

When Retail Customers Count

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

Mark Ryski



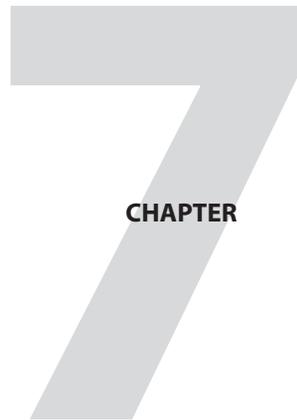
authorHOUSE

1663 LIBERTY DRIVE, SUITE 200

BLOOMINGTON, INDIANA 47403

(800) 839-8640

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CHAPTER

Multi-location Traffic Analysis

Whether you have 2 or 200 stores,
the more locations you have,
the more challenging the traffic
analysis will be—and the more
valuable the traffic insights!

Multi-location Traffic Analysis

THE IDEA OF MULTI-LOCATION TRAFFIC ANALYSIS isn't something for only the largest goliaths of retail to be concerned with. In many ways, smaller chains with, say 10 sites, often have the greatest challenge. On the one hand, they are not small operations, and the complexity has really started to set in; on the other hand, retailers of this size are usually still trying to manage the operation as a small business.

MULTI-LOCATION

- Multi-location challenge
- Types of locations
- Performance metrics
- One size doesn't fit all
- Performance management

You know, managers wearing too many hats, managing too many details, and generally letting the business run them. The idea of traffic analysis is right up there with quantitative marketing research, brand strategy, and store atmospherics—it's all pretty cool stuff, but not something these managers have time for. As one manager summed it up, "I don't have time to look at this kind of stuff—I'm too busy running my stores."

Of course, large retail operations need traffic analysis even more than smaller operations. The fact is, if you look at the type of retailer who monitors retail traffic today, you'll often

find that it is the larger retail chains. Maybe it's partly why they are now big retailers instead of small retailers?

The good news is that a larger percentage of retailers actually do monitor traffic in their stores; the bad news is that many of them don't do very much with the traffic data they collect. Collecting traffic data is the easy part; turning the data into information and doing something meaningful with it is the hard part.

In this chapter we review the challenges and significant benefits multi-location retailers can realize through traffic analysis.

The multi-location challenge

The fact is, traffic analysis for multiple locations can get a little complicated—even two locations qualify. Essentially, everything that we have covered thus far and everything yet to come, all applies—but now you have the added burden of extending these concepts and analysis over a number of sites and among the sites! As previously noted, every location is unique. Even stores in the same chain in the same market can exhibit different traffic patterns, and consequently require a different management imperative. OK, before you put the book down in hopeless resignation, hold on. It may not be as bad as you think. Yes, multi-location traffic analysis is harder, but you don't need to make a career out of it in order to gain meaningful insights. We'll show you how.

Types of locations

Although this seems pretty obvious, let's start by reviewing the characteristics of multi-location retailers. The fact is, the traffic analysis complexity does vary depending on the chain characteristics, number of sites and geographical distribution. Let's start with some definitions.

- **Local chains**

A local chain is defined as a group of stores (two or more) where all the stores are located in the same trading area.

Trading Area

For practical purposes, our definition of trading area is a geographic area that is generally subject to the same economic, competitive and weather conditions.

For example, Kansas City would be considered the trading area for a chain of stores all located in Kansas City and the immediate area. However, a chain located throughout the Greater Toronto Area (GTA), which is comprised of several cities, might be thought of as a regional chain. Thinking of a trading area as a city is about right.

- **Regional chains**

In this case, the chain has locations in multiple trading areas, but is not national in scope. This could be a chain with multiple locations in the same state or province, for example, Templeton Hardware and Lumber with 18 stores throughout the state of Texas. Or, a regional chain could also have stores in multiple provinces or states, for example, The Fishing Spot, with 20 locations in Western Canada.

- **National chains**

Although there is no strict definition of national *per se*, major retailers usually refer to themselves as national if they have locations in all or most major markets in a country.

- **Store formats**

By store format, we are referring to the physical characteristics of the retail stores themselves. Some chains strive for a consistent look and feel for each location. Although there may be slight differences among the stores, essentially, they are more or less the same. Other chains have different classifications of store formats that often relate to store size, inventory levels, product mix and sometimes services. For example, the Mega Box Computer retail chain designates stores in their chain as A, B, C and D. A stores are the largest stores, with 30,000 square feet or more of selling space.

They carry the entire range of Mega Box Computer products and maintain large quantities of inventory on-hand. Furthermore, A stores offer in-store technical service and warranty repairs. The Mega Box Computer D stores are usually located in strip malls with less than 5,000 square feet of selling space. These stores only carry the top-selling product lines and they do not offer technical or warranty service.

• **Store banners or brands**

Some chains actually have multiple store brands or banners as part of their chain. You can think of these as chains within chains. For example, a chain called National Books has three different banners as part of their chain: National Books (book superstores located in major markets across the United States), Readers (mid-sized book stores located in some major and many secondary markets), and The Book Stop (shopping mall based book stores located through the Eastern seaboard). Table 7-1 summarizes general chain store characteristics.

Table 7-1
General retail chain characteristics

		Chain Characteristics			
		Standard Format	Single Banner	Multiple Formats	Multiple Banners
Number of sites and Geography	National Chain				
	Regional Chain				
	Local Chain				

Context for multi-location traffic analysis

As Table 7-2 shows, the combinations and permutations are many. Although local chains that have a standard format and a single

banner are easier to manage from a traffic analysis perspective, it doesn't mean it's necessarily simple. A local chain could have 20 stores—there's nothing simple about 20 stores!

The critical consideration in multi-location traffic analysis is, as much as possible, to conduct the analysis comparing stores with similar characteristics. For example, traffic patterns in a Mega Box Computer A format store will be different than a Mega Box Computer D format store. Obviously total traffic volume will be different (well it better be higher in the A store or Mega Box Computers has a big problem), but there will likely be other differences including traffic timing and sales conversion rates.

Table 7-2
Retail chain traffic analysis complexity

	Standard Format	Single Banner	Multiple Formats	Multiple Banners
National Chain			✓	✓
Regional Chain				
Local Chain	✓	✓		

Head office versus store level view

Of course there are many stakeholders of traffic information in a retail organization. Figure 7-1 shows some of the traffic data stakeholders. Let's start by breaking it out into the two fundamental stakeholder groups:

1. head office and
2. store level.

Head office

The term head office in this context really refers to any stakeholder besides the individual store-level personnel. These key stakeholders are shown in Figure 7-1.

