

# **MANAGING SALES & STAFF**

**using customer counting & related technologies**

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# Introduction

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In our experience, it is not possible to quantify the sales potential of a store or provide consistent levels of service, if the number of customers that visit the store is unknown.

It follows that customer numbers should be a central element of all planning procedures if the return on resource allocations to stores (staff & merchandise) are to be maximized.

We have been supplying customer counting equipment to the South African market for over 15 years & over time have developed systems & methodologies to quantify & achieve sales potential.

These are described in this document.

# Key questions

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Our technology provides answers to key questions, such as:

- How many sales do we lose?
- What are the main reasons for losing sales by store?
- What is our potential to increase sales & how does this differ across stores?
- What do we need to do to achieve our sales potential?
- How do we increase the accuracy of sales budgeting & increase the likelihood of achieving sales budgets?
- How do we manage the generation of transactions?
- How do we determine ideal selling staff levels per store?
- How do we know when stores are under or overstaffed?
- Are some of our stores more service sensitive than others &, if so, how does this differ by store?
- Are some of our stores more price sensitive than others?

# Technologies

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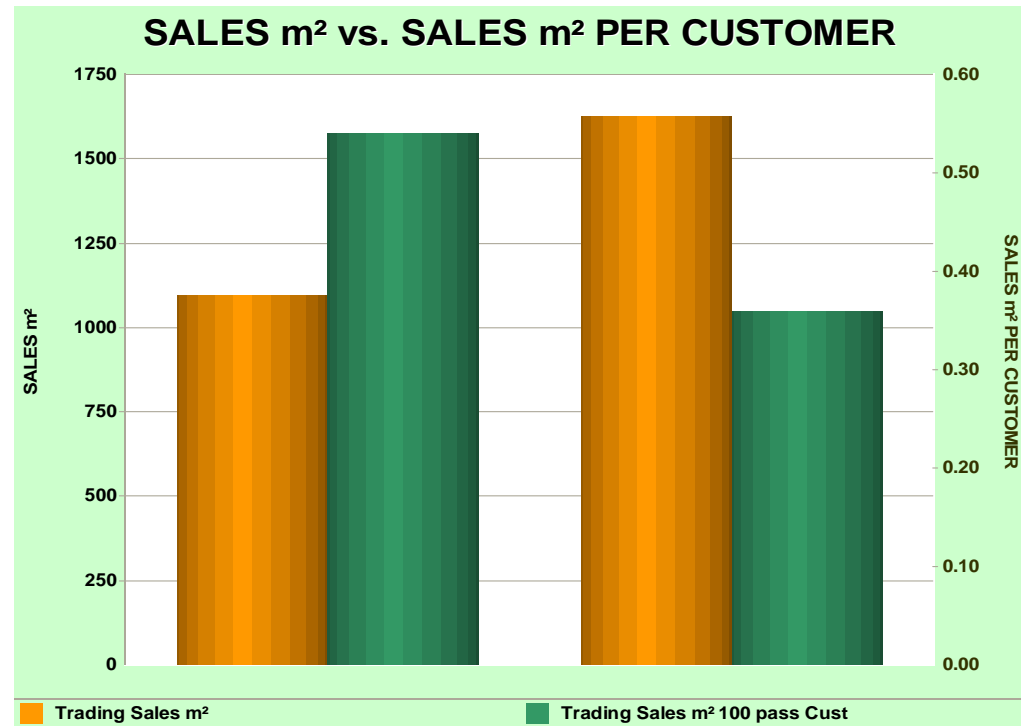
The technologies we offer are:

- ***Customer counting equipment*** – because it is impossible to quantify or achieve sales potential or provide consistent levels of customer service if the number of customers visiting stores are unknown.
- ***Customer based ratios*** plus planning & managerial methodologies to exploit the value inherent in these ratios – because sustained & meaningful customer focus is impossible without customer based performance ratios.
- ***Automated research process*** that significantly reduces the cost per interview – because to maximize yield from customers it is necessary to identify lost opportunities & their causes.
- ***Supporting systems*** for the transfer, integration & reporting of data.

