

Customer Conversion

Retailers continually search for ways to increase their sales, and yet each day they lose opportunities to convert a substantial part of their customer traffic into satisfied purchasers. At Deloitte & Touche USA LLP, our research and project work has surveyed over 100,000 customers on their store experiences. This work has revealed a compelling array of outcomes.

Consider just this typical sample of lost conversion opportunities at one store:

At 10:33 AM, a customer walked out because there was not a sales associate in the department to retrieve a pair of shoes that she wanted to try on.

At 11:56 AM, a customer left because she could not find her size in the messy, crowded rack.

At 12:42 PM, one of the store's most loyal customers put down the items she was holding and walked out because the line was too long at the register.

At 1:40 PM, a customer does a return instead of an exchange of merchandise because no one asked the simple question.

At 3:29 PM, a customer, ad circular in hand, exited the store, frustrated that he could not find the item in the ad that he wanted to purchase.

By closing time, this one store has served many customers successfully, but a steady trickle of lost opportunities has diluted the sales results. Across the scale and leverage of operations, these events represent enormous, missed revenue opportunities that are not quantified in the chain retailer's next-morning sales review. And while retailers lose sales opportunities every day, the news gets even worse when customers' immediate needs drive them to competitors. Some of these lost sales are also permanently lost customers that over the long run will erode the retailer's customer base.

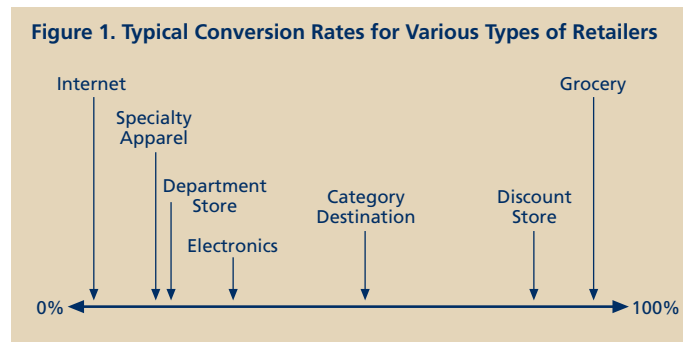
The challenge for most retailers is that they do not know who their lost shoppers are and why those shoppers were not converted into satisfied purchasers. Further, retailers do not know the cumulative effect of these lost opportunities so that they can recover their value.

Today, retailers can analyze a digital landfill of transaction data from their purchasing customers, but they have almost no information on non-purchasers. Disappointment has no audit trail. Analyzing success will not recover the opportunities that were lost. Additionally, basic human and organizational behavior suggests that companies often "look away" from failure.

Conversion Opportunities Exist for All Retailers

A retailer's first instinct might be to compare itself to others, but this has limited value when looking at customer conversion. It is difficult to benchmark conversion because it varies dramatically across different retail strategies, channels, and formats. Usually high-margin businesses convert at lower rates, while business models with lower margins and costs convert at higher rates. In effect, the economics of the retail business model impact conversion. A web site might convert at a rate as low as 2%. In contrast, a grocery store may convert nearly 100% of its customers into purchasers in at least some departments, although it may miss additional conversion opportunities in its bakery, deli, or pharmacy departments.

It is all relative. Every retailer has significant opportunities to *improve* conversion by delivering a better customer experience. For some retailers, however, it is hard to fix what is not seen or understood.



The diagram above shows the continuum of conversion rates often associated with different retail segments and formats. Yet, for all retail groups, strategic choices around staffing, service, merchandise, presentation, and pricing can dramatically impact conversion. It is worth examining several of the strategic and tactical choices that affect conversion.

The Control Levers of Conversion

Service – Service levels and quality can impact conversion significantly, or they might have almost no impact, depending on the merchandise category and the customer's decision-making requirements. For most discretionary and complex types of purchases, increased levels of customer service do enhance conversion.

Merchandise Type – Basic consumable, replenishment merchandise and destination items can convert customers at high, unaided rates. In contrast, discretionary purchases such as fashion merchandise compete against a wider range of substitute items, thereby suggesting that the retailer focus more on the service and presentation to influence conversion.

Price Point – Higher price point items are often subject to greater customer scrutiny and comparison and therefore convert customers at much lower rates than do lower-priced items.

Promotion – Promotional strategies can either accelerate conversion or cause deferred purchases. Retailers should be aware of how promotional strategies can affect customer behavior in counter-intuitive ways.

Navigation – Customers cannot buy it if they cannot find it. For example, large, self-service formats often challenge customers with store navigation and direction obstacles. Poor replenishment and merchandise organization can dramatically lower both the customer conversion and market basket size.

In-stock – Likewise, shoppers cannot buy it if the store does not have it or it is buried in the backroom. For many retailers, this is the area that creates the most lost sales.

Accessibility – The customer is less likely to buy it if the product is out of sight or out of reach.

Selection – Customers rarely buy without comparing items, yet too much selection can leave customers undecided and confused. Poor product organization, assortment editing, and store layout can contribute to customer indecision and lost conversion opportunities.

Merchandise Presentation – Most merchandise and price comparisons actually take place within the store. Merchandise layout and organization, including complementary product presentations, can significantly influence the customer's decision-making process.

Operational Execution – Basic operational execution often has a tangible effect on the customer. Merchandise needs to be priced – customers typically do not buy items that are not priced. Damaged merchandise should be removed. New merchandise should be moved to the sales floor in a timely way. These daily blocking and tackling operations can dramatically impact customer conversion and sales results.