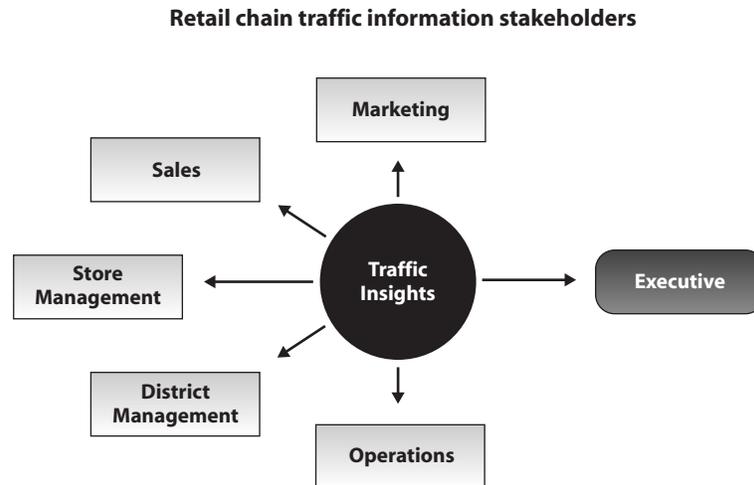


Figure 7-1

Regional management

Depending upon the size of the chain, stores are often divided up into regions or territories, and regional managers usually have responsibility for the stores in their region. This responsibility can range from a few locations to 100 locations. Typically, regional managers are interested in the overall performance of the group. To drive overall group performance, the regional manager needs to have a solid understanding of individual store performance so that she can identify top and bottom performing stores. Traffic analysis can be very helpful to the regional manager for this purpose.

Operations management

Again, specific responsibilities for operations will vary from chain to chain; however, the operations group is often concerned with efficiencies across the network. The operations team might use

traffic information for such areas as analyzing general staffing levels, refining store hours, and evaluating location strategies.

Marketing and Sales:

- **Marketing**

As discussed in *Chapter 1*, advertising is a significant expense for retailers. This tends to be the case especially for chains, as large retail businesses are usually big advertisers. In this case, head office marketing management would be keenly interested in how their advertising programs pull traffic into the locations. Furthermore, marketing would want to understand the relative performance of various media or promotions, and the impact of advertising on different geographic regions, formats, and banners. Marketing can also use traffic data for understanding the impact of competitors and conducting market analysis and forecasting.

- **Sales**

Head office sales management will be concerned with sales conversion rates across the chain. With this, sales management can formulate strategies to help the stores drive sales performance, including sales training, incentive programs, and compensation plans.

Executive management

Senior executives are naturally interested in the overall performance of the chain, but will likely want a higher-level, more strategic view of the traffic analysis. This will be covered in detail in *Chapter 9: The Strategic Value of Traffic Insights*; however, some of the areas executive management may be interested in are location strategies, long-term traffic and business trends.

Store level stakeholders

Depending upon the size of the individual stores in the chain, the store level stakeholders could be one or several people. For example, a large sporting goods retailer may have several department managers within the store. Naturally, store level management is concerned with the “in the trench” tactics and execution of running the store.

From a traffic analysis perspective, the two key areas of store level management focus are:

1. sales performance and
2. staff scheduling and planning.

Traffic analysis view summary

As Figure 7-2 shows us, there are many potential stakeholders for traffic analysis within a retail chain organization. Of course, it's critically important for the store level management to be armed with traffic analysis so that they can run their stores as efficiently and effectively as possible. As illustrated, there are many important uses for traffic analysis at head office. Traffic analysis can play a significant role in everything from performance benchmarking and

Organization wide traffic information applications

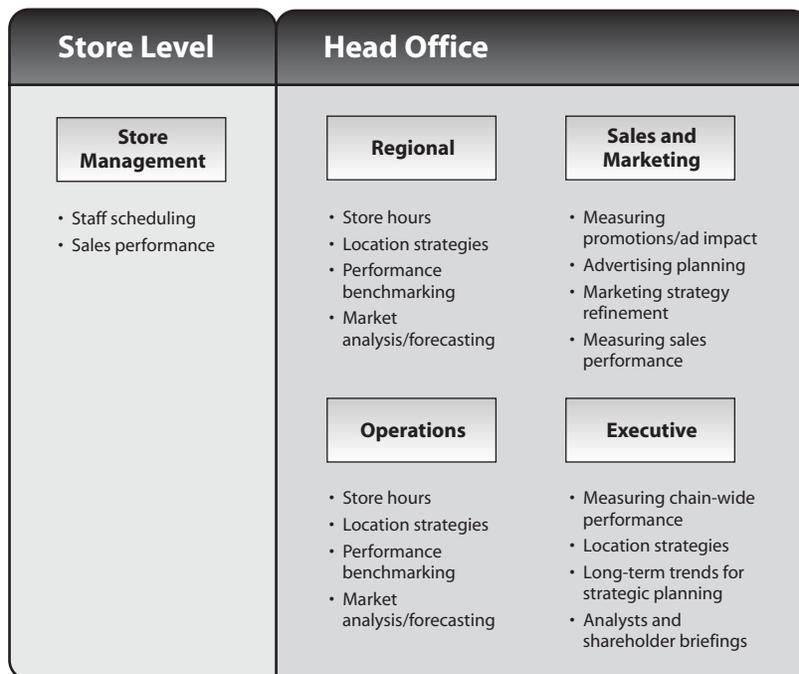


Figure 7-2

market analysis to strategic planning at the highest levels of the executive management.

While some retail chains rely heavily on traffic analysis, others, apparently either don't do it at all or use traffic data in only a very limited way. Of the many potential uses for traffic data, none is more critical than measuring performance—which is where we will turn our attention next.

Multi-location performance metrics

All kinds of interesting and useful metrics and statistics have been devised to help retailers with multiple locations measure performance. Revenue per square foot, revenue per employee, average sale, average margin, number of transactions, average number of lines per receipt, to name a few. Of course, overall sales revenue tends to be the most used, and this makes a lot of sense. If one location has higher sales than another location, the store with the higher sales is thought to be the better performing location. It makes sense, doesn't it? As illustrated in *Chapter 4: Sales Conversion*, sales revenue alone falls short of giving the retailer a clear sense of what the true performance is. It's scary to think of a 40 store chain where management really doesn't know how the locations are actually performing.

If a chain store organization is using sales revenue as its primary measurement for determining comparative store performance (and many indeed do), they're just not getting a complete picture about performance. And, in fact, they could be drawing completely wrong conclusions about which are the top and bottom performing locations. This distortion of performance can lead management, as they attempt to implement strategies to drive sales performance, to implement the wrong fixes. It would be like a doctor prescribing a medication for a misdiagnosed medical condition. The exact outcome may be a little hard to predict, but quite likely the patient is not going to get better! Using sales conversion, along with other measures, can certainly go a long way in helping retail management diagnose each location properly and provide the basis by which an effective treatment can be prescribed.

We'll now explore the idea of multi-location performance in the context of a case study.