# Identifying sales potential

The starting point to sales maximization is having a selling efficiency measure that can identify the sales potential inherent in individual stores. Sales m<sup>2</sup> is not suited to this purpose because it does not bring customers to account. The measure we use is **sales m<sup>2</sup> per customer passing a shop front** (sales ÷ passing customer traffic). Given the size of a tenant, its sales potential is determined by the number of customers passing its shop front & the extent to which it exploits this potential is indicated by its sales per passing customer ratio.

To illustrate the difference between sales m<sup>2</sup> & sales m<sup>2</sup> per passing customer, consider this example. The store on the right is generating a much higher sales m<sup>2</sup> (orange bars) but a much lower sales m<sup>2</sup> per customer ratio (green bars) than the tenant on the left. In this example, the tenant on the right is generating a high sales m<sup>2</sup> because it has high passing customer traffic but it is not exploiting this customer traffic to the same extent that the left hand store is - thus the low sales m<sup>2</sup> per customer ratio. Despite its higher sales m<sup>2</sup> ratio, the right hand store has greater potential to increase sales. When retailers rely on sales m<sup>2</sup> as a measure of selling efficiency, this type of potential goes unnoticed & is never realized.



# Focus required to achieve sales potential

Knowing that a store has sales potential is of little value if it is not known how to achieve the potential. Our **sales potential formula** (alongside) is used to identify the focus needed to achieve sales potential. If a store has a low sales per passing customer ratio, it can only be because it is capturing a low percentage of passing customers, converting a low percentage of customers that do enter the store into transactions or its average transaction value is low. Comparisons across stores will indicate which of these variables are low & represent potential to increase sales.

Passing customer traffic X **Capture rate**  
 = Store customer traffic X **Conversion rate**  
 = Transactions X **Average transaction value**  
 = Sales ÷ passing customer traffic  
 = Sales per passing customer.

	Passing customers	Capture rate	Customer traffic	Conversion rate	Avg sale	Sales	Sales per passing customer
Store 1	1,925,706	3.4%	65,474	12.57%	60.45	497,464	0.2583
Store 2	876,396	4.8%	42,067	20.05%	57.32	483,397	1.8130
Store 3	1,689,554	5.6%	94,615	8.07%	62.64	478,134	0.2830

This is an example from three stores of similar size in the same chain. All achieved approximately the same sales (second last column) & sales m<sup>2</sup>, which suggested that all were performing at the same level. However, the underlying variables tell a different story.

- one store had close on 2 million customers passing its shop front, another had only 875,000
- one store was capturing 5.6% of the passing customers, another only 3.4%
- one store had a conversion rate of 20% & another only 8%

The cumulative effect of these differences was a 600% difference in selling efficiency (sales per passing customer) between the most & least efficient stores – a difference that is not at all evident from sales or sales m<sup>2</sup> comparisons. This process enables management not only to identify the stores with potential to increase sales & to quantify the potential but also to identify potential in efficient stores & the focus needed to achieve it (shown in red in the table). This is an essential element for maximizing sales growth.

