BRINGING STORE PERFORMANCE INTO FOCUS

IN AN OMNICHANNEL WORLD, NEW KPIs ADD PERSPECTIVE ON CONSUMER BEHAVIOR

Think back to an old analog TV. It may be hard to remember, and that's of course because today's digital HD, Internet-enabled, slim TVs provide a much clearer, sharper and better picture.

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The same can be said of the old-school, sales-based metrics many retailers currently use to make the majority of their store decisions. Historic transactional measures fail to reveal how stores are measuring up to their new role in today's interactive omnichannel retail environments. Simplistic traffic counting and sales-per-door transaction metrics add little clarity to the picture of what draws consumers to stores, how they engage while they're inside and whether those engagements help fuel conversion.

While traditional metrics are still an essential piece of every retailer's strategy, new metrics can lend a much-needed sharpness to the currently fuzzy vista of the omnichannel landscape. These additional KPIs can help demonstrate the value of the store and provide a richer, more precise view into omnichannel consumer behavior.

The Problem with Transaction-Based Metrics

While traffic and transaction-based metrics such as net sales, same-store sales growth, sales per square foot, conversion, basket size, average retail price and labor as a percentage of sales are all important, they fail to capture the full value of physical stores because of the evolved role stores now play in an omnichannel world and the increasingly complex interplay between physical and digital channels.

Stores are the hub of the new omnichannel ecosystem. In addition to acting as a point of sale, they help consumers build emotional connections with a brand, act as a product showroom, handle exchanges and returns from online purchases, manage product picking and packing for online sales and serve as a valuable medium for consumer feedback, among many other critical roles. As a result, it is not surprising that "Anytime you open a new store in a new geographic area, e-commerce sales increase in that area because of the visibility of the brand," according to one specialty apparel retail SVP.

But it's impossible to account for this value by looking only at traditional traffic and transaction-based KPIs.

Omnichannel shopping behavior now makes it difficult to accurately measure net store sales because retailers are often unable to account for cross-channel sales and returns. For example, stores accept returns from sales made in other channels, but those returns get subtracted from a store's gross sales, which hurts them on paper. And, in actuality, stores are effectively doubly penalized for handling

Internet returns. Their sales numbers become saddled with the cost of the return, and processing the return takes precious time away from proactive customer engagement and selling activities.

Traffic, sales conversion, basket size and AUR metrics can be equally flawed. Consumers no longer complete their entire path to purchase or even fill their shopping cart in only one channel, but rather seamlessly flow between them. By measuring only the transaction, retailers are giving all the credit to the channel that captures the point of purchase, even if other channels did all the heavy lifting in motivating the consumer to make that purchase by driving awareness, engagement, trial and loyalty.

As one specialty retail executive puts it, “Conversion needs to be seriously rethought. We were hearing our executives talk about mobile conversion being really low and how they wanted to improve it. But smartphone conversion should be low; consumers are using their phones to look up the nearest store or a store phone number—not to make purchases.”

As roles for these new channels become better understood, retailers will need to evolve their performance measures accordingly. For example, a few years ago, the industry thought mobile’s biggest potential was as a transaction vehicle but, in reality, it has proven to be far more effective at delivering promotions and loyalty rewards and enabling dynamic, in-store engagement.

In a similar manner, by measuring only a consumer’s basket size, retailers are potentially discounting the true overall value of a consumer’s visit, as more and more consumers complement in-store purchases with digital ones that pull from extended online assortments. The challenge with relying on only these transaction-based metrics is that they not only often reward the wrong channel, they also reward outputs rather than inputs. They focus on the end result rather than incentivizing employees to focus on driving customer lifetime value through customer activation, engagement and product trial.

Relying on store sales as the only measure of associate workload and productivity can also lead to suboptimal store staffing decisions. That’s because store associates are now responsible for a host of activities that generate benefits beyond their four-wall sales. Whether educating consumers on product benefits, assisting during the trial

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process or finding alternative products that might be available online, store associates are spending an increasing amount of their time engaging with consumers who will ultimately purchase in another channel.

Additionally, a sizeable amount of associate time is now dedicated to supporting digital transactions from an operational perspective—handling exchanges and returns and fulfilling online orders. Despite all these new activities, many retailers continue to cut back on store labor as sales shift online, which only serves to further strain customer engagement and weaken the brand experience. But who can blame them? If retailers can't measure the positive impact of a great store experience on the customer's revisit and conversion rate in other channels, they will continue to make ill-informed decisions based simply on labor spend per traffic rate.

"Compensation and reward philosophies are hugely important issues," according to one luxury retailer's SVP of global operations. "If you don't figure out who gets credit for the sale, you can end up with bad customer experiences, because the people in the field doing all the work aren't excited about it and aren't doing it that well."

