created the following guidelines that managers (especially new managers) are expected to follow. With guidelines like these, managers have some flexibility in

decision-making based on the actual traffic in their particular store, and head office has a way to control the process.

Franchise support

Retail organizations that are run entirely as a franchise operation or retail chains that are partly comprised of franchises, present unique opportunities—and challenges! As a franchisee, there is an expectation that the franchisor will provide a store brand or banner, buying power, business processes, marketing support, training, and even more.

Just as in non-franchise retail operations, having data on traffic volumes and sales conversion rates can be extremely useful, and maybe even more so. Here's why. To a large extent, franchisees expect that the franchisor will actively assist the franchisee in being successful—that is the one of the huge advantages that franchises can have over going it yourself, as an independent. However, when the performance and results aren't what the franchisee or franchisor expects, the relationship can become strained. This rarely makes for an effective or constructive environment. Here's just some of the ways traffic data can be used effectively in a franchise operation:

- **Establishing performance measures and indexes**

As in any other chain, traffic and conversion will vary by location. By creating traffic and conversion indexes, and then sharing this data with franchisees, the franchisor can provide invaluable insight to the franchisees about their performance. Then management can use this information as a basis for working with each franchisee to help them drive performance in their location. The franchisee would likely be very grateful. And, because the data is highly quantitative, conversations about performance become far less awkward.

- **Support marketing investments**

In a franchise arrangement, franchisees often pay a percentage of revenue into a marketing fund. These marketing funds are used to help promote the network. In some cases, this has been controversial as franchisees pay in but sometimes don't feel like they're getting good value for their marketing dollars. With traffic data, the franchisor could substantiate the

effectiveness of the marketing investments by showing the precise traffic response that the advertising is generating. Of course, if the franchisor's advertising isn't working, it's better that they know and take corrective steps rather than having to fight with disgruntled franchisees.

- **Pinpoint performance issues**

Armed with traffic and sales conversion data, the franchisor will be able to understand what the performance imperative is for each franchise location. Is traffic low? Are conversion rates low? Could sales training help? Is staffing too low? Most franchise operations have business experts who are employed to work with the franchisees to support them and help them become successful. Traffic data is a great way to support a franchise operation.

Chapter Summary

- Traffic data and analysis can and should be used for strategic purposes. Often regarded as a tactical tool, traffic analysis provides powerful insights that head office and senior executives need to understand.
- At the highest level, management needs to understand the long-term traffic trends. Long-term traffic patterns are among the most critical metrics in understanding not only the current health, but also the future prospects for a retailer. Looking at revenue trends will not provide a sufficient view of true performance, as increasing average sale values could mask potentially dangerous declines in traffic volumes.
- Traffic analysis can also provide important insights into the impact competitors may be having on your business. Although we can't control what our competitors do, it is critical that retailers understand what the impact a competitor has on traffic and sales conversion. Without closely analyzing this information, it may be impossible to really understand what the impact is—before it's too late, that is.
- Traffic data can also play a role in overall business planning such as advertising scheduling, staff planning, and forecasting. Traffic data can be used as an input for setting benchmarks and targets to be used in driving performance across the entire chain.
- For publicly-traded companies that have specific and rigorous reporting requirements, traffic data can be extremely useful in helping management communicate what the drivers behind the business are, and describe the underlying drivers behind the sales results.
- For franchise operations, traffic data is a powerful tool in helping the franchisor define success, understand performance, and ultimately help the franchisees become more successful.

- Traffic is the fundamental building block in retail sales success. Traffic data and analysis are strategic and it's time that retailers started using it as such. From the part-time store manager to the CEO, traffic analysis is something everyone needs to understand.