The Last Great Retail Metric

The last? Great?

You're probably thinking, "Yeah, right." You're skeptical of such claims, and you should be. Nobody says he's going to write the Last Great American Novel. One must have the courage of his convictions to make such an apparently outrageous claim.

I do have the courage of my convictions – and the experience to back it up. The latter is what this introductory chapter is about: the 17-year journey that led me to the incontrovertible conclusion that most retailers and the retail industry in general have overlooked this simple but critically important metric. I claim that conversion is the Last Great Retail Metric, and I'll prove it in the chapters that follow.

Nobody argues against conversion. It's very important, maybe even <u>the</u> most important thing you should focus on to improve sales performance in your stores. But the idea of "converting" shoppers into buyers is such a favorite piece of retail shop talk that we should officially classify it as a cliché. Maybe that's part of the problem. This vital metric has been so misused and underused that it's lost its value and consequently failed to find its rightful place on the dashboards of retail executives and managers alongside comp sales and average ticket. I hope to change that.

Yet to be fully exploited

But *last* great metric? Yes, because it is the one metric that most retailers today have yet to fully exploit or leverage. Conversion is not just a critical, vital, useful, or insightful retail performance metric – it has the potential to be transformational, and that is what makes it a truly *great* metric.

There is a concomitant metric: While improving "customer conversion" is the overarching solve-for, you can't talk about conversion without

also talking about store traffic – these concepts are inextricably tied in a number of important ways. So I will also talk a lot about traffic and, yes, it too needs to find its way onto dashboards.

Conclusion first

So, with this in mind, allow me to state the conclusion of the book: *all retailers need to measure traffic and customer conversion in their stores. If you don't, you're flying blind.*

Retailers who measure traffic and conversion and effectively use the insights from this data as part of their operations have a significant competitive advantage over those who do not. Given that traffic and conversion are so fundamental to retailing, I strongly assert that these metrics should be as pervasive in retailing as point-of-sale – they're that critical.

When I wrote *When Retail Customers Count* in 2005, it was the first and only book dedicated to the topic of traffic and conversion analysis. It was, in effect, the primer on traffic and conversion – a basic guide for retail managers. What was surprising to me — and this is largely why I wrote it — was that no one had previously told the traffic and conversion story.

I was stunned. Why hadn't this already been done?

As I found out, traffic counting and conversion have been part of retailing for decades, but they have never been a meaningful topic in the dialog about how to improve retail, and for the most part, they're still not today. Oh sure, they get passing mention in trade publications here and there, and with the advent of video analytics, the traffic and conversion messages are seeping into the narrative somewhat more often lately, but usually as just a side note.

Conversion should be the headline!

In the six years since the publication of my first book, I have spent a considerable amount of time traveling all over North America, meeting with retailing executives, educators, consultants, and industry experts to

talk about traffic and conversion. I have sent out hundreds and hundreds of books, giving them away as a way to open a dialog with retail executives.

And it worked! I have had countless dialogs.

What I discovered was almost as surprising (and disturbing) as when I realized no one had written the traffic and conversion story in the first place. Most retailers still don't get it, and while some of the more thoughtful consultants, educators and industry experts I've met are sympathetic, the retail support industry is collectively ambivalent. If a retailer has traffic and conversion data, great, this is really useful; if they don't…oh, well.

In my first book, I believed the lack of adoption of traffic and conversion measures by retailers was merely a question of education or communication, but I have come to realize that the reasons for the apparent apathy are more complex than I had thought.

Some did get it.

As I reflect on the meetings I've had with retail executives, I can make no generalizations about why most don't use traffic and conversion as part of their operations, because there's just not one simple reason.

From the majority of my discussions with retailers, it would have been easy to have just written the whole thing off – retailers just don't get it, so why bother? Traffic and conversion will never be as pervasive as POS – move on.

But, as I said, it just wasn't that simple. You see, over the course of these countless meetings, I also stumbled upon some who did get it. In fact, they got it so much that they shattered my hypothesis that the retail industry was never going to collectively get it. Not only did they support my belief that traffic and conversion analytics should be as pervasive as POS in retailing, but they insisted that they could not run their businesses today without it. And they couldn't understand how other retailers could either!

To speak with retailers who understood the importance of traffic and conversion so profoundly was nothing short of a revelation. It was analogous to visiting a faraway foreign land trying to get directions from people who spoke no English, and to then finally find someone who speaks English – perfectly and eloquently.