Richard's Sport Shops: A case study in multi-location performance

Richard's Sport Shops have been around for a long time—21 years to be precise. Growing from a single small store in Seattle, Richard Isaac built his sporting goods business into a 12 location regional chain operating throughout the Northwest. Although the business has grown nicely, notwithstanding the very tight margins, Richard continues to challenge his management team to drive sales performance. Although Richard is proud of the retail “dashboard” he and his team have devised to help them better understand store level performance, he's concerned that they have plateaued. Nothing seems to be working. All the old strategies just don't seem to be having the same impact and Richard is starting to get worried that the business is hitting a wall. Richard is quickly coming to the conclusion that the only way they're going to be able to drive sales revenue growth is by opening additional stores.



Figure 7-3

Of the several Key Performance Indicators (KPIs) Richard's management team uses, none are more important than overall Sales Revenue and Average Sale per Customer.

As Table 7-3 shows, the sales for last month are detailed by store. Although there is some variation month-to-month, generally, the overall rankings don't seem to change much. Seattle store #2 always seems to have the highest revenue and Portland store #1 usually comes in second.

Table 7-3

Monthly sales by store

Store	Sales
Seattle #2	\$378,000
Portland #1	\$289,000
Seattle #1	\$240,000
Boise #2	\$198,000
Tacoma #1	\$183,000
Portland #2	\$177,000
Seattle #3	\$158,900
Great Falls	\$155,000
Boise #1	\$151,500
Spokane	\$138,900
Tacoma #2	\$137,200
Cheyenne	\$129,500

When management compares stores based on Average Sale per Customer, as shown in Table 7-4, the rank does change. As the table below shows, Seattle store #2 and Portland store #1 are in the middle of the pack. But, because they deliver so much total revenue, coming up a little short on the Average Sale per Customer metric isn't the end of the world. In fact, store management in both of these locations is really working on trying to get their Average Sale per Customer numbers up—progress is being made, albeit slowly.

Based on the urging from Richard's Boise store #1 manager, Merrell, traffic counters were installed across the chain so that traffic volumes could be included in the performance dashboard, as well. Merrell had a crack team at his store. He knew he ran a tight ship—customers were being well served (customer satisfaction surveys supported this) and his Average Sale per Customer was

Table 7-4

Average sale by store

Store	Average Sale
Tacoma #1	\$72.00
Tacoma #2	\$69.00
Boise #1	\$68.00
Cheyenne	\$67.00
Portland #1	\$63.00
Boise #2	\$62.00
Great Falls	\$62.00
Seattle #2	\$61.00
Seattle #3	\$60.00
Seattle #1	\$58.00
Spokane	\$57.00
Portland #2	\$56.00

among the highest in the chain. Unfortunately for him, though, total revenue was consistently among the bottom third.

Richard was well aware of the performance at Boise store #1. They had tried all kinds of sales training and other tactics to drive overall sales, but he had resigned himself to the fact that Boise store #1 was never going to be a top performing location. It was, after all, slightly smaller than Seattle store #2 and Portland store #1—how could it possibly generate the same sales revenue as these larger stores? Richard was skeptical, but agreed to go along with the traffic counting anyway—it did make some sense to count traffic, at least to help with staff scheduling.

For the first time ever, management now had traffic counts by location to consider as part of their operational reviews. The traffic counts per location are listed in Table 7-5.

Table 7-5

Monthly traffic counts by store

Store	Traffic
Seattle #2	22,130
Portland #1	18,350
Seattle #1	15,325
Boise #2	9,120
Portland #2	8,320
Seattle #3	8,300
Spokane	8,125
Great Falls	6,250
Tacoma #1	6,200
Tacoma #2	5,230
Cheyenne	5,225
Boise #1	5,180

The additional information was intriguing. Not surprisingly, Seattle store #2 and Portland store #1 indeed had the highest traffic levels. But it was surprising that Boise #1 had the lowest traffic in the chain. It was even more surprising given that sales for Boise store #1 are not last. Merrell felt gratified to know that he was apparently doing a good job. His sales revenue was not last, but his store was actually getting the least amount of prospect traffic. The managers for Seattle store #2 and Portland store #1 weren't convinced that this additional traffic information really proved much. Yes, it was a fact that their stores received the most prospect traffic, but they also delivered the most revenue—it's relative. It all made perfect sense, didn't it?

Armed with traffic data, management was able to calculate one last important statistic—sales conversion. Average sales conversion rates by store are detailed in Table 7-6.

Table 7-6

Average sales conversion rate by store

Store	Conversion
Boise #1	43%
Tacoma #1	41%
Great Falls	40%
Tacoma #2	38%
Portland #2	38%
Cheyenne	37%
Boise #2	35%
Seattle #3	32%
Spokane	30%
Seattle #2	28%
Seattle #1	27%
Portland #1	25%

Although the traffic counts were interesting, sales conversion literally changed the world order at Richard's Sport Shops. As the conversion rate data clearly shows, Seattle store #2 and Portland store #1 were actually in the bottom third of the stores and Boise store #1 was had the highest conversion rate in the chain—in terms of sales conversion, Boise store #1 was the best performing store!

Putting all the pieces together like in Table 7-7, along with other KPIs the chain had already been tracking, Richard was surprised not only in terms of which his top performing stores were, but more importantly, in terms of what the true sales revenue opportunity actually might be. By monitoring traffic, conversion, and average sale along with the resultant sales revenue, management now had a more complete picture of store level performance.

Based on the new conversion rate data, the average sales conversion

Table 7-7

All performance metrics by store

Store	Sales	Store	Traffic	Store	Conversion	Store	Average Sale
Seattle #2	\$378,000	Seattle #2	22,130	Boise #1	43%	Tacoma #1	\$72.00
Portland #1	\$289,000	Portland #1	18,350	Tacoma #1	41%	Tacoma #2	\$69.00
Seattle #1	\$240,000	Seattle #1	15,325	Great Falls	40%	Boise #1	\$68.00
Boise #2	\$198,000	Boise #2	9,120	Tacoma #2	38%	Cheyenne	\$67.00
Tacoma #1	\$183,000	Portland #2	8,320	Portland #2	38%	Portland #1	\$63.00
Portland #2	\$177,000	Seattle #3	8,300	Cheyenne	37%	Boise #2	\$62.00
Seattle #3	\$158,900	Spokane	8,125	Boise #2	35%	Great Falls	\$62.00
Great Falls	\$155,000	Great Falls	6,250	Seattle #3	32%	Seattle #2	\$61.00
Boise #1	\$151,500	Tacoma #1	6,200	Spokane	30%	Seattle #3	\$60.00
Spokane	\$138,900	Tacoma #2	5,230	Seattle #2	28%	Seattle #1	\$58.00
Tacoma #2	\$137,200	Cheyenne	5,225	Seattle #1	27%	Spokane	\$57.00
Cheyenne	\$129,500	Boise #1	5,180	Portland #1	25%	Portland #2	\$56.00

rate across the chain was 35%. However, his top three stores had conversion rates of 40% or better. If he could find a way to increase conversion rates across the chain by even 5%, from 35% to 40% on average, the incremental sales revenue would be significant. Maybe there was hope after all!