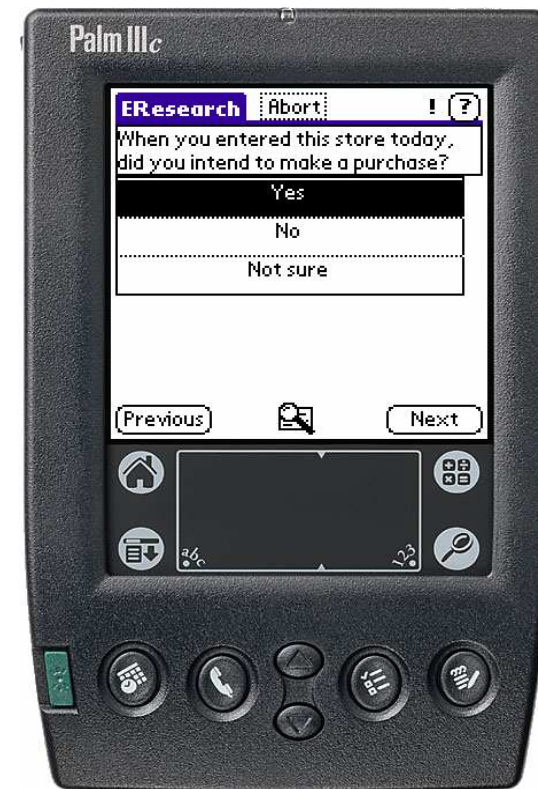
# Conversion rate

	Store customer traffic	Conversion rate	Transactions
Store 1	43,814	16.41%	7,190
Store 2	74,742	9.21%	6,885
Store 3	71,457	6.15%	4,395

Conversion rate, or the percentage of customers that enter the store who make a purchase, is an indication of the potential of a store to increase transactions. All else being equal, if conversion rate is low there is greater potential to increase transactions than if it is high.

To understand the power of this ratio consider the table above, which shows the data of stores in the same fashion chain. Store 3 was closing less than half the percentage of customers that store 1 was. Increasing the conversion rate to 9% in store 3 (i.e. the rate achieved by store 2 but still considerably lower than the rate achieved by store 1), could result in a 50% increase in sales. To achieve this, all the store needed to do is get 3 more out of every 100 customers to purchase.

Insights into the potential to increase transactions in a store is obtained via a comparison of conversion rates across stores. However, differences in customer profiles across stores might mean that not all stores have the potential to achieve the same conversion rate. To address this, we use our research capability to ask customers if they visited a store intending to purchase &, if so, did they purchase. This quantifies both potential conversion rate (the percentage of respondents who intended purchasing) & lost sales. We then compare the research results to the actual trading results to refine the view of the potential of a store.



# Achieving sales potential

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To achieve the sales potential of a store & to exert managerial influence over sales, it must be accepted that sales cannot be managed. What can be managed are the underlying inputs that result in the achievement of sales (an output). In service sensitive stores the **sales value chain** is the following:

Passing customer traffic	X	<b>Capture rate</b>
= Store customer traffic	X	<b>Ratio of customers to selling staff</b>
= Number of selling staff hours	X	<b>Transactions per selling staff hour</b>
= Transactions	X	<b>Average units sold per transaction</b>
= Total units sold	X	<b>Average value of units sold</b>
= Sales.		

Given the number of customers passing the shop front of a store, the sales (output) it achieves is determined by the sales inputs shown in red in this formula. It follows that any sales plan or budget that is not derived from these underlying variables is less likely to be achieved than if it is. If each of these sales inputs is measured, planned & managed, the likelihood of achieving sales budgets & sales potential is greatly enhanced.

If the sales potential formula (previous page) indicates that there is potential to increase:

- customer traffic into a store, the sales budget should target an increase capture rate & planning should focus on improving the effectiveness of the shop front;
- conversion rate (i.e. transactions relative to store customer traffic), the sales budget should focus on the staffing levels & selling staff productivity; &
- average transaction value, the sales budget should target an increase in the average number of units sold per transaction or the average unit value & planning should focus on enhancing selling skills.

In what follows, we deal with each of these sales inputs in turn.

# Capture rate

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Capture rate, or the percentage of passing customers that enter a store, is an indication of the efficiency of shop fronts & window displays. To illustrate the power of this ratio consider this table, which shows the data of six stores in the same chain trading out of approximately the same m<sup>2</sup>.

	Passing customer traffic	Capture rate	Store customer traffic	Customer traffic m <sup>2</sup>
Store 1	434,049	2.44%	10,591	106
Store 2	451,527	1.85%	8,353	88
Store 3	417,313	2.95%	6,420	78
Store 4	562,532	1.71%	9,619	99
Store 5	529,585	1.14%	6,037	60
Store 6	462,961	5.58%	25,833	246

Store 5 has the second highest passing customer traffic but has the lowest customer traffic m<sup>2</sup> because of its low capture rate. If this store increases its capture rate to 2.2% (the average for these stores), the customer traffic entering the store will double as could its sales.

