



Providing the Retail Community with Strategic, Analytical, and Operational Consulting Assistance

Are You Properly Managing Your Conversion Rate?

With all of the conversation in the industry about benchmarks, metrics, financial ratios and management dashboards, the fact remains that most retailers do not know:

- What their conversion rate is
- How to accurately measure it
- How to pro-actively manage it

Despite the hundreds of millions of dollars spent on new retail operating systems annually, this critical metric, the ratio of shoppers physically in your store to those who make a purchase, remains elusive. The ratio, however, is arguably one of the most useful a retail organization can utilize to measure its success in pursuing its ultimate mission – to satisfy the needs of its customers.

The key components in this process are; planning how to measure the conversion rate, purchasing and installing the equipment necessary to collect the information and make the calculations, and interpreting and managing to the data correctly.

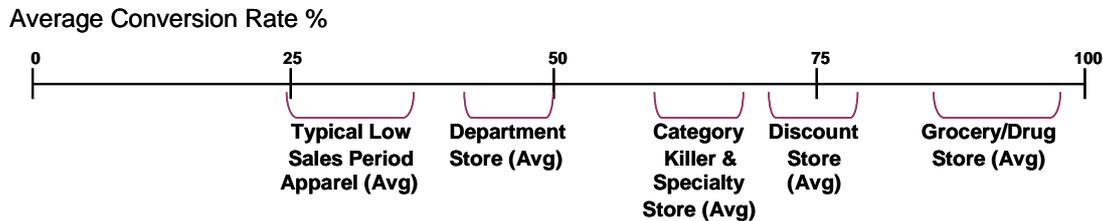
Why should a retailer measure their conversion rate?

Conversion rates quantify the ratio of potential shoppers that have decided to buy. Rates vary considerably by retail format, time of year, promotional activity, etc. The actual mathematics of the ratio dictates that a 25% conversion rate increased by only 1 percentage point (to 26%) will mean a 4 percentage point increase in actual sales. The leverage on the top-line is so significant that we recommend all retailers understand their average ratios by monthly period and be fully cognizant of how business strategy shifts will affect them.

A sample of conversion rates from various retail segments follows. Be aware, however, that these data points can shift based upon time of year, merchandising effectiveness, and operational technique.

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Planning how to measure your conversion rate:

This step is quite important in the process and the decisions made in this step will dictate how the data emanating from the collection systems can be utilized. Right up front the retailer needs to decide how they will filter out non-applicable feet-on-the-floor. A strategy for how you exclude shopper counts attributed to store associates, outside contractors (painters, HVAC, etc.), non-shopping spouses, children, and other non-shoppers needs to be determined. Most shopper count collection systems will record counts from these groups of people while in the store. Management needs to know what to do with the (gross) shopper information collected and how to either use it all, or filter out the non-shoppers (to a net shopper count), before calculating the final conversion ratio.

We strongly recommend that whichever process management decides upon, that they insure that method of ratio calculation be kept constant, permitting accurate period-to-period comparisons. Calculating a conversion ratio with a (gross) total person shopper count will give a lower ratio than a conversion rate calculated with “real shoppers”.

Collecting conversion rate data:

The traffic counting system vendors are easily located, varied in their approach to collecting shopper traffic data, and capable of providing a very valuable perspective on what’s happening in your store. Older systems utilize break-beam technology, where-in an invisible beam is shone across key entryways and exits permitting simple counts be taken of the number of times the beam is broken (by a person in and out). More sophisticated systems monitor movement direction and claim they can calculate net shoppers by time period by knowing how many people have entered a store and how many have departed (with a time-stamp). The newest technology providers claim their systems can also determine “actual shopping units) by filtering out spouses, friends, children, umbrellas, and strollers that often break the beam in the less complex shopper-count collection systems.

The traffic counting systems also link to the store POS system. This linkage provides the other key data utilized in calculating conversion rates – sales.

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What the conversion rate means and how retailers can utilize it

A properly designed and maintained system can provide a wealth of previously un-mined data trends. Linking shopping traffic rates and trends to actual sales can provide insight into shopper reaction to changes in;

- Layout, format
- Price
- Selection
- Inventory levels
- Brand shifts
- Signage
- Size scales
- Competition shifts
- Advertising shifts
- etc.

The impact of these types of changes can be identified by comparing shopping traffic pattern changes to the actual POS sales data. If shopper traffic increases as the result of an advertising change, that information would be vital for the marketing department to know. If purchases decrease when a noticeable brand shift occurs, the merchants need to know that immediately. Measuring the conversion rate and providing the raw data to a key end-user can create an important management tool.

Holiday conversion rate trends are critically important to any retailer whose offering creates holiday demand. Conversion rate increases and decreases during this period provide key messages to virtually every functional area within the retailer's organization. Holiday strategies surrounding store staffing levels, scheduling effectiveness, and customer service training are also manifested in the holiday conversion rate trend. Many retailers ask the question "do we want conversion to increase, decrease or stay the same at holiday time? Each of these potential courses means a significant operating pattern shift for the organization.

So why do so few retailers measure their conversion rate

Our perspective on this question includes a few different points of view;

- We think that most retailers are used to measuring their business with the old standard metrics, such as sales / square foot, average sales / transaction, transactions per hour, etc. and find it hard to embrace a new metric
- Related to point 1, we think many retailers haven't thought through the value of the conversion ratio and don't fully understand what it can tell them.
- Also, there seems to be a reluctance to have additional metrics in some organizations, as they can demand accountability for improvement

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Measuring conversion is not difficult to accomplish and the perspective it can create can be quite eye-opening. An astute management team will utilize this information on a regular basis and permit it to be a key measure in their performance.

The team from Atlanta Retail Consulting is well positioned and properly experienced to help your organization effectively deal with the conversion rate challenge. We are skilled at assisting retailers to develop conversion measurement strategies, successfully implement the measurement systems, and interpret the data to more effectively manage the business.

We invite you to contact us for a no obligation discussion concerning the value of measuring the conversion rate in your business and how we might be able to assist you.