One size *doesn't* fit all management strategies

Unfortunately, multiple site retailers often assume that one strategy or approach can be applied across all locations and the outcome will be similarly positive in every location. Generalizing performance issues and tactics for improvement across a chain can be extremely counter-productive and even detrimental to the business. For example, it would not be uncommon to hear the following discussion at a meeting of senior retail management regarding sales performance across the chain:

CEO: “The numbers are in and it doesn’t look great. We’re coming up short of our Q3 target and year-over-year performance is off, as well. We need to do something. Ideas?”

VP Marketing: “Our advertising spending is up about 5% from last year at this time—I feel comfortable with our

investment level. I am confident that our new flyer design and schedule are working well—I've had great feedback from a number of store managers. They are pleased and tell me that customers are walking into the store, flyer in hand."

VP Operations: "The competition is coming on stronger than ever. Their store renovation program and new high line of products are really starting to hurt. Our stores look good, but a few of them are a little tired."

VP Sales: "I'm a little concerned about our Average Sale per Customer numbers—we must do a better job of up-selling and cross-selling customers. There is no reason why customers who come in and buy a system shouldn't also buy accessories. It should be an easy add-on!"

CEO: "I'm not convinced that our performance is being affected by a few tired looking stores. Our merchandising is solid. And as far as the competition is concerned, there's nothing we can do about them. I agree that our marketing spend feels about right—and I like the new flyer look too. I'm not surprised that the feedback has been positive. Sales—now there's an area to work on. Not only is Average Sale per Customer down from last year, but the number of items per sale are also down. We need to do something on the sales front. Thoughts?"

VP Sales: "I've just received some information on a new sales training program that focuses exclusively on up-selling and cross-selling—it looks pretty good."

CEO: "Notwithstanding the cost of the program, which we'll need to check-in with Finance on, this feels like the right approach. How long will it take to get implemented across all the stores?"

The scenario above is far more common than you might expect. When you are managing a chain, and particularly a larger chain, to an extent, generalization is the only practical way to manage the complexity. Although it's easy to see how management gets to these "one size fits all" solutions, it's tantamount to a doctor prescribing the exact medication to 50 patients who happen to be in the same ward. Just because they're in the same ward doesn't mean the same

treatment will work the same for all patients. In fact, it's not hard to imagine that this "cookie-cutter" approach to medicine would be seen as a form of reckless malpractice. It's curious then why so many retail organizations think they can do the same thing. In this case, the patient may not die, but she quite likely won't be getting any better either.

Driving sales performance

As shown in Figure 7-4, driving sales performance across a retail chain requires:

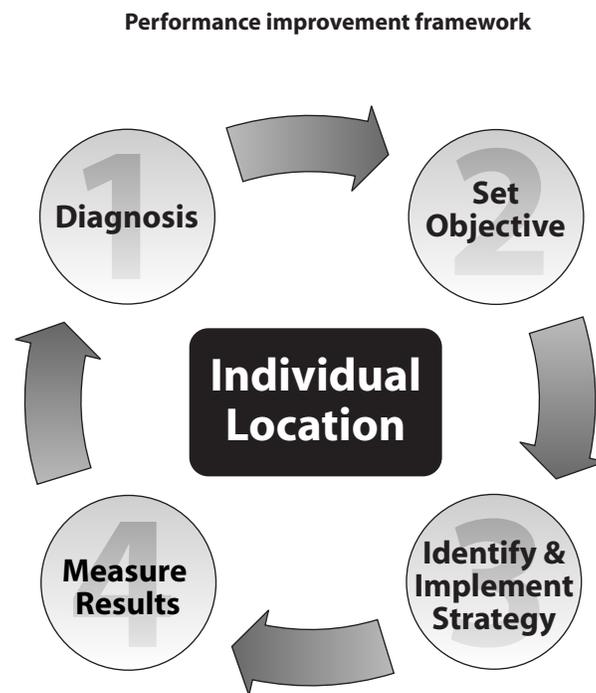


Figure 7-4

1. proper diagnosis of the problem for each location,
2. setting an objective for change,
3. formulating an effective strategy to achieve the objective and implementing the strategy, and
4. measuring the outcome.

If the objective has been achieved, continue to monitor. If the objective has not been achieved, re-run the process. Was the diagnosis correct? Was the objective set properly? Was the correct strategy applied?

If this seems impractically laborious, it isn't. Obviously, the more locations in the chain, the more work to apply the process. Of course, the cost, time, and effort of doing this exercise needs to be compared to the cost, time, and effort of implementing generalized strategies broadly across the chain that are ineffective for many of the locations.

OK, so this all looks straight-forward enough, but I bet applying it is actually a lot more complicated than this framework implies—right? Let's go back to Richard's Sport Shop to see the framework in action.

Richard's Sport Shops: A case study in multi-location performance improvement

When last we left off with Richard, he and his management team just had an epiphany when they saw traffic and conversion rates by location. As we start to apply the performance framework to each location, it's helpful to consider the metrics in the context of the Retail Sales Performance Equation from *Chapter 4* in Figure 7-5. Recall, the formula simply states that Sale Performance is a function of Traffic x Conversion x Average Sale Value.

Starting with Seattle store #2, we see that at 22,130 prospect counts it received the most traffic volume. Average sales conversion at the store was only 28%, which is 7 percentage points below the chain average and 15 percentage points below the top converting store. From an Average Sale perspective, Seattle store #2 was about average at \$61.00 per sale.

Based on this data, from a diagnosis perspective, sales conversion appears to be the most obvious area for improvement. If, for example, sales conversion could be increased to 35%, then during this month, based on the 22,130 prospect counts, Seattle store #2 would have done 7,746 sales (*i.e.* $22,130 \times .35 = 7,746$) instead of the 6,196 it actually did (*i.e.* $22,130 \times .28 = 6,196$). At a \$61.00 average sale, this increase in conversion rate would have generated an incremental \$94,495 in revenue ($7,746 - 6,196 = 1,549 \times \$61.00 = \$94,495$).