Because capture rate was not being measured, management was unaware of this situation, which represented a substantial opportunity in a number of stores.

Note that it is possible for stores to have low customer traffic m<sup>2</sup> even with high capture rates. This indicates that the store is over sized relative to its passing customer traffic.

# Ratio of customers to selling staff

Customers per selling staff hour or customers divided by selling staff hours is a measure of service provision. Differences in this ratio reflect differences in levels of service provision.

The first table shows the data of three stores that produced similar sales, employed a similar numbers of staff hours & had similar salary percentages to sales. However, look how the number of customers differed. As a consequence, the selling staff in store 3 had to serve an average of 24 customers per hour while the staff in store 1 only had to serve 8 customers per hour. This difference in service levels resulted in Store 3 producing a much lower conversion rate than the other stores, which is why sales were similar, despite significant differences in customer volumes.

Retailers who do not count customers, do not provide consistent levels of service because staffing plans are based on a desired salary to sales percentage or historical sales or transactions rather than on customers & a desired customer to staff ratio. Selling staff are employed to serve customers & the number employed should be based on expected customer volumes. Any other approach results in significant differences in levels of service provision, which impacts negatively on conversion rates, customer satisfaction & sales growth.

This applies not only to the total number of staff hours employed per store but also to the way in which these hours are deployed to weeks of a month, days of the week & hours of the day.

	Customer traffic	Selling staff hours	Customers per staff hour
Store 1	43,814	5,511	7.95
Store 2	74,742	5,415	13.80
Store 3	123,457	5,102	24.20

	Sun	Mon	Tue	Wed	Thu	Fri	Sat
Customer traffic	252	226	220	274	335	422	881
Staff hours	13	29	31	36	25	37	29
Customers per staff hour	19.3	7.8	7.1	7.6	13.4	11.4	30.4

This second table is an example of the daily allocation of staff hours & the significantly different staff coverage per week day. On Saturdays when the opportunity to generate sales is highest, staff coverage is poorest. This is a fairly typical scenario across different retailers & significant sales growth is possible just by remedying this situation on that one day of the week.

# Selling staff productivity

Transactions per selling staff hour is the ratio of transactions to selling staff hours & is a measure of staff productivity. Again, this can differ significantly across stores but in this case, care has to be taken when interpreting the data because a high ratio of transactions per staff member or per staff hour can indicate either productive staff or insufficient staff. In the latter case, the transactions per staff hour are high because a degree of self service takes place.

	Customer traffic	Conversion rate	Transactions	Selling staff hours	Customers per staff hour	Transactions per staff hour
Store 1	43,814	15.73%	6,890	5,511	7.95	1.25
Store 2	74,742	8.94%	6,685	5,415	13.80	1.23
Store 3	123,457	6.02%	7,428	5,102	24.20	1.46

Take this example, which uses the same stores & period as a previous example. In this case, the store that is understaffed relative to its customer traffic (i.e. store 3 with the high customer to staff ratio) produced an average of 1.46 transactions per staff hour, compared to the other two stores that both achieved about 1.25 transactions per staff hour. To determine if the high transactions per staff hour ratio in store 3 was the result of high productivity or a shortage of staff, look at the conversion rate. Although the third store had a higher transaction per staff hour ratio, its conversion rate was very low & this combination of high transactions per staff hour & low conversion is a clear indication that the high transaction per staff hour ratio is a consequence of self service due to inadequate staff availability rather than high productivity. Given the ratios in these stores, store 3 has significant potential to increase sales via an increase in conversion rate & transactions. Given the customer traffic into the store, increased transactions can only be achieved by increasing staff hours or staff productivity – as is illustrated by this equation:

$$\text{Staff hours} \times \text{transactions per staff hour} = \text{transactions.}$$

As transactions per staff hour are already high, the only way to achieve increased transactions is via additional staff hours - to bring the customer per staff hour ratio more into line with the other two stores. The additional salary cost should be offset by increased sales.

