Emanuele Schmidt

Key Performance Indicators for retail

The story behind the figures

THE STORE MANAGER'S HANDBOOK

Ledizioni

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Via Alamanni 11 Milano
http://www.ledizioni.it
e-mail: info@ledizioni.it

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PREFACE

It’s a misty autumn morning, and I’m starting to write this book about key performance indicators for retail. My goal is to help whoever reads it to:

Understand how the store is doing;
And make the “right” decisions.

I’m wondering who my readers will be. If I can imagine who you are, dear reader, I think it will be easier to write.

Maybe you have just been *promoted to be a store manager*: I picture you as an adept, successful salesperson who is passionate about the products and the art of selling. Your bosses have offered you the promotion and you’ve accepted it. ‘What new things will I need to know? What will I have to do differently? What will it be like to manage people? And the figures … I don’t have a good head for maths!’ These might be some of things going through your head now.

Or maybe you are already a *store manager* in a chain of mono- or multi-brand stores; you are already well acquainted with the role but are unsure about a couple of aspects and would like to learn more. Perhaps your company is asking you to perform new tasks, such as devising and managing local marketing initiatives; or you reckon your store could do more and/or better, or maybe you are worried about the seemingly high turnover of staff that you cannot explain. Or maybe you just feel like a novice who has been thrown in at the deep end because your company never gave you the opportunity to go on any training courses.

You might be an “*apprentice*” in a distribution chain: perhaps you are a school leaver or have just graduated and this is your first “proper” job (if we leave aside your previous experiences as a waiter, night-time shelf-stacker in a supermarket, lifeguard, babysitter, seasonal postal worker and sales assistant in a city-centre shop over

Christmas). Your first months in the position involved lessons as well as on-the-job training in different stores and your ultimate goal is to be a store manager. You've got everything to learn!

And what if you are an *entrepreneur*? You have already owned one or more stores ... for years! In this case, I could probably ask you to write this book: you know your store's results inside outside, certainly better than I do! Or maybe not? Are you part of the club of people who want a better understanding, who want to comprehend the dynamics of some indicators that you wouldn't normally use; or something hasn't been quite right for a while now and you want to know what is it: who knows, maybe this book might give you a helping hand …

You could be the *son or daughter of an entrepreneur.* Your parents have a store and are insisting that you join the family business. You have already worked a couple of summers for them. Having your parents as your boss isn't the easiest thing in this world, but the idea of running your own store is starting to look quite tempting. Maybe not? You don't like it but you want to consider your options before closing that door forever. Perhaps you reckon many things could be done differently, maybe you think your parents are a bit too "traditional" and are missing opportunities. Now if only they would just let you get on with it …

Maybe you are a *retail manager* or a *sales manager*. You bought this book to see if you could use it in staff training. Or you are a *training manager* and want to hand out this book during your courses on the economics of retail. You are a *trainer* who teaches these or similar subjects and want a better idea. You are a high school teacher, a university researcher …

So many potential readers! There again, there are millions of stores around the world: it's not surprising that there are so many people that might be interested in what I have to say.

I'm galvanised by the outcome of my thought experiment; it has fuelled my motivation to write and my desire to offer a book about how to interpret key performance indicators for retail that is straightforward, fun, and incisive.

This book is designed to be easy to read, practical and to the point and has been written for people who are in charge of managing a store.

I know that there are many differences in retail: the specific nature of the products, the size of the stores, the decision to sell multiple brands or just one, the size of the organisation … and the list goes on. However, I firmly believe that managing stores is a profession based on a number of cross-disciplinary skills that are always valid irrespective of any specific commercial formula. One of these general skills is to throughly understand store's results and this is the goal of this book.

INTRODUCTION

HOW TO USE KEY PERFORMANCE INDICATORS

I was chatting with a client a few months ago:

Client: "My store managers need to learn how to manage the store's performance indicators!"

Me: "Managing performance indicators is impossible."

Client: ???!!! (his expression was a combination of puzzled and vexed).

Me: "I'll give you an example. I'm driving my car and the speedometer reads 130 kilometres per hour. The road sign on the side of the motorway (the round white sign with a red border) unequivocally states that the maximum speed limit is 100 kilometres per hour. What do I need to do to make things right? Open the speedometer and adjust the needle, or take my foot off the accelerator?"

Client: "Now I see what you're getting at …"

Me: "The point is to be clear about what we mean by *manage*. If an indicator is a number that represents the result of somebody's work, the only way to *directly* manage it is to manipulate it (for example, take a report and alter the figures). But if we use manage to mean *improve the results*, then yes indicators are useful: we can use them to make decisions."

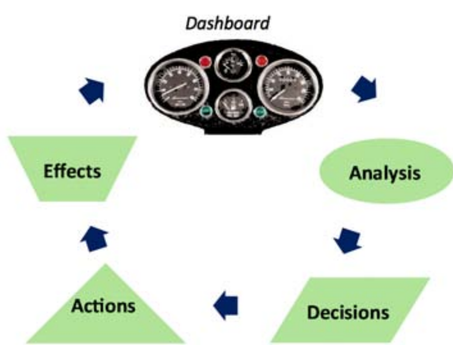
Client: "So, you're telling me that you can't directly manage results, or even the figures that represent them. But you can make decisions with varying degrees of efficacy that lead to results with varying degrees of success. And in turn these results depend on how these decisions are implemented …"

Me: "… and on the market's response to them: how customers respond, which countermoves your competitors make. A good decision that doesn't have any positive effects is not a good decision."