Awesome.

To a great extent it was this disparity between the retailer Haves and Have-Nots that compelled me to write this book. Why is it that some retailers are using traffic and conversion to great advantage, while so many (the majority, in fact), aren't? What do these retailers know that the others don't? How did they get there? Why do so many retailers struggle with these fundamental measures?

Why I am so obsessed with conversion

You may be wondering what the source of my conviction might be – fair question. A bit of background here might help.

In 1993 I was a college student studying business and the part-time marketing manager for a local computer store. I was struggling with trying to measure the impact of our advertising. Advertising wasn't cheap, and I wanted to know what it was delivering.

I found it quite remarkable that the sales results didn't always represent what was actually happening in the store. For example, we would run a promotion, and the store would be very busy – it wasn't hard to tell, as it was a single-location store. At the end of the day, we would anxiously count the money in the cash till and hope for the best. Often, we were underwhelmed with the results. The owner would say, "Is that all we did in sales today? I thought we would have done better — I guess that promotion didn't work very well."

You see, that's what bugged me. The advertising did work. It drove prospects into the store. I saw it with my very own eyes. I also saw people wander around the store, not get served because our Sales Associates were all busy helping other customers — and then leave, without making a purchase. My advertising was working, but I had no way to prove it.

One day it occurred to me that if I could track the number of people coming into the store, I could prove that my advertising worked. It was still the early days of the Internet, so I scoured retail trade publications at the university's library, looking for someone who sold traffic counters. In a dusty old copy of *Chain Store Executive* magazine, I saw a small ad for a company who offered electronic traffic counters – bingo!

As soon as I got back to the office, I called the company and was delighted to learn that they had what I was looking for. The traffic counter would cost about $2,500 – a bargain, I thought, compared to what we spent on advertising and promotions annually. So I gathered up all my research and went to pitch the idea to the store owner.

I thought I had a compelling argument. Spend $2,500 to help us understand if the $250,000 we were spending on advertising annually was making a difference. No-brainer, right? Wrong! The owner's reaction still stings after all these years: *"You want to spend $2,500 on this gadget? We could do a radio remote for that kind of money. No way."*

I was completely dejected. Here I had found a way to answer some very critical questions about our business, and instead of being commended on the initiative, I was treated to my first, real-world, "penny wise, dollar foolish" management decision.

I was so convinced that traffic data would deliver the important insights we needed, I wasn't going to let the lack of executive support or budget get in the way. I went to one of my engineering buddies who worked in the technical service department and asked him if he could build me a basic counter –an infrared beam at the front door, some kind of data collection device, plus a way to look at the data. The answer: sure, no problem.

Traffic data, revelations, new clients

With about $300 of parts from a local Radio Shack (which I paid for out of my own pocket), my pal built me a primitive traffic counter. From the moment we installed our counter in 1993 to this day, I have been hooked on traffic data and all the great insights it can reveal, like customer conversion rates.

After several months of using and learning about traffic and conversion data with our home- grown counter, it occurred to me that other local retailers may also be looking for traffic and conversion insights, so in 1994 HeadCount Corporation was officially born. We started the company as a small sideline while we finished college, and I even got permission from the store owner to pursue HeadCount in my spare time – that is, when I wasn't in school or working for him.

We scraped some money together, and I started knocking on doors of local retailers – not much success. In fact, I discovered that it was a very hard sell. Most retailers had the same reaction as my owner – what, $2,500 for a traffic counting gadget, no thanks!

Even after I explained all the great ways we were using the data — measuring advertising impact, scheduling staff better, and calculating something called "conversion rate" — these retailers were unconvinced. I wondered, "What the hell is wrong with these people?"

After endless tries, I finally sold a couple of units. Hurray for us! I'm not crazy...see, other retailers get it.

I sold one unit to a sporting goods store and another to a small furniture retailer. Sales were very slow — more than slow, actually. I didn't have any new sales beyond these two. As I worked up the courage to knock on more doors, I would periodically call on my only two customers and see how things were going. Much to my surprise, I discovered that they weren't.

Hi Bob, how's the traffic data working out for you? What have you learned? How are you using the data? I would ask. The response floored me: "Uh, traffic data...yah, right, we should really look at that stuff – in all honesty, we haven't looked at that stuff for a long time."

What the...?