# Avg. units per transaction & avg. unit value

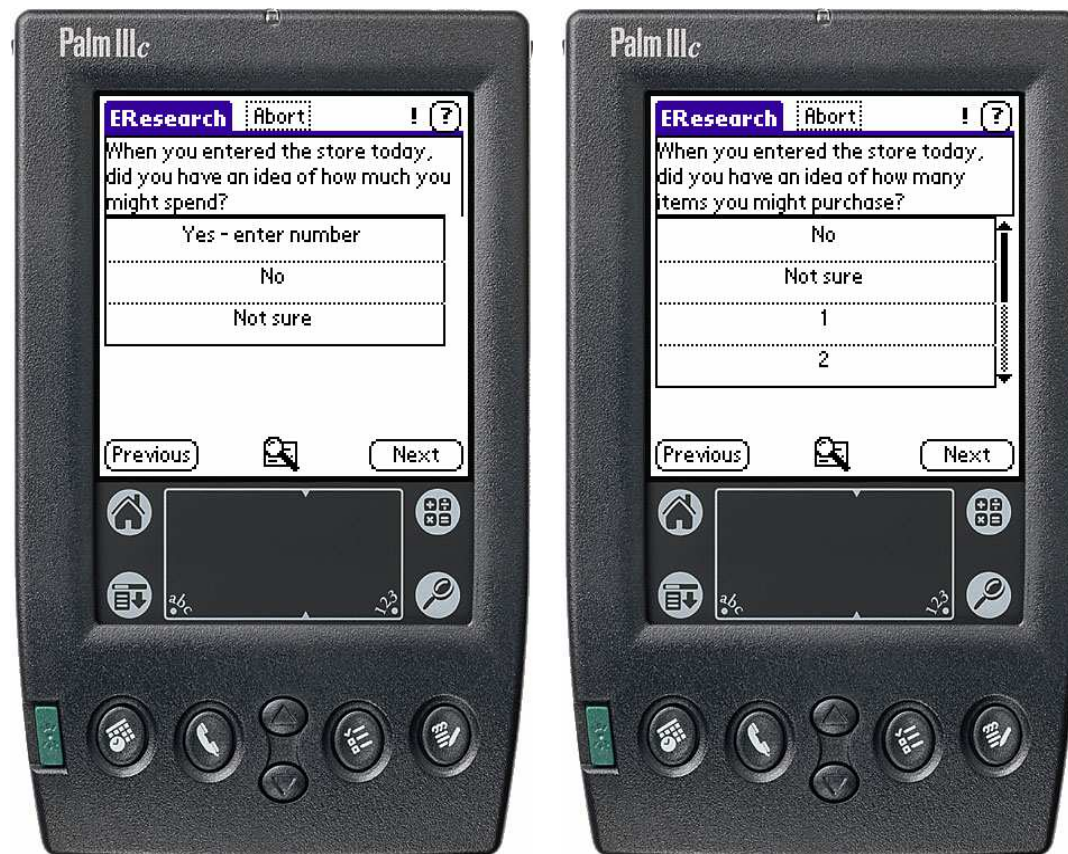
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The average number of units sold per transaction is a measure of the effectiveness of staff to add items to a transaction or sell coordinated merchandise. This has a direct impact on average transaction value.

Given the merchandise assortment & price points in a store, the average value per unit sold is a reflection of the ability of staff to sell up, or to sell higher value items & also has a direct impact on average transaction value.

This is often recognized by retailers but these variables are not always formally incorporated into sales planning or budgeting processes so there is no ongoing attention to them via assessments of actual against planned performance. This is an operational weakness that impacts on sales maximization because under-performance is not actively identified & managed.

Improvement potential in these areas are apparent from inter store comparisons, which can be verified by research, that can track the difference between intended & actual spend.



