

Lund, June 11, 2009

Monitoring Visitor Traffic

Visitor traffic is considered to be one of the most fundamental metrics in retail and so far it is largely being unused. The fact is that traffic is the potential of a store – only the people that visit the store can make a purchase – and to have good knowledge about it should be top priority for every retailer.

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 and
- 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.
- 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 of the number of transactions and the number of visitors. It is considered to be one of the most accurate indicators 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?

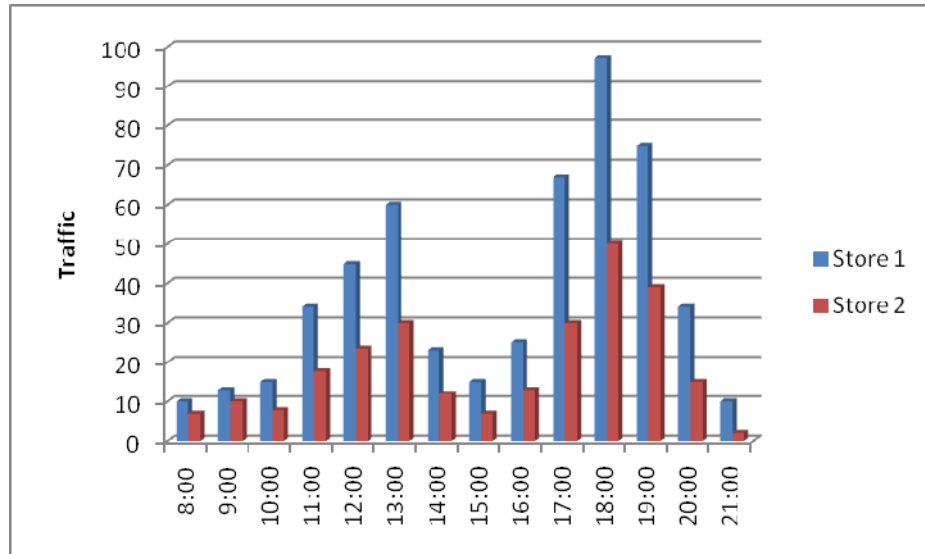
Case 1: Why to count visitors

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 #2: €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.

By looking at the foot traffic we get the missing piece of business intelligence we need.



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

From the traffic data we conclude that store #2 is actually much more effective at capitalizing on the opportunity (or potential) it was given.

The study leads to the following important insights:

- Store #1 should improve store performance to take advantage of the existing traffic.
- Store #2 should consider increasing traffic through for example advertising.

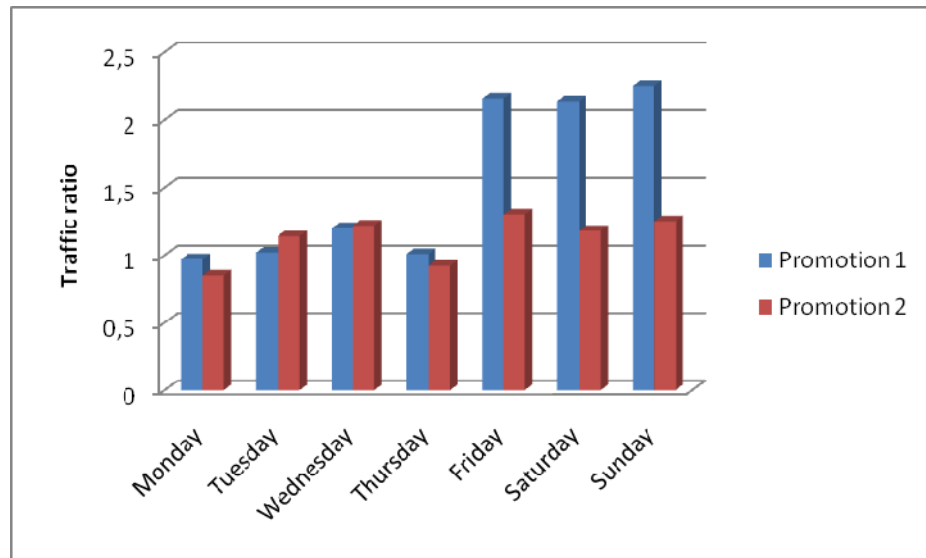
Case 2: How effective is your advertizing?

The following case shows how traffic data can be used to monitor the efficiency of your advertizing campaigns.

A store is launching promotions to the public on a regular basis. Promotions are usually launched to the public on Thursdays in order to attract more traffic for the weekend. Some promotions are felt to be working fine but some seem not to bring in more people to the store.

The store manager felt they needed a tool for following up and comparing how effective promotions had been in generating traffic to the store over time.

Let's start by looking at the traffic for two consecutive weeks, where the first week is without any promotion and the second week is with promotion. By computing the ratio of traffic for each day of the two weeks we get a measure of how traffic increased or decreased from the week without promotion compared to the week with promotion. Now, let's compute this ratio for two different promotion weeks.



From the graphs we see the traffic ratios from two promotion campaigns. Since promotions are always launched on Thursdays we can expect that the ratio should be close to one during Monday until Thursday which is also the case. However, during the weekend, we see an increase in traffic compared to the week before a promotion.

We draw the conclusion that promotion 1 was much better than promotion 2 in generating traffic during the weekend. In fact, promotion 1 more than doubled the traffic compared to the week before the promotion, whereas promotion 2 just resulted in a small increase in traffic.

The store manager now had the tool to:

- Identify successful promotions.
- Identify what marketing activities perform best in generating traffic to the store.
- Identify when promotions are most successful.
- Optimize future promotions to get the best value for money.

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 .