"Why did you buy the traffic counter if you're not going to look at the data?" I wondered to myself. This was my first experience with the widespread fact that having a traffic counter doesn't mean you're actually using the data in a meaningful way. Sadly, this has been a recurring theme even to this day.

The first incarnation of HeadCount was an abject failure. I simply couldn't convince enough retailers to buy our traffic counters and so, despite stumbling upon a few more sales here and there over the years, the HeadCount business just wasn't much of a business.

My college buddy/business partner and I moved on – he went on to an engineering career, and I eventually became the Vice President of Sales and Marketing for the Canadian arm of finance software company Intuit, makers of Quicken, TurboTax, and QuickBooks.

Intuit was a great company to work for. The company was always searching for customer insights to make better products. Collecting data, analyzing results, making informed decisions – very analytical. It wore off on me.

In 2003, I had been with Intuit for almost eight years and I felt it was time for a change. My boss, the CEO Bruce Johnson, suggested a one-year sabbatical. I accepted and set out to clear my head and recalibrate life. It didn't last long.

Mall insights

With a little money in the bank (thanks to some good fortune with Intuit stock options) and time on my hands, I found myself whiling away the early days of my sabbatical wandering the gigantic West Edmonton Mall (at the time the world's biggest). As I strode the expansive walkways, I noticed that most retailers didn't have traffic counters.

It had been about ten years since HeadCount was born, and apparently not much had changed – retailers obviously still didn't see the importance of tracking traffic and measuring conversion. "What's wrong with this picture?" I wondered.

Just before I left Intuit, we were working on a difficult problem: how do you turn shrink-wrap software like QuickBooks into a service?

QuickBooks is fantastic small business management software, almost too good. Every year we would release a new version, but as the years went on, it became more and more of a challenge to convince existing users

to upgrade to the latest version. They loved the existing version and just didn't see the need to buy an upgrade.

We figured that if we could somehow turn QuickBooks software into a service, then we would have something that customers would continue to pay for as it continued to evolve.

While we never completely solved this before I left on sabbatical, the thinking was still very much fresh in my mind while I wandered the mall. Turning software into a service was difficult, but what about traffic counting and conversion analytics?

Thinking back to my early experiences with HeadCount, I realized that retailers often struggled with working with the data, and they sure didn't like spending money on buying traffic counters. So, instead of selling traffic counters, what if we install our own traffic counters, then we collect the data, analyze it, interpret the results, and provide the retailer with detailed management reporting from store-level, districts, and regions, all the way up to executive dashboards – and we do it all as a monthly service?

HeadCount *redux*

Based on this new model, HeadCount was reincarnated as an analytics company specializing in retail traffic and customer conversion analytics. Three months into my sabbatical, I called my boss and informed him that I wouldn't be returning from my sabbatical. I had found what I wanted to do: pursue retail traffic and customer conversion analytics and re-launch HeadCount.

Without the need to buy expensive equipment, it was easier to get retailers onboard with HeadCount, but surprisingly it was still a very hard sell. Nonetheless, we landed a small number of clients and, now as newly minted traffic and customer conversion analysts, we pored over the data, creating reports, revising them, improving them.

We looked at their data as if it were our own, trying to find the critical insights and what they meant. For example, we would map the conversion rate sags that were occurring in the stores at particular

times of the day — and encourage the retail managers to review staffing schedules during these periods. It worked. Conversion rates and sales improved.

We would overlay advertising and promotional schedules on traffic and conversion charts to help clients' marketers understand the impact of their promotions. We even overlaid weather data so that our clients could truly understand the impact weather was having on their business, if any. We learned so much about analyzing traffic and conversion data and began to develop our own methodologies and approaches to this new science of traffic and conversion analysis.

And as far as we could tell, no one was doing it the way we were — and they still aren't today.

When Retail Customers Count

In 2005, as a way to engage retail executives in the dialog about traffic and customer conversion analysis, I wrote *When Retail Customers Count* – the first book dedicated to traffic and customer conversion. The book served as an important platform on which we built HeadCount into the leading traffic and conversion analytics company it is today.

Our client list expanded to include some of the leading retailers in North America. The more clients we had, the more data we had to analyze, the more advanced and refined our unique brand of traffic and conversion analytics became – and it continues to evolve to this day.