# Sales & staff planning

	Store 1		Store 2		Store 3	
	LY	Plan	LY	Plan	LY	Plan
Passing customer traffic	1,888,534	1,888,534	1,814,126	1,814,126	3,266,058	3,266,058
Capture rate	2.32%	2.50%	4.12%	4.12%	3.78	3.80%
Customer traffic	43,814	47,213	74,742	74,742	123,457	124,110
Customers per selling staff hour	7.95	7.95	13.8	13.0	24.2	20.0
Selling staff hours	5,511	5,939	5,415	5,749	5,102	6,206
Transactions per staff hour	1.25	1.25	1.23	1.23	1.46	1.35
Transactions	6,890	7,423	6,685	7,072	7,428	8,377
Avg items per transaction	1.27	1.28	1.34	1.34	1.16	1.18
Items sold	8,750	9,502	8,958	9,476	8,616	9885
Avg value of items sold	R74.36	R75.00	R68.32	R70.00	R72.13	R72.50
Sales	R650,650	R712,654	R612,011	R663,329	R621,472	R716,662
Conversion rate	15.73%	15.72%	8.94%	9.46%	6.02%	6.72%
Sales per passing customer	R0.345	R0.377	R0.338	R0.366	R0.190	R0.219
Percentage sales increase		9.53%		8.39%		15.32%

This is a typical planning scenario when our methodologies are employed. The numbers in red are those that hold potential for growth.

Note that the planning of selling staff is integrated into the planning of sales – because selling staff are employed to generate transactions & sales. The one impacts on the other & so planning has to be integrated.

# Getting started

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This depends entirely on the attitude towards these technologies & methodologies.

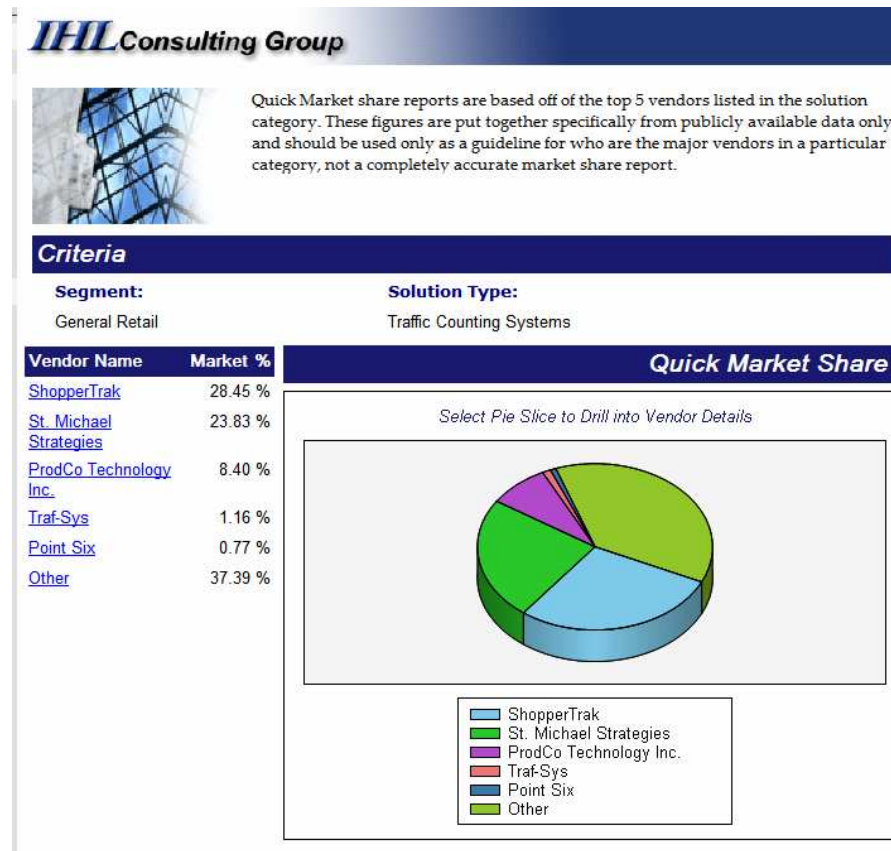
If there is a degree of skepticism or caution, we can supply free standing horizontal beam detectors together with workbooks at a cost of R3,000 per store, excluding VAT. Stores can install these themselves, read customer traffic off these detectors at the end of each day & use the workbook to calculate the relevant customer based ratios. For more information on this option, go to [www.storetraffic.com](http://www.storetraffic.com), select the 'Intelligence' tab, followed by 'Sales Improvement Program'. If required, we will evaluate the data collected & report back to management at no cost. If the decision is then made to proceed, the system can then be automated.