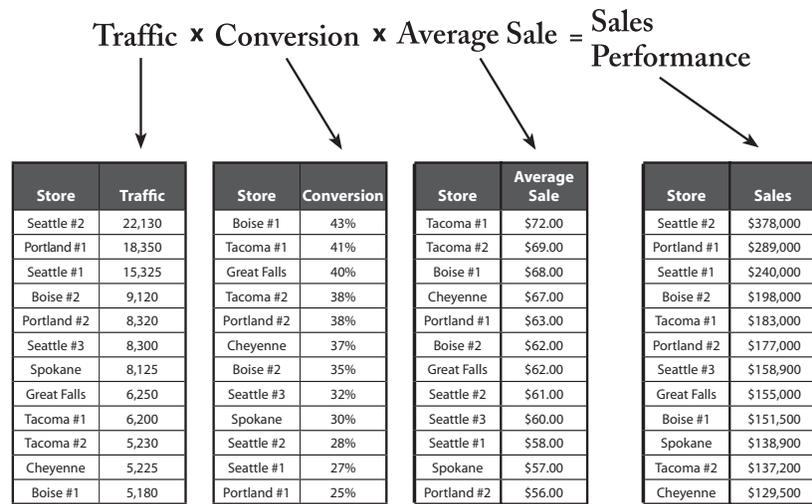


Figure 7-5

Table 7-8

Performance metrics — Seattle #2

Store	Traffic	Store	Conversion	Store	Average Sale	Store	Sales
Seattle #2	22,130	Boise #1	43%	Tacoma #1	\$72.00	Seattle #2	\$378,000
Portland #1	18,350	Tacoma #1	41%	Tacoma #2	\$69.00	Portland #1	\$289,000
Seattle #1	15,325	Great Falls	40%	Boise #1	\$68.00	Seattle #1	\$240,000
Boise #2	9,120	Tacoma #2	38%	Cheyenne	\$67.00	Boise #2	\$198,000
Portland #2	8,320	Portland #2	38%	Portland #1	\$63.00	Tacoma #1	\$183,000
Seattle #3	8,300	Cheyenne	37%	Boise #2	\$62.00	Portland #2	\$177,000
Spokane	8,125	Boise #2	35%	Great Falls	\$62.00	Seattle #3	\$158,900
Great Falls	6,250	Seattle #3	32%	Seattle #2	\$61.00	Great Falls	\$155,000
Tacoma #1	6,200	Spokane	30%	Seattle #3	\$60.00	Boise #1	\$151,500
Tacoma #2	5,230	Seattle #2	28%	Seattle #1	\$58.00	Spokane	\$138,900
Cheyenne	5,225	Seattle #1	27%	Spokane	\$57.00	Tacoma #2	\$137,200
Boise #1	5,180	Portland #1	25%	Portland #2	\$56.00	Cheyenne	\$129,500

Now that management has diagnosed the most likely performance issue, they need to set a performance target. In this case, because the chain average is 35%, we'll use this as the target conversion rate. So far so good. The tougher question is how do you increase conversion? You might want to review the list of factors that influence conversion rates from *Chapter 4*. With a low conversion rate and a so-so Average Sale per Customer, Richard and his team concluded that the most likely way to drive conversion in Seattle store #2 is through some focused sales training—not only might this help get conversion rates up, but it probably wouldn't hurt the Average Sale per Customer metric either.

Now before Richard and his team start trying to fix Seattle store #2, they need to conduct the same exercise for each location. Let's review two more examples.

Tacoma store #1 was a middle-of-the-pack performer from a sales revenue standpoint, but it had the highest average sale and second highest conversion rate. Impressive. Unfortunately, Tacoma store #1 was in the bottom third in terms of traffic. Given how effective Tacoma store #1 is at converting and given the high average sale value, the trick to driving sales performance simply may be to drive more traffic into the store.

Table 7-9

Performance metrics — Tacoma #1

Store	Traffic	Store	Conversion	Store	Average Sale	Store	Sales
Seattle #2	22,130	Boise #1	43%	Tacoma #1	\$ 72.00	Seattle #2	\$378,000
Portland #1	18,350	Tacoma #1	41%	Tacoma #2	\$ 69.00	Portland #1	\$289,000
Seattle #1	15,325	Great Falls	40%	Boise #1	\$ 68.00	Seattle #1	\$240,000
Boise #2	9,120	Tacoma #2	38%	Cheyenne	\$ 67.00	Boise #2	\$198,000
Portland #2	8,320	Portland #2	38%	Portland #1	\$ 63.00	Tacoma #1	\$183,000
Seattle #3	8,300	Cheyenne	37%	Boise #2	\$ 62.00	Portland #2	\$177,000
Spokane	8,125	Boise #2	35%	Great Falls	\$ 62.00	Seattle #3	\$158,900
Great Falls	6,250	Seattle #3	32%	Seattle #2	\$ 61.00	Great Falls	\$155,000
Tacoma #1	6,200	Spokane	30%	Seattle #3	\$ 60.00	Boise #1	\$151,500
Tacoma #2	5,230	Seattle #2	28%	Seattle #1	\$ 58.00	Spokane	\$138,900
Cheyenne	5,225	Seattle #1	27%	Spokane	\$ 57.00	Tacoma #2	\$137,200
Boise #1	5,180	Portland #1	25%	Portland #2	\$ 56.00	Cheyenne	\$129,500

By focusing some marketing effort on the Tacoma area (*e.g.* additional flyer drops or other marketing activities), the imperative here is to drive additional traffic into the location. Assuming Tacoma store #1 can maintain a 41% conversion rate, if prospect traffic for the month could be increased by 15% to about 7,130 prospects (*i.e.* $6,200 \times 1.15 = 7,130$), this could have a material impact on sales.

So, if Richard and his team can come up with a strategy to drive an incremental 15% more traffic into the Tacoma store #1, assuming the Average Sale per Customer stays constant at \$72.00, then the store would generate an additional \$27,454 in sales revenue (*i.e.* $7,130 - 6,200 = 930 \times .41 \times \$72 = \$27,454$).

So, for Seattle store #2, the imperative is sales conversion and for Tacoma store #1 it is traffic generation. OK, let's look at one more location. Let's look at Portland store #2.

Portland store #2 consistently has the lowest average sale value in the chain. As the table shows, Portland store #2 is a middle-of-the-pack sales revenue performer, it has a decent amount of traffic and fairly strong sales conversion at 38%. If only Portland store #2 could get their average sales value up, they could generate even more revenue.

