

TENANT SUPPORT

Focus on sales growth



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Introduction

Over the medium term rental growth is inextricably linked to sales growth.

If follows that:

1. malls that effectively support tenants to increase sales are more likely to achieve above average rental growth than malls that do not; &
2. if mall managers are to support tenants to increase sales, they need to be provided with the requisite tools to do this.

The purpose of this document is to describe the systems & processes available from Retail Dynamics that can be used by malls to help their tenants maximize sales growth.

Overview

The sales a tenant produces is a function of:

- how many customers pass its shop front;
- the percentage of these customers that it attracts into its store (capture rate);
- the percentage of customers that enter the store that are converted into transactions (conversion rate); &
- the average value of each transaction.

The only way a tenant can increase sales is by increasing one or more of these variables but if they are not measured they cannot be managed & it will not be known which variable holds the greatest potential to increase sales.

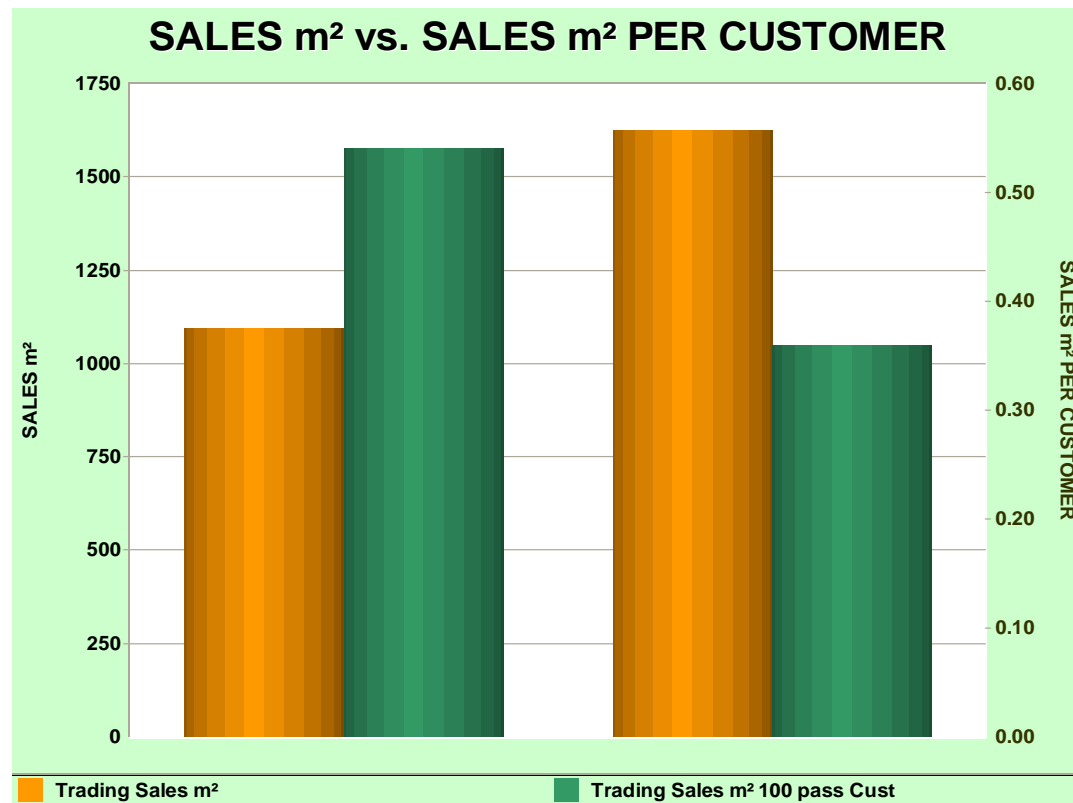
This is at the heart of our tenant support program – providing tenants with value adding data & assisting them to use them to increase their sales.

This is a service that can be offered to tenants either by mall management or, if management does not have the required experience, it can be outsourced to Retail Dynamics in the same way that marketing services are outsourced to marketing specialists.

