Lund, November 23, 2008

Monitoring Visitor Traffic

Visitor traffic is the most fundamental metrics to retail and it is largely unused. The traffic is the potential of a store – only the people that visit the store can make a purchase.

Day after day, hundreds or thousands of potential customers may visit a retail store and while the majority of these prospects make a purchase and are successfully "converted" into a customer, hundreds will leave without buying.

Retail Economics

In today's competitive retail environment retailers face ever increasing challenges that threaten their ability to operate profitably. Market over-saturation, increasing operating costs, rising customer expectations, and fewer shopping visits makes the margin for error razor-thin and magnifies the importance of every business decision. It is more important than ever for retailers to accurately monitor shopper traffic and conversion rate.

Retail Metrics

Retailers have an abundance of metrics to rely on for optimizing their performance. These metrics include sales data, staffing levels, opening hours etc. However, these metrics alone will not do the job to uncover the full potential of a store.
Traffic data is considered to one of the most important and reliable sources of metrics available to the retail industry. Combining traffic information with the other metrics data empowers retailers with the crucial information that is needed to stand out in the retail environment. Compare traffic data with

- staffing levels, to see if the store is properly staffed.
- sales data, to see how many of the visitors are actually buying
- opening hours, to see if the opening hours are justified.

Measure Shopper Traffic

- Foot traffic is considered to be the most accurate leading indicator of future sales.
- Retail research shows that a steady decline in foot traffic indicates that sales will similarly decline in 12 months.

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- The foot traffic is the store's potential. Without precise data, it is impossible for a retail company to know its true potential.

Sales Conversion Rate

Conversion rate is the ratio between the number of transactions and the number of visitors. It is considered to be the most accurate indicator of retail's performance. By constantly monitoring the conversion rate retailers get the most fundamental, and also very cost effective, tools for improving profitability. Monitoring conversion rates helps you:

- Measure the lost sales opportunity by store.
- Identify the underlying performance drivers by store.
- Reveal opportunities to improve sales performance by store.

Customer Behavior Analysis

Measuring footfall is only one piece of metrics for customer behavior analysis. Customer behavior analysis is a wide field of business intelligence that relies on a range of different metrics and gives answer to questions like

- How many people visit your shop?
- When do they visit?
- Where are the hot zones in your store?
- What are people looking at in you store?
- What type of people visit the store?
- Are your staffing levels optimal?
- Is your advertizing effective?
- Are your store hours right?
- What is your sales conversion rate?

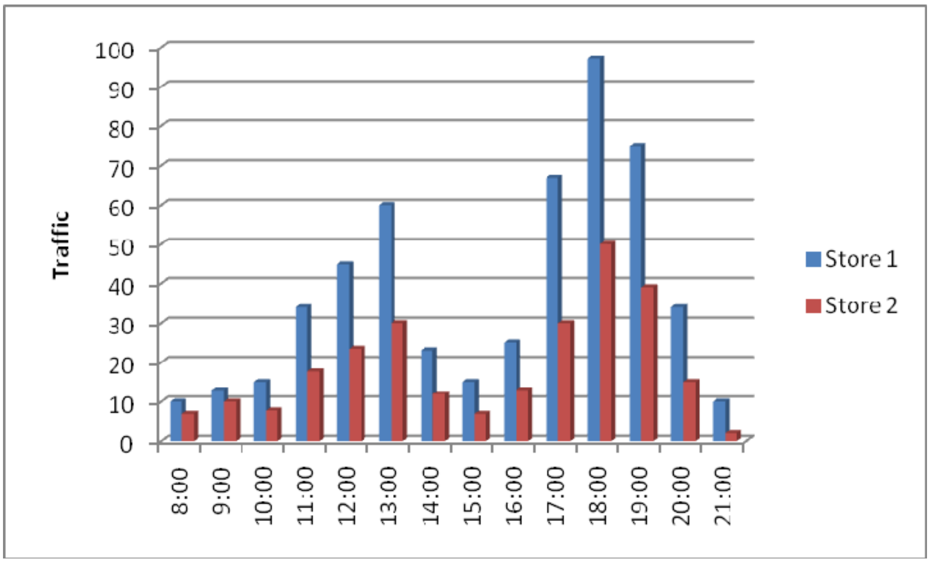
Case 1: Why to count visitors

A retail chain decided to compare two similar stores in the chain. The stores were of similar size and with similar location. At the end of a particular day they reported