Table 7-10

Performance metrics — Portland #2

Store	Traffic	Store	Conversion	Store	Average Sale	Store	Sales
Seattle #2	22,130	Boise #1	43%	Tacoma #1	\$ 72.00	Seattle #2	\$378,000
Portland #1	18,350	Tacoma #1	41%	Tacoma #2	\$ 69.00	Portland #1	\$289,000
Seattle #1	15,325	Great Falls	40%	Boise #1	\$ 68.00	Seattle #1	\$240,000
Boise #2	9,120	Tacoma #2	38%	Cheyenne	\$ 67.00	Boise #2	\$198,000
Portland #2	8,320	Portland #2	38%	Portland #1	\$ 63.00	Tacoma #1	\$183,000
Seattle #3	8,300	Cheyenne	37%	Boise #2	\$ 62.00	Portland #2	\$177,000
Spokane	8,125	Boise #2	35%	Great Falls	\$ 62.00	Seattle #3	\$158,900
Great Falls	6,250	Seattle #3	32%	Seattle #2	\$ 61.00	Great Falls	\$155,000
Tacoma #1	6,200	Spokane	30%	Seattle #3	\$ 60.00	Boise #1	\$1,500
Tacoma #2	5,230	Seattle #2	28%	Seattle #1	\$ 58.00	Spokane	\$138,900
Cheyenne	5,225	Seattle #1	27%	Spokane	\$ 57.00	Tacoma #2	\$137,200
Boise #1	5,180	Portland #1	25%	Portland #2	\$ 56.00	Cheyenne	\$129,500

In this case, management needs to focus on increasing the average sale value—perhaps additional sales training is required, perhaps a staff change? If Portland store #2 could increase their average sale from the current \$56.00 to \$63.00 (about the chain-wide average), assuming that their traffic volume and conversion rate stay constant, they would generate an incremental \$22,131 in revenue ($8,320 \times .38 \times (\$63 - \$56) = \$22,131$).

As these three examples show, the challenge and potential solution can, and likely will, vary by location. Applying a strategy like “drive

Table 7-11

Objective, strategy and incremental revenue target by store

Store	Objective	Strategy	Target Revenue
Boise #1	Drive Traffic	Advertising	\$40,000
Boise #2	Increase Conversion	Increase staffing levels	\$34,000
Cheyenne	Drive Traffic	Direct mail to existing customers	\$34,000
Great Falls	Drive Traffic	Advertising	\$46,500
Portland #1	Increase Conversion	Sales Training	\$65,000
Portland #2	Increase Average Sale	Sales Training	\$27,500
Seattle #1	Increase Conversion	Increase staffing levels	\$85,000
Seattle #2	Increase Conversion	Sales Training	\$95,000
Seattle #3	Increase Average Sale	Sales Training	\$40,000
Spokane	Increase Conversion	Increase staffing levels	\$32,000
Tacoma #1	Drive Traffic	Advertising	\$55,000
Tacoma #2	Drive Traffic	Advertising	\$41,000
Potential Incremental Revenue			\$595,000

more traffic” broadly across the Richard’s Sport Shop chain would not likely be effective in 2 out of the 3 locations!

The Table 7-11 is a summary of management’s assessment of the objectives, proposed strategy and expected revenue improvement. As this example shows, Richard and his team just identified a potential incremental \$595,000 in sales revenue!

While there are no shortcuts in multi-location performance analysis, that doesn’t mean there aren’t any economies either. As Table 7-11 shows, several locations have the same objective and performance

Table 7-12

Objective, strategy and incremental revenue target by store

Store	Objective	Strategy	Target Revenue
Boise #1	Drive Traffic	Advertising	\$40,000
Cheyenne	Drive Traffic	Direct mail to existing customers	\$34,000
Great Falls	Drive Traffic	Advertising	\$46,500
Tacoma #1	Drive Traffic	Advertising	\$55,000
Tacoma #2	Drive Traffic	Advertising	\$41,000
Portland #2	Increase Average Sale	Sales Training	\$27,500
Seattle #3	Increase Average Sale	Sales Training	\$40,000
Boise #2	Increase Conversion	Increase staffing levels	\$34,000
Portland #1	Increase Conversion	Sales Training	\$65,000
Seattle #1	Increase Conversion	Increase staffing levels	\$85,000
Seattle #2	Increase Conversion	Sales Training	\$95,000
Spokane	Increase Conversion	Increase staffing levels	\$32,000
Potential incremental Revenue			\$595,000

strategies identified. If we categorize stores with similar objectives and similar performance improvement strategies as in Table 7-12 and Table 7-13 respectively, the whole idea of managing the process and executing across the chain becomes significantly less daunting.

Table 7-13

Potential Incremental Revenue

Store	Objective	Strategy	Target Revenue
Boise #1	Drive Traffic	Advertising	\$40,000
Great Falls	Drive Traffic	Advertising	\$46,500
Tacoma #1	Drive Traffic	Advertising	\$55,000
Tacoma #2	Drive Traffic	Advertising	\$41,000
Cheyenne	Drive Traffic	Direct mail to existing customers	\$34,000
Boise #2	Increase Conversion	Increase staffing levels	\$34,000
Seattle #1	Increase Conversion	Increase staffing levels	\$85,000
Spokane	Increase Conversion	Increase staffing levels	\$32,000
Portland #2	Increase Average Sale	Sales Training	\$27,500
Seattle #3	Increase Average Sale	Sales Training	\$40,000
Portland #1	Increase Conversion	Sales Training	\$65,000
Seattle #2	Increase Conversion	Sales Training	\$95,000
Potential incremental Revenue			\$595,000

In fact, now that it's clear what the objectives and strategies are for each store, stores with similar objectives and performance strategies can be grouped. Now Richard's management team can divide and conquer—let the sales manager focus on the sales conversion, have

the marketing manager focus on the traffic stimulation initiatives, and so on.

Performance management: The large chain challenge

I am sure some of the readers are thinking “Hey, this approach might be fine and dandy if you have a small chain with similar stores, but if you have a mix of store sizes, store types and even store banners, in a couple of hundred store chain, it’s a lot more complicated.” You’re right. It is more complicated. But of course, the potential benefit from doing it can also be extremely significant. Managers working in very large chains (100 or more locations), need to go through essentially the exact same process in order to understand the performance opportunities at store level. Think of it this way, in a 200 location chain, there might be 5 or 6 regional managers who are each responsible for 30 to 40 stores. These regional managers could lead the effort to review performance for the stores as we did in the Richard’s Sport Shop example. Then, it could be rolled-up to provide executive management with a complete summary view as shown in Figure 7-6.

In many ways, applying the performance improvement framework for each location and summarizing the objectives and strategies for all the sites is the easier part. The trickier part can be in bringing the objectives and strategies from all the regions together so that the objectives and strategies can be further grouped, this time across regions. In order to manage the process across the entire organization in an effective way, management will need to take the input from the regional managers and review it in a broader context. Specifically, head office will need to:

- **Review performance**

First and foremost, senior management will want to understand store level performance. To an extent, this information is nicely contained in the summarized performance matrix that each region has prepared. Senior management may require some additional context that each regional manager should be able to provide.