The New KPIs

Instead of focusing solely on channel-centric transaction metrics, retailers need to elevate KPIs to drive overall cross-channel brand performance by consolidating their store and digital P&Ls, expanding key performance metrics to measure all of the levers that drive customer behavior across the full customer journey and recalibrating labor metrics to account for the full set of activities store associates perform.

Developing new, better KPIs starts with three key steps:

1. **Move to one true omnichannel P&L and organization.** KPIs haven't kept up with the omnichannel retail business model. To start, the notion of having separate P&Ls by channel contradicts the very core of the omnichannel concept and perpetuates siloed behavior. Consumers engage and buy from a brand when and how they see fit, so they expect the brand experience to be holistic across all channels. As such, there can no longer be an internal separation of physical, Web and mobile stores.

   In a true omnichannel organization, all channels are required to work harmoniously as one, with consumers flowing seamlessly between them. Separate P&Ls disrupt this harmony by creating real and perceived barriers that prevent seamless integration because existing measurement and incentive structures often penalize one channel for supporting another.

Left as separate P&Ls, each channel is typically incentivized to optimize its own performance, which often produces suboptimal results for the overall brand. The first step is to consolidate channels into a single P&L to account for the deep channel interdependencies across the new consumer path to purchase. (See Exhibit 1.)

2. **Measure and reward levers that drive consumers down the path to purchase, rather than just the outputs of a transaction.** The next step is moving beyond tracking and rewarding only single-channel transaction metrics (such as traffic, conversion, basket size and average sales price) by also measuring all levers that move consumers down the path to purchase—awareness, engagement, trial, conversion and loyalty.

   For example, a more holistic set of retail metrics should include the number of product recommendations per visit and the conversion rate on these product recommendations, as illustrated in Exhibit 2.

   Not only will these new metrics allow a retailer to assign a value to all brand-building activities, they also help create incentives for the entire organization to push consumers down the path to purchase regardless of the channel. It's about measuring and rewarding the activities that drive positive brand-building behavior and maximize consumers' full lifetime value, not just rewarding for a one-time, channel-specific sales transaction.

3. **Reengineer store engagement and staffing metrics.** Retailers also need to determine how to accurately staff and outfit stores to maximize store engagement while also accounting for all the new business-building activities their sales associates are now being asked to conduct—whether it's an answered question, a processed online return, a fitting room assist, picking a ship-from-store order or an online endless aisle product recommendation.

EXHIBIT 1: Consumers flow through channels, so your metrics should reflect that.

CHANNEL ISOLATION

Traditional Approach to Evaluating Channel Silos

CHANNEL INTERDEPENDENCE

New Approach to Evaluating Channel Ecosystem

In fact, stores will be asked to do even more as retailers continue to integrate the advantages of online shopping into their physical stores. For example, store associates, with assistance from smart fixtures and customer devices, will be expected to serve up personalized recommendations and offers 10 times more frequently than they do today as location-aware recommendation engines move from digital to brick-and-mortar channels.

As a result of this channel evolution, store staffing and engagement metrics will need to go way beyond today's labor-as-a-percentage-of-sales metric to measure both staffing levels and how effectively store associates and smart devices are creating personalized engagements.

All retailers will have to change their KPIs. The question is where to focus, how to measure and incentivize, and which organizational changes are needed.

EXHIBIT 2: New KPIs should hit five key drivers.

AWARENESS	ENGAGEMENT	TRIAL	CONVERSION	LOYALTY
• Traffic generation • Activation or visit rate	• Product recommendations and offers per visit • Conversion rate on product recommendations • Conversion rate on product offers • Length of visit	• Products tried per visit • Conversion rate on product trial	• Cross-channel conversion rate • Cross-channel basket size • Cross-channel AUR	• Advocacy • Lifetime customer value • Revisit rate • Revisit frequency

Leading retailers are already providing useful test cases. At one leading apparel retailer, "a number of our brands have experimented with giving the store credit for all sales in their market area, no matter what channel they come from," said the company's SVP of operational transformation. "So if someone living a mile from a store places an e-commerce order, the credit for the sale goes to that store."

Meanwhile, one luxury retailer recently equipped associates with tablets for "save-the-sale" kind of activity and they are now getting credit for those sales, according to an executive there.

Retailers must start shedding some light on the unmeasured aspects of the omnichannel consumer journey. Because as these leading retailers will quickly demonstrate, the store is only becoming more and more pivotal to success in today's retail environment, and retailers must find a way to accurately measure and reward its role in an omni-channel world. ❖

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