HeadCount today

Over the last eight years, my dedicated team of traffic and conversion analysts and I have analyzed literally thousands of retailer data sets and have produced countless traffic and conversion reports and presentations. Our clients have come to rely upon these reports to understand what's going on in their business, how their stores are performing, and, more importantly, how they can perform better.

It's now been over six years since the publication of *When Retail Customers Count*, and now there's so much more to say – new insights,

methods and techniques for analyzing this critical data, and new ways for putting it to practical use.

This stuff just seems to get better and better.

Yet the juxtaposition of these great advancements in the analysis and use of traffic and conversion data with the persistent obliviousness of retail executives is excruciating. Most retailers today still don't track traffic or measure customer conversion in their stores, and they're doing themselves a significant disservice. This book is my way of making the case for traffic and conversion – hopefully, in a compelling and interesting way.

Deeper exploration

Unlike my first book, **this book is a deeper exploration of how all retailers can leverage these powerful analytics to improve sales performance, minimize costs and gain a competitive edge**. Going far beyond the ABCs of traffic and conversion analytics, this book uncovers <u>why</u> retailers struggle with these vital metrics and how <u>you</u> can overcome the challenges — and put the insights that come from traffic and conversion data to practical use in your business today.

Rest of the book

I wrote this book with retail executives in mind. While you will find a multitude of charts, graphs and tables, please don't think this is a book about "analytics." The graphs and charts help me tell the traffic and conversion story in a vivid, visual way that words alone could not convey. All of the examples contained in this book are based on real retailer data. As is so often the case, reality is far more interesting than fiction ever could be.

In Part I, I'll provide important context about these metrics and challenge the skeptics head-on. This section will describe the many unique and powerful insights that only traffic and conversion analytics can deliver – insights that even the most sophisticated business information or CRM system cannot.

Also, I'll use traffic and conversion to poke gaping holes in the industry's collective belief that year-over-year, same-store (or "comp") sales is the metric by which success or failure is measured. And, for those who believe that mystery shopping and customer satisfaction surveys provide all the in-store insight you need to deliver the ultimate customer experience, I'll show you how wrong you can be. Finally, I will discuss the sometimes confusing topic of retail traffic counter technology – in non-technical terms.

As compelling as I think my arguments are, I'm not asking you to rely solely upon the words of a conversion evangelist like me. So I've invited some additional voices to join the choir in singing the praises of conversion. I call them *Conversion Champions*, and you need to hear what they have to say. Their remarks and opinions appear in Part I.

In Part II, I'll demonstrate how critical insights can be extracted from traffic and conversion data. From the pitfalls of calculating conversion rates to pinpointing what a missed opportunity looks like, you'll see it all here. And I'll show you how traffic and conversion analytics can have a profound impact on two of the most important areas of your business: staffing and advertising.

In Part III, I'll talk about accountability, leverage and action. Having more metrics, even great ones like conversion, won't make your business better. *The magic is in turning the insights into action and this can happen only if the insights are "consumed,"* so I'll talk about what it takes to create a "conversion culture."

Ownership is another important topic. Who among your executive team should "own" traffic and conversion? Apolitically and uncompromisingly, I'll describe how each and every executive seated around your boardroom table should — no, make that must — use traffic and conversion insights to help him or her contribute to better performance in each area of responsibility.

Finally, I'll present the best practices in the use of traffic and conversion analytics, and, as part of this discussion, I'll also talk about why so many of you have struggled with this – there are many reasons, and you are not alone.

Why you should read this book

Conversion: The Last Great Retail Metric is for everyone who makes decisions in retail organizations – from the CEO and each of the executives seated around the boardroom table to all those who aspire to be there. The ideas presented in this book will change the way you think about performance and will offer new ways for you and your team to leverage the powerful insights that come from traffic and customer conversion data, in order to *make better decisions, optimize expenses, drive sales performance in your stores and give you a competitive edge.*

This book isn't for just big retailers or retailers in specific categories. It's for all retailers, regardless of the number of locations you have or what you sell. If you already have traffic counters in your stores, great, this book will show you how to get more out of your investment. If you don't have traffic counters in all your stores, or you are struggling to drive results in your business with traffic and conversion analytics, this book was written especially for you. And while I wrote this book with retailers in mind, I hope that retail educators, consultants, and industry experts will also be convinced that it's time traffic and conversion be given the full credit that they are rightly due, regarded not as nice-to-haves, but as must-haves.

Traffic is vital. Conversion is great. Read on.