Alternatively, our tracking research system can be used to evaluate sales potential & a decision on implementation can be based on these results. This could cost as little as R1,000 per store per annum (excluding VAT), but this does depend on the circumstances & the extent to which you elect to use this system.

If there is a belief in the processes & logic outlined in this document & a desire to proceed with implementation, the starting point should be a meeting to discuss implementation options. These options relate not only to equipment (where the per store cost could range from ± R13,000 to R18,000, excluding VAT) but also how implementation should proceed. The employment of these technologies involves more than simply the installation of equipment. Equipment needs to be maintained, customer count data needs to be extracted from the equipment & checked, it needs to be integrated with sales, transactions & staff hours to develop customer based ratios & this data needs to be fed back to stores. Any or all of this work can be done either by us or by the client. If the client wants to start using our methodologies immediately, we can do this work until such time as the IT department has geared up to handle the project.

# Why Retail Dynamics?

- We have hands-on retailing experience & over 15 years experience of supporting retailers both in South Africa & in the US to use customer count data to improve performance.
- Our focus is not on equipment sales but performance improvement.
- We supply & support the customer counting equipment of St Michael Strategies, a Canadian-based company that has its origins in retail consulting, was the first manufacturer of electronic customer counting equipment internationally, has the most flexible system options & supplies one out of every four counting systems purchased by retailers in the US (see visual).
- We have unique home grown methodologies & complimentary systems to extract value from customer count data & improve insights into sales potential & service provision. These systems / processes are also being used in overseas markets.



# NOTES

1. The methodology described requires counts of customers passing the shop fronts of stores & the number entering stores. However, it is an option to exclude counts of customers passing shop fronts. In this case the benefit & added value of having a measure of the effectiveness of the shop front of each store will be lost but the balance of the methodology will remain intact & effective. We recommend the inclusion of external counts because it is easier & more cost effective to increase customer flow into a store by measuring & managing capture rate than it is via other forms of marketing & makes store managers jointly accountable for customer traffic into their stores.
2. A weakness of this methodology is that it is based on comparisons of empirical data across stores & takes no account of possible customer differences across stores. For example, is it practical to expect a store located in a low income area to achieve the same conversion rate or average transaction value as a store in a high income area? We address this shortcoming via our Sales Potential Program. This is a research tool that retailers can use without the support of a research company to quantify inter alia differences in customer purchase intentions, need for service, lost sales & their causes. This data is used to refine the methodology described in this document. For example, a store where customers are on average less service sensitive can work to a higher customer per selling staff hour ratio than a store where they are more service sensitive. Being able to quantify customer purchase intentions, lost sales & lost items (where customers purchase but buy less than they intended to), also improves the perspective of what conversion rates & average transaction values are possible in different stores.

This tool is very cost effective & allows research to be run on an ongoing basis across a large number of stores. It can also be used to evaluate the potential return on the cost of customer counting equipment before it is purchased. However, it is not suited to the ongoing & daily management of sales & staff.

3. The quality of services offered to customers also impacts on conversion rate. For example, this graph plots the correlation between conversion rate & customers per till point. The higher the customers to till point ratio, the lower the conversion rate & vice versa. The same correlation is often found in fashion retailing between conversion & customers per fitting room ratios – i.e. when the ratio of customers per fitting room is high, conversion suffers. Linking customer numbers to these types of services often highlights service provision weaknesses & opportunities to increase conversion rate & sales.