- Store #1: €3290,00 in sales
- Store #1: €2638,00 in sales

It seems like store number one is the best, but is this really the case? Without knowing the underlying data this is hard to tell. So what could be said about the two stores performance and more importantly what could be done to improve both?

Looking at the foot traffic we get a clearer picture of the situation.



- Store #1 had 25% higher total sales than Store #2.
- Store #1 had about twice as much foot traffic as Store #2.

The result is that store #2 was much more effective at capitalizing on the opportunity it was given.

The study leads to the following important insights:

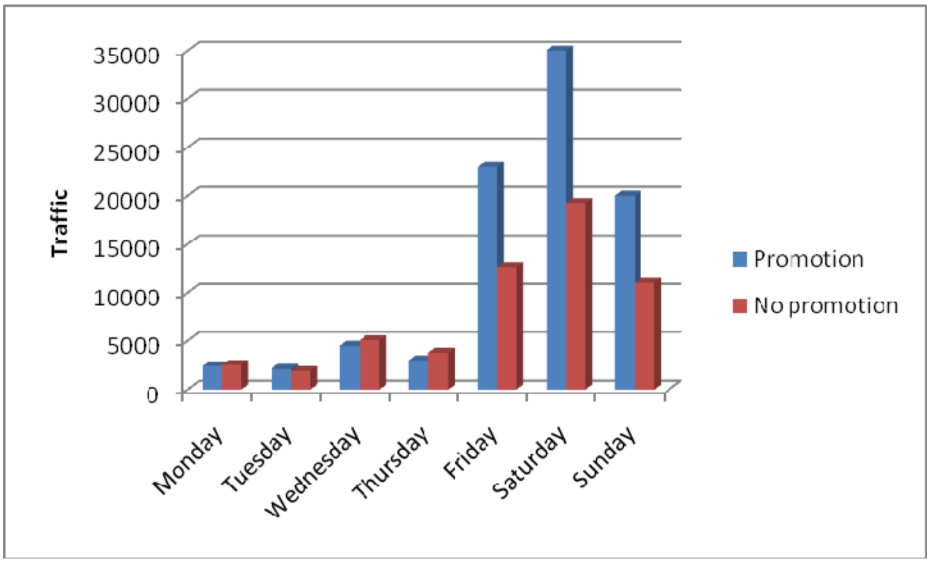
- Store #1 should consider to make operational changes aimed at taking better advantage of the traffic that is already there.
- Store #2 should consider to increase traffic through advertising.

Case 2: Does your advertizing works?

A promotion for a store was launched to the public on a Thursday afternoon a given week. It seemed that the store was busier during the week end. However, after the weekend the store could only report a marginal increase in sales. What went wrong?

The conclusion was that the promotion didn’t work. Or did it? The problem is that sales is the end of a long and uncertain chain of processes, of which advertizing is just one.

Looking at the foot traffic again we get a clearer picture of the situation. Bringing up foot traffic for one week before the promotion and during the week of the promotion we see the result in precise detail.



The promotion was successful at generating foot traffic. Infact, the traffic doubled during the weekend. So what went wrong? Clearly it was not the promotion so we have to seek the answer elsewhere.

- Was the store staffed appropriately for this level of traffic?
- Did we have items out of stock?
- Was till availability a problem?

How Traffic Measurements Can Improve Operational Decisions

- Allocate your staff effectively.
- Identify and reward high performing stores and employees .
- Comparing this year's results to last year's .
- Compare one store's ability to convert shoppers to buyers to another.
- Identify managers who meet conversion goals for promotion .
- Set goals and evaluate progress at underperforming stores .