When we talk about "managing" key performance indicators for retail, we refer to the **decision-making cycle**, which is a manager's main responsibility. So we are actually talking about a logical series of steps that is continuously repeated:

1. **I measure the results;**
2. **I understand what has happened and why it has happened;**
3. **I set a goal;**
4. **I identify actions that should help me to achieve that goal;**
5. **I implement them;**
6. **I wait for the time it takes for the market to respond;**
7. **I measure the results again.**

This series of steps can be illustrated with a cycle:



Let's look at an example set in an apparel store. The sales KPI tells me that the results for the "men's socks" category are lower than you would reasonably expect to see. The store manager *analyses* the situation and discovers that:

- Many of the products are not displayed on the shelf;
- The products are in disarray and the price tags cannot be easily read;
- The display shelf is dirty;
- The prices are on average 8% higher than those of the nearest competitors;
- Many of the socks that should be displayed on the shelf are actually buried under other boxes in the stockroom.

Based on these discoveries, the manager sets a *goal* to increase sales and establishes some *actions* that are relevant to this goal: clean the shelf, fill it with the missing products, and organise the price tags. He sets a sales assistant the task of keeping the shelf tidy and well stocked. He decides not to lower the prices for the time being, preferring to wait and see what *effects* his actions will have, i.e. how will the customer respond to a better stocked and more attractive shelf. After that, the cycle begins all over again …

I have deliberately chosen a straightforward example: it represents the essence of the manager's reasoning process. The problems that need to be resolved are often more complicated and the solution is not as simple or predictable, but the core logic is the same.

The figures, the KPIs, are normally documented in a series of reports, or in a software application that offers a real-time snapshot of the situation. Some call this the "dashboard" because, just like in a car, it provides all the most important information so you can keep an eye on how things are progressing. Every company has its own system of indicators and its ways of making these available.

Reports are always written in the past tense. They contain information about what has already happened and can no longer be altered. When reports contain information about the future (the budget), they deal with goals that an organisation has set itself, and thereby talk about forecasts, expectations, standards or "wishes": measurement is always based on what has already happened.

The dashboard is a container for various types of economic performance indicators. Just like in a car, there shouldn't be too many (otherwise you risk getting bogged down in details without knowing how to use them), nor should there be too few (otherwise you will lack the information you need to make decisions). The dashboard should contain the "right" number of the "right" indicators. Well, that's easy to say but …

Which are the key performance indicators for retail?

When I was setting out the contents for this book, I decided to follow the customer through his or her *shopping experience*: the customer enters the store, buys, leaves, expresses an opinion (if someone asks), and returns. There are precise indicators for each one of these steps. The first 12 chapters follow the customers through their shopping experience.

Chapters 13 to 16 introduce the indicators that measure "internal" aspects which are less noticeable to the customers. Finally, chapter 17 offers a review: the profit and loss statement.

Given that the same indicator may have different names in different companies I have used a standard term for each indicator. These are the indicators that I will be looking at (in order of "appearance").

Footfall

Number of transactions

Conversion rate

Net sales

Sales per square meter

Average sale per transaction

Average selling price

Units per transaction
Sales per category
Number of categories per transaction
Penetration
Margins
Percentage of revenue from promotions
Markdowns
Loyalty / Percentage of revenue from return customers
Customer Satisfaction
Mystery Shopper
Stock rotation / Inventory turnover
Stock coverage
Damaged items
Shrinkage
Returns
Personnel costs
Sales per hour / per FTE
Direct operating costs

A READER'S GUIDE

Each chapter looks at one or more indicators, and provides the following information:

1. A definition;
2. What the indicator measures;
3. How to calculate the indicator;
4. Which variables influence the indicator;
5. The store manager's actionable levers for changing the indicator.

I can't give you information about where to find the indicator (i.e. how to find it) because I am writing for people who work in different types of companies and perform different roles. I have worked around this by leaving a space where you can make notes and jot down what you need to do to find the information.

Providing an even more important piece of information will also be tricky: how to assess whether a certain result is positive or negative. When we pick up the results of a blood test there is a reference range (usually with two values) next to each parameter that helps us to immediately understand if things are alright, even though we are not experts.

So why can't I give you parameters like these?

For the same reason as before: this book has been written for the people who work in a range of different sectors. These sectors have different commercial dynamics and deal with different product categories. So, providing a universal benchmark is practically impossible. Once again I have left a blank space so you can make a note of your company's standards or objectives; where possible I will give some examples about how the benchmark may vary according to the type of store or products we are dealing with.

There are no hard and fast rules about how to read this book: you can work your way through, read the chapters in a different order, skip chapters or just read about the indicators that interest you and your situation. If you want, you can even skip the exercises (please see the next paragraph for more about this).