Measuring sales potential

The starting point is having a selling efficiency measure that can identify tenants that have sales potential. Sales m² cannot be used for this purpose because it does not bring customers to account. The measure we use is **sales m² 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 m² & sales m² per passing customer, consider this example. The tenant on the right generated a much higher sales m² (orange bars) but a much lower sales m² per customer ratio (green bars) than the tenant on the left. In this example, the tenant on the right is generating a high sales m² because it is in a high traffic zone of the mall but it is not exploiting its customer traffic to the same extent that the left hand tenant is – evidenced by the low sales m² per customer ratio. Despite its higher sales m² ratio, the right hand tenant has greater potential to increase sales. When malls rely on sales m² as a measure of selling efficiency, this type of potential goes unnoticed & is never realized.



Focus required to achieve sales potential

Knowing that a tenant has sales potential is of little value without knowing how to achieve the potential. Our **sales potential formula** (alongside) is used to identify the focus needed to achieve sales potential. If a tenant 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 tenants 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.

This is an example¹ of three stores of similar size in the same chain. All achieved approximately the same sales (second last column) & sales m², which suggested that all were performing at the same level. However, the underlying variables tell a different story.

	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

- 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% (40% lower)
- one store had a conversion rate of 20% & another only 8% (60% lower)
- all stores had similar average transaction values (avg. sale).

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 m² comparisons. This formula enables management not only to identify the tenants with potential to increase sales significantly but also to identify potential in efficient tenants & the focus needed to achieve it (shown in red in the table). These are all essential elements for maximizing sales growth.

¹ In the example we use stores in the same chain rather than different tenants in the same mall because it compares like with like.

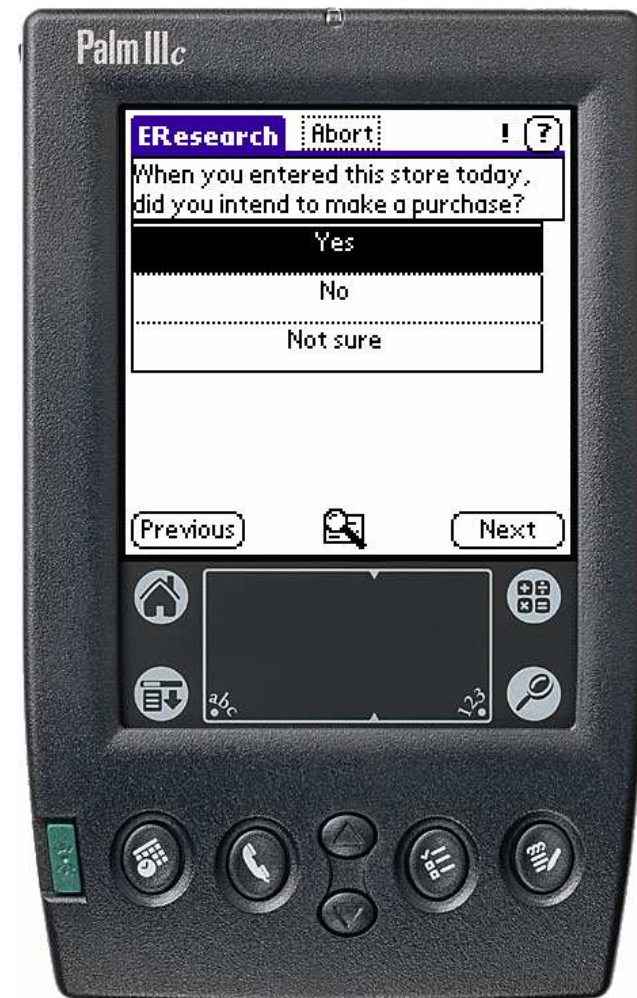
Conversion rate

	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. 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 three fashion stores in the same chain. Store 3 was converting 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), will result in a 50% increase in transactions. To achieve this, all the store needs to do is get 3 more out of every 100 customers to purchase – certainly not an impossible task.

Insights into the potential of individual tenants to increase transactions is obtained via a comparison of conversion rates across similar tenants. However, differences in tenants might mean that not all have the potential to achieve the same conversion rate. To address this, we use our research capability to ask customers if they visited a tenant 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 tenant.