Performance improvement process across a large chain

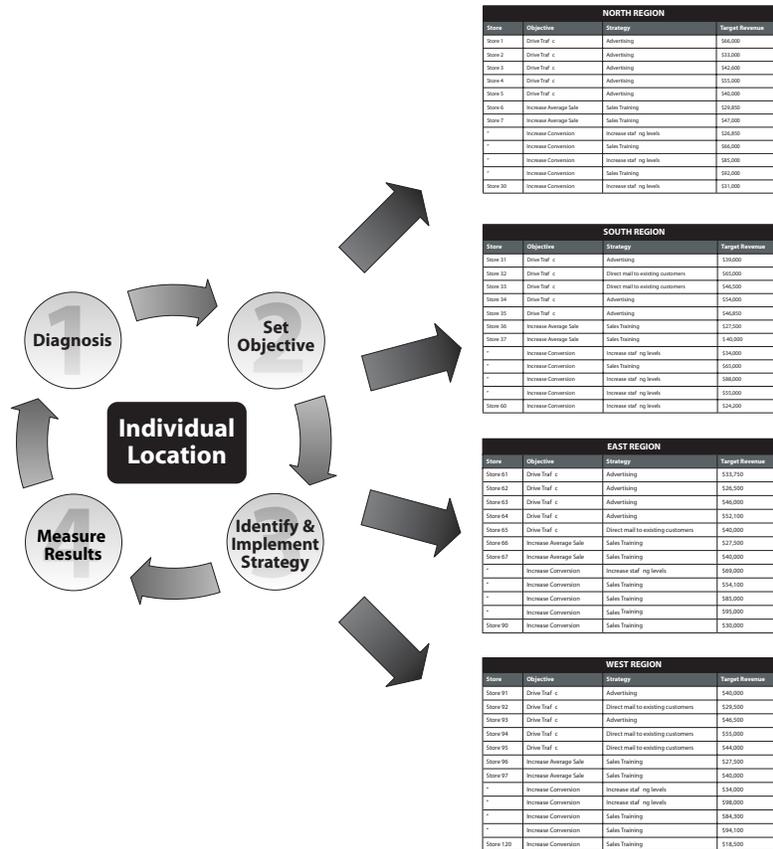


Figure 7-6

• Refine objectives

Although the regional managers working with their store managers have already provided suggested objectives, senior management may want some input on these. For example, the Western Region Manager may have set 35% as the sales conversion target for his stores, but senior management

might think 40% is a more appropriate target in light of the performance from the other regions.

- **Review strategies**

As with objectives, senior management may have some thoughts on what the best strategies for driving performance are, based on the stated objectives. Furthermore, senior management will be thinking about the implementation challenges of the respective strategies; naturally they're thinking about strategies across 120 stores, not just the 30 or 40 that the regional manager is concerned about.

- **Prioritize strategies**

Although some strategies may require very little actual investment—in fact, some strategies may only require a change in an internal policy—by and large, driving more traffic through advertising or improving sales conversion through sales training costs money. When you consider the costs of these types of initiatives in a 120 store chain, the investment can be very significant—hundreds of thousands and even millions of dollars. Like any material financial investment, likely senior management will need to prioritize the opportunities. Everything on the list may not get done—at least not right away—but at least it would be a conscious decision by management.

- **Test programs**

As just mentioned, the performance improvement strategies will likely cost money—maybe lots of money. Not only does it make sense to prioritize the performance strategies, it also makes sense to test the strategies first to see if, indeed, the outcome is as expected. For example, before the chain rolls out a comprehensive sales training program (for those locations that need it), management may want to test the training in a few locations (likely in various regions) to see what the results show. If the desired outcomes are achieved, great! If the results are less than expected, maybe some further refinements are needed. Or, perhaps there are several potential sales training companies that need to be evaluated. Perhaps

senior management might want to test several training companies by having each do a select number of stores.

- **Formalize implementation plans**

Once the priorities are established and senior management is aligned on which performance strategies will be implemented, detailed implementation plans need to be developed. At this point, the task of implementation is likely pushed back down the organization—senior management has better things to do! Outside vendors or suppliers may need to be contracted, and project plans need to organize such details as timing and scheduling, internal communications, and so on.

- **Roll out programs**

Once it's all done on paper, sleeves need to be rolled up and the work begins. The best laid plans can all be for naught if the programs are not executed well. It all starts with good communications—employees at all levels are more likely to “go with the program” if they understand what the company is trying to accomplish and why.

- **Monitor results**

As a process, this really never ends. Everything changes over time, so management at all levels needs to continue to monitor performance and drive sales results. Very likely, management already has some form of reporting processes in place. Adding traffic and sales conversion metrics to the list would be well advised.

- **Refine as needed**

Not everything will work in all locations the same way. Management needs to create a mechanism for refining programs as needed. If results are not being achieved in a particular location, it could be that the original diagnosis may have been incorrect. Some flexibility is a good thing; however program development “on the fly” is usually not such a good idea. Management needs to find the right balance.

OK, so there is A LOT MORE work to do in a large chain. It's true. The entire process is illustrated in Figure 7-7. But, as previously stated, it's worth it. The fact is, retail managers already spend a great

deal of time and energy trying to drive sales performance—they're already doing it! Simply put, if they follow the process just detailed, they will do it more effectively. Think about it, if a small chain like Richard's Sport Shop can identify over \$500,000 in potential incremental sales revenue, what do you think a 120 store national chain could find?

**Performance improvement process
across a large chain with Head Office feedback**

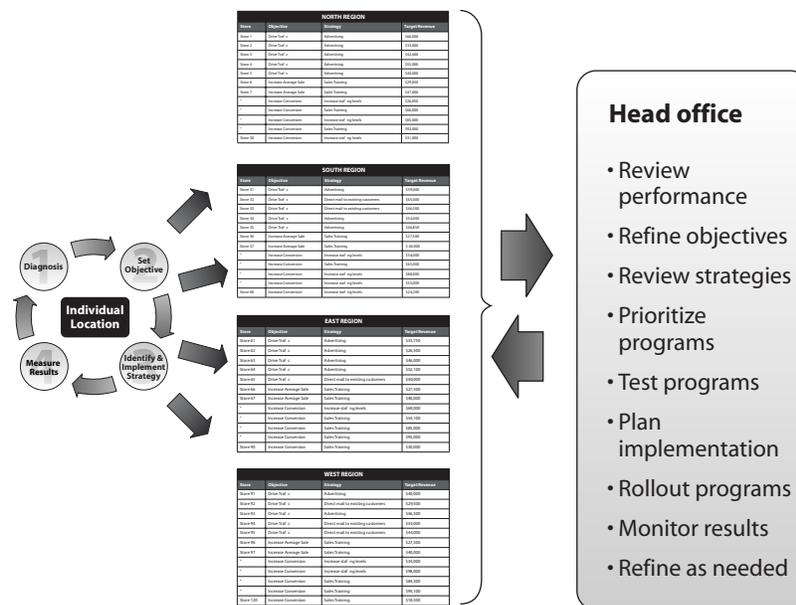


Figure 7-7

Multi-location performance comparisons

There is a tendency in all organizations to compare and rank stores. Ultimately, each location is unique. Even stores with similar physical site characteristics and in the same market can have different, sometimes very different, results. As the previous section showed in great detail, it is imperative for management to understand the performance issues and opportunities of each location individually.