THE TWIN STORE EXERCISE

For each indicator I have prepared an exercise, which is known as "the twin store exercise".

Imagine two stores that are practically identical: they are the same size, selling the same product category, operates in similar settings, and they target the same customer segments. What they sell is not important but they sell the same products to very similar customers. I won't even tell you which currency they use as that is not essential to understanding our exercise.

At the beginning of each chapter I will tell you the results achieved by the two twin stores and I'll ask a simple question: why?

I'll ask you to come up with hypothesis about the possible reasons why these two stores produce different results. Each time I will also give you a benchmark, which may be the result from the previous period, a standard or a company goal, the company average, or the best performer's results. This will provide some additional information to help you work out your hypothesis.

And then I will ask another really simple question: what would you do? I'll ask you to put yourself in the store manager's shoes and decide which decisions he/she needs to make.

There are some possible reasons and answers in the appendix: try comparing them with your own.

1. FOOTFALL

The first indicator we meet on our journey into the world of KPIs is "**footfall**". Not all stores uses this indicator but it is very useful nevertheless. So what is footfall?

A store's footfall is the number of people who enter that store, for whatever reason, during a given period of time (an hour, day, week, month, or year).

What does this indicator measure?

Footfall measures how attractive **a store is to shoppers**, i.e. its ability to convince customers to choose the store and come through the door. The more people that enter the store, the higher the probability that the store has characteristics considered positive by its potential customers.

Footfall also allows us to learn more about the customers' buying habits: which days of the week attract more customers? Which are the quiet days? Which times of the day do customers prefer? So, footfall gives us information that is vital for planning the staff's shifts.

How do I calculate this indicator?

To measure footfall, we just need to **count how many people come through the door**. We usually use automatic systems to do this, which statistically adjust the figures. For example, some systems adjust down by a small percentage (between 3% and 6%) to deduct the number of times staff members enter and exit the store.

Footfall can be counted manually in stores that have a limited number of customers (for example, boutiques or furniture stores in which sales assistants accompany the customer) and someone who always monitors the entrance.

What is this indicator called in your business?	
Where can you find this data?	
The benchmark for your store	

Now, some initial information about the "twin stores". The following number of people entered the two stores during the last given period of time:

	Store A	Store B
Footfall	1,200	900

What do you think may have caused this difference?

What can the store managers do to increase the number of people that come through the door?

Have you written your answers? Before checking them with the answers in the appendix, take a closer look at this indicator on the following pages.

WHICH VARIABLES INFLUENCE THE FOOTFALL?

These are the main variables that influence footfall.

1. The **store's location**: when all other conditions are the same, a store in a location with a lot of traffic whereby it is easy to stop and go in, will be visited by more people (this type of footfall is sometimes referred to as being "caught" because the store has generated this footfall just by being where it is).

2. The **neighbouring competition**: a store without any nearby competitors ("one-of-a-kind") has a relative monopoly and therefore has a higher probability of getting customers through the door. However, we cannot say that the opposite is true, i.e. a store surrounded by many similar stores will not have many customers; there is a concept known as "economies of agglomeration". This relates to areas that contain clusters of many similar stores which increase footfall and thereby benefit them all (for example, the shopping streets in many city centres).

3. The **recognition of the brand** and all the marketing actions implemented by the brand to attract customers: the launch of new products, new collections, contests, advertising, etc.

4. The **reputation of the store** (which will also depend on how many years the store has been open) and all the actions implemented by the store to attract customers: for example, the service rendered to the customers, events organised in the store, local advertising and discount policies agreed with other local operators.

5. The **initial impact from the storefront and window displays** (the quality of the store's exterior, displays in the store windows, the store sign): if customers are "amazed" by what they see from the outside, they are much more likely to enter a store.

6. The **overall quality of the shopping experience**: customers return and speak highly about the store (generating positive word of mouth) if they find quality products at reasonable prices, swift, satisfactory service, and a pleasant environment.

7. **Loyalty programmes**: effective loyalty programmes make it worth for customers to come back and buy from the same store.

WHAT ARE THE STORE MANAGER'S ACTIONABLE LEVERS FOR INCREASING FOOTFALL?

Many of the variables on which footfall depends cannot be directly controlled by the store manager. But this does not mean that you should fail to tackle or passively "put up with" this indicator as if it represented a sort of destiny.

There are many things managers can do to have a positive influence on footfall:

1. **Attend to the entrance** (its design, the store windows, cleaning, an open door, etc.) and avoid "scaring away" customers. For example, customers may be discouraged from entering the store if sales assistants stand too close to the door;
2. **Look after every step of the selling process** so that customers feel motivated to return and speak highly about the store;
3. **Increase the store's attractiveness** by using:
   - **Local advertising** (radio, posters and billboards, local newspapers);
   - **Agreements with other local operators that are relevant** to the store's target market (transports companies, local hotels, sports clubs, schools and other organisations in the area);
   - **Organise your own in-store events**.
4. **Develop long-term relations with the customers** to increase their "loyalty". If a store's sales assistants can build personal relations with some of the customers, that store will then have a group of loyal customers that visit on a regular basis and whereby they can also be invited to special occasions.