Achieving sales potential

To assist tenants to achieve their sales potential, it must be recognized 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 retailers the **sales value chain** is the following:

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

Given the number of customers passing the shop front of a tenant, the sales (output) it achieves is determined by the sales inputs shown in red in this formula.

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

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

It follows that if any of these sales inputs are not being measured, they cannot be managed. If malls work with tenants to make this information available to them, it greatly increases their ability to generate sales increases. They will know where to focus & will be able to quantify the effectiveness of their interventions. In what follows, we deal with each of these sales inputs in turn.

Capture rate

Capture rate, or the percentage of passing customers that enter a tenant, is an objective measure of the efficiency of shop fronts & window displays. To illustrate the power of this ratio consider this table, which shows the data of six tenants in the same mall & merchandise category & trading out of approximately the same m².

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

Tenant 5 has the second highest passing customer traffic but has the lowest customer traffic m² because of its low capture rate. If this tenant increases its capture rate to 2.2% (the average for these tenants), the customer traffic entering the tenant will double as could its sales. To achieve a capture rate of 2.2% all this tenant needs to do is attract one more customer out of every 100 passing customers into its store.

Because capture rate was not being measured & utilized, neither the mall manager nor the tenants were aware of this situation, which represented a substantial opportunity in a number of tenants.

Note that it is possible for tenants to have low customer traffic m² even with high capture rates. This indicates that the tenant 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 the quantity of service provided to customers. Differences in this ratio reflect differences in levels of service provision.

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

If customer traffic into tenant premises is not counted, they cannot be providing consistent levels of service - because staff numbers are not based on an expected number of customers. 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 tenant 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
Tenant 1	43,814	5,511	7.95
Tenant 2	74,742	5,415	13.80
Tenant 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 in one tenant & the significantly different staff coverage per week day. On Saturdays when the opportunity to generate sales was highest, staff coverage was poorest. This is a fairly typical scenario across tenants & 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 & a measure of staff productivity. Again, this can differ significantly across tenants 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
Tenant 1	43,814	15.73%	6,890	5,511	7.95	1.25
Tenant 2	74,742	8.94%	6,685	5,415	13.80	1.23
Tenant 3	123,457	6.02%	7,428	5,102	24.20	1.46

Take this example, which uses the same tenants & period as the first example on the previous page. In this case, the tenant that is understaffed relative to its customer traffic (i.e. Tenant 3 with the high customer to staff ratio) produced an average of 1.46 transactions per staff hour, compared to the other two tenants that both achieved about 1.25 transactions per staff hour. To determine if the high transactions per staff hour ratio in Tenant 3 was the result of high productivity or a shortage of staff, look at the conversion rate. Although the third tenant 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 tenants, Tenant 3 has significant potential to increase sales via an increase in conversion rate & transactions. Given the customer traffic into a tenant, 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 the transactions per staff hour of Tenant 3 are already high, the only way to increase transactions is via additional staff hours - to bring the customer per staff hour ratio more into line with the other two tenants. The additional salary cost should be offset by increased sales.