That all said, it is potentially insightful to compare stores. The fact is, chains do it anyway—usually based on sales revenue alone. Why not compare stores on the basis of traffic and sales conversion as well? Although each store is indeed unique, comparing stores based on traffic and conversion rates may offer clues to driving performance that could be used at other stores in the chain. Here is a summary of some of the ways managers might want to compare stores:

- **Market versus market**

Comparing performance among stores from different geographic regions may provide important insights that can be used to refine programs, and potentially save some cost. For example, a chain of men's wear stores in major cities across the country may observe that traffic spikes 20% on average, the day a sales flyer drops in the New York market, while traffic hardly increases at all in Houston. By comparing traffic responses by market, the marketing department may acquire critical insights that could lead to refinements in media mix, messaging or other promotional elements. It could help them find the secret to spiking traffic in Houston!

- **Format versus format**

As previously noted, stores in a chain are not necessarily all the same. A chain may have several formats of store—even several formats all in the same geographic market. For example, a bicycle retailer may have two superstores and four standard strip plaza locations all located in Phoenix. The superstores have five times the retail selling space, carry a significantly broader range of products, and have a complete service area. The smaller, strip plaza locations carry only a limited product offering and do not have a service department. Although it's quite obvious that the traffic volume will be different between these two formats, how do they compare on a sales conversion basis? Understanding the differences between the format types provides management with a way of predicting outcomes.

- **Banner versus banner**

Some chains have multiple banners within their chain organization. For all intents and purposes, to customers, these are

different chains. Comparing performance metrics between different brands, like format comparisons, provides management with important clues about the differences in customer behavior in these stores. Understanding customer behavior can help management with formulating and refining strategies to drive performance.

- **Store versus store**

Lastly, some chains strive for consistency in look and feel across the entire chain. In this case, these chains usually employ a national advertising program, merchandising programs, and sales training—basically, everything. The temptation to compare these stores is strong, and why shouldn't it be? To a large extent they are comparable. As we saw in the Richard's Sport Shop example, management's view of what good performance is can change when they look at more than just sales revenue as a performance measure.

Comparing store performance is a natural and important way for management to understand what's happening and potentially how it's happening. Although management can, and should, compare stores—on lots of dimensions including those just listed—it is also important that management understands that there may be good reasons why one location consistently outperforms another location. For example, one of the stores may be located right beside a major competitor; clearly this will impact performance, and management needs to keep this in mind.

Lastly, management needs to consider how these comparisons will be interpreted by store level managers. As the next section will show, it can get personal.

The pitfalls of performance comparisons

A discussion I had with a manager of a consumer electronics retail store some years ago nicely illustrates some of the potential dynamics of performance comparisons that management needs to be sensitive to. The conversation went something like this:

Author: “It's great that you're measuring traffic now so that you can calculate sales conversion rates.”

Store Manager: “Yes, it sure is. I think this is going to be very useful.”

Author: “Let me ask you, your company has a store on the south side of town as well, right?”

Store Manager: “Right.”

Author: “Do you think the manager of your south side store would be interested in hearing about traffic counting and conversion rates?”

Store Manager: (half-laughing) “Are you kidding me?”

Author: “No, why not?”

Store Manager: “Our south side store probably gets twice as much traffic as I do here downtown. His sales volume is only slightly higher than mine. In fact, occasionally, I actually have higher sales. I don’t think it’s in his best interest to track it.”

Author: “I suspect that head office might feel differently about it.”

I’m not suggesting that retail store managers are all self-interested, conniving, Machiavellians out to mislead head office—on the contrary. I think the example above is probably a special case, though it can happen. There is a natural tendency to want to present one’s performance in the most positive light possible, and retail managers are not exempt from this tendency.

Generally, most store managers truly want to drive performance in their stores. They do want to be the best they can be. That said, this isn’t always the case. As I found out, not all managers may find it personally beneficial for head office to break their performance down into its constituent components. “Hey, sales are going up, so what’s the problem?”

As explained in *Chapter 4* on sales conversion, sales revenue alone is problematic because it fails to provide any perspective on what the potential opportunity is—in many ways this is far more useful in measuring store (and the store managers’) performance. The store that captures more of the opportunity is a better performer than a store that captures less, even if the store that captures less of the

opportunity actually has higher sales. Think of it this way, how much more successful would you be if you had your best store manager running every location? That's what this is about.

Whose job is it anyway?



When it comes to managing the traffic data in a large chain, you might think it would be easier to identify the person who has responsibility than in a small chain. The fact is, it's less obvious. Because there are so many potential stakeholders for the traffic information, it tends to get lost in the organization. We have seen countless examples of large, sophisticated retail chains that can't point us to the "owner" of the traffic information. Unfortunately, traffic data is often not readily or reliably available.

It is irrelevant who owns the traffic information, as long as there is an owner. Designate someone—anyone! The traffic "function" could quite nicely fit in Marketing or Store Operations. We have seen it in Information Systems, even Finance. Wherever it ends up, as long as someone is responsible for the traffic information and ensures that all the stakeholders have ample access, the company will be in good shape.

Chapter Summary

- Traffic analysis is critical to any retailer, but it's even more critical to multi-location chains. The type of chain organization can have an impact on how complicated the traffic analysis will be. Traffic analysis complexity generally goes up with the number of stores and markets the chain does business in—from local to regional to national chains. Other characteristics, like the number of different store formats in a chain and the number of different banners, will also increase complexity.
- There are many stakeholders of traffic data in a chain operation. From store level managers, to regional managers, to head office marketing, sales, operations, and even the executive management, the need for, and potential uses of, traffic information are many within a chain operation.
- One of the most important uses of the traffic information in a chain is as an input for performance metrics. As discussed in *Chapter 4* on sales conversion, without traffic data, there is no way to calculate sales conversion rates—and sales conversion is the fundamental measure that every retailer needs to understand. When good performance metrics have been established, it's important that management resist the temptation to apply one solution generally across the entire chain. Management needs to understand what the most likely performance drivers are for each location, categorize the performance improvement strategies and move to implementation. This on-going process will enable management to drive continuous improvement across the chain.
- Comparing performance across a chain can be tricky. Variations in market, store format, banner and even subtle differences among stores with similar characteristics can make inter-store comparisons somewhat problematic. Also,

performance comparisons can be distracting for the store managers.

- Lastly, chain organizations need to designate someone as the traffic information owner. It is of little use to collect traffic data if it is not used regularly or broadly across the organization.