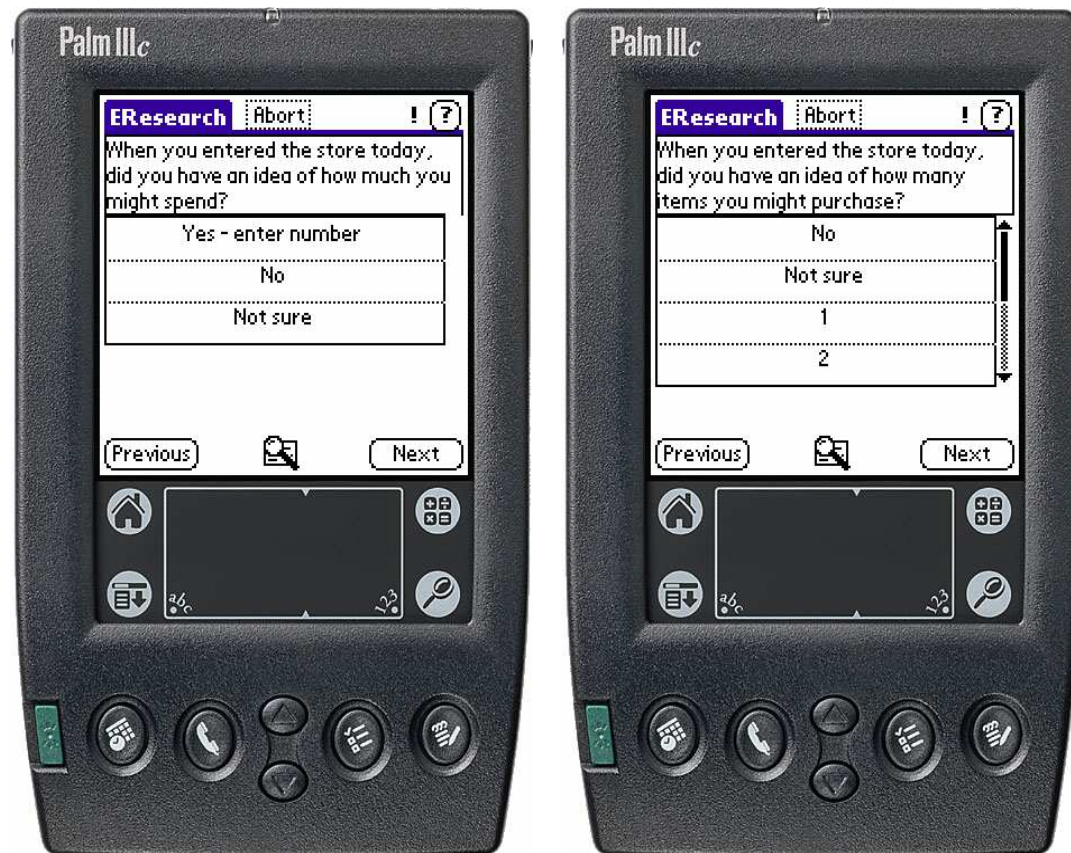
Avg. units per transaction & avg. unit value

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 tenants 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 tenant comparisons, which can be verified by research, that can track the difference between intended & actual spend.



Tenant sales & staff planning

	Tenant 1		Tenant 2		Tenant 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 by tenants. 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

Step 1:

If your mall has customer counts at the main entrances plus at internal points, you already have the required customer counting infrastructure. If not, you need to install this equipment, because knowing the number of customers passing the shop front of each tenant is a fundamental requirement to objectively assess the sales performance of individual tenants.

Step 2:

This involves the integration of the monthly sales of tenants with this customer traffic data, which will provide a good insight into different levels of selling efficiency across tenants. It will enable the identification of tenants that have potential to increase sales & in many instances this will include tenants with comparatively high sales m² ratios. Conversely, the mall will also identify efficient tenants (high sales per customer ratios) & some of these will be producing low sales m².

Step 3:

Based on the findings of step 2, selected tenants are invited to participate in the program. A meeting with these tenants is held at which the program is outlined. Wireless counting detectors (so that they can be moved to different tenants later) is installed on the entrances of those tenants that elect to participate & at the end of each day these tenants take a reading from the detectors, log on to a web site (password controlled) & enter their daily customer traffic, sales, transactions & staff hours. This data is automatically be integrated into a database that calculates the various ratios. The tenants will be able to log on to a web reporting system & view their data the next morning.

Step 4:

After collecting data for three weeks (to establish patterns & trends), we work with individual participating tenants to review their data & help them set quantified goals (budgets) for the next 5 weeks. At this point, these goals are incorporated into the database so that future reports reflect actual vs. planned performance. We then regularly review the performance of each participating tenant against their plan.

We suggest that tenants are invited to participate in the program at no cost to themselves & that at the end of the program they be given the option of continuing with the program (with less frequent follow up) at a monthly fee (to be agreed), which gets added to their monthly rental invoice. We invoice the mall with a percentage of this fee (to be agreed) & the mall retains the balance. If tenants elect not to continue with the program, the customer counters are removed from their premises & installed elsewhere.