Decision-making Assistance – Surprisingly, “price too high” is often among the least mentioned factors in determining conversion success. The most frequently mentioned reason typically is “unable to decide.” This suggests that retailers can help shoppers the most by organizing their merchandise and informing and assisting their customers.

Improving the Customer Experience

To gain a better understanding of the process of conversion, smart retailers are willing to capture and examine both their successful and failed shopping experiences. Then they learn from them!

Convert Failures into Learning Opportunities – Customer conversion is the end result of a complex, orchestrated chain of events that has been efficiently synchronized and delivered. The fact is that hiring decisions, supply chain decisions, promotional decisions, staffing decisions, and almost everything a retailer does can ultimately affect the customer's shopping experience. Because points of failed conversion can, and often do, occur anywhere along a retailer's value chain; step one for many companies is to identify the points of failure and then look back at the business processes that caused the failure in the value chain.

Value Added Service versus Lip Service – One of the more influential levers impacting conversion is effective customer service. Relatively small and consistently sustained improvements in associate service behavior can drive top-line performance. Deloitte's work over the years has found that when an associate provides assistance that adds value to the shopping experience, the customer often feels an obligation to purchase from that service person and that retailer. The service influence, however, should not be a function of “pressure,” which can have the opposite effect on the customer.

Selling Style – Sales associates that use an advocacy approach with their customers are often more successful than associates who sell based on price or efficiency. Customers respond to personal experiences, suggestions, and testimonials. Even unsolicited suggestions based on value and personal experience can drive significant improvements in conversion. If the advice is given as if from a friend, the customer lends significant credibility to the suggestions. Deloitte's post-purchase studies have shown that a promotional style or transactional selling style is less successful with customers than the advocacy style.

Understanding Service Demand – Retailers have a level of service demand that is driven by the census of customers in their stores. Most retailers under-staff their stores during peak periods or lose minimum service coverage to other store labor requirements. Paradoxically, customer service is often what is left over after other activities are staffed. As a result, customers are most often disappointed during peak shopping hours. Deloitte's observations of conversion rates during peak and non-peak shopping periods have uncovered dramatic temporary drops in conversion when service availability falls below minimum required levels. Prioritizing service needs during peak periods and improving scheduling can generate sales and reduce the cost of selling.

Turn Browsers Into Buyers – “Can I help you?” “I'm just browsing.” This common exchange between sales associate and shopper frequently results in the customer being left alone for the rest of the shopping experience. Yet Deloitte's studies have shown that browsers usually need the most help; they respond the most favorably to value-added service. Browsers' conversion rates improve more than do destination shoppers' conversion rates when service is offered.

New and Infrequent Shoppers – One of Deloitte's studies revealed that infrequent shoppers had very low conversion compared to more frequent shoppers. These shoppers are unfamiliar with the store and its merchandise. They need more help than the average shopper to understand the store. They represent a retailer's best opportunities to build its customer base. If a retailer does not gain more customers than it loses through attrition, someday it will likely be out of business.

Pre-shopping and Cross-channel Effects – Customers are evolving and learning new ways to shop, combining their online and in-store shopping experiences together. Deloitte has found that conversion is increased by a multi-channel shopping experience. Web sites that have familiar storefront names gain higher conversion rates because they have higher levels of trust and typically offer an easy option to return merchandise directly to the store. Store customers that have pre-shopped their needs online typically convert at higher rates in the store. Multi-channel retailers are developing stronger customer relationships with more frequent customer contact and a distinct competitive advantage that shows up as increased conversion in all of their channels of distribution.

The Rest of the Store – Customers may come to buy only a few items from a selection of thousands that are offered in the store. Retailers therefore may want to consider the context customer's experience with the unpurchased items in the store. All familiar items that customers see in a store become points of reference. As an example, if customers see lots of sale items but the item they want is not on sale, then they may defer purchase. If familiar items look like they are good values, then customers will generally assume the item they want is a good value. The rest of the store can have a dramatic influence on purchasing decisions.

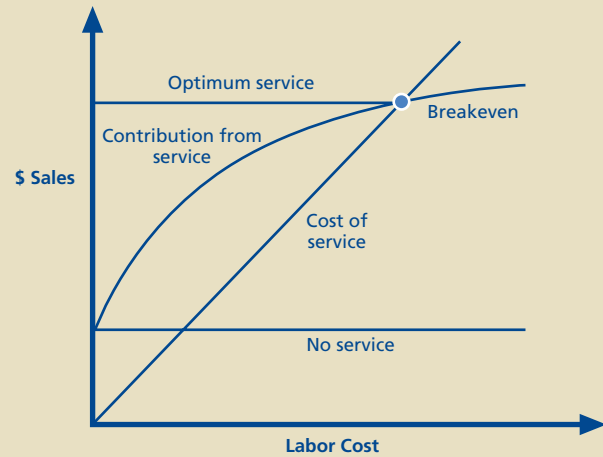
Accountability Beyond Purchase – Retailers are increasingly being held accountable for the extended merchandise experience after the purchase. Product quality and the post-purchase experience can reflect on the retail brand even more than on the original manufacturer. Retailers are expected to represent the interests and values of their customers in the merchandise they carry. They are held accountable for the private label products they carry. Retailers should look carefully at items that have high return and damage rates; these items are likely affecting the retail brand image. Close examination may also show that these items cost more than they contribute to the bottom line.

Keep it Simple – Retailers should avoid adding extra steps to a customer’s store experience. Each extra step in the purchasing process will likely leak a few conversion opportunities. One retailer added centralized checkouts into its department store format, where previously customers had used the checkout at the service counter. The change, however, resulted in a percentage of customers abandoning their purchases between the service counter and the centralized checkout. Adding steps and complexity for customers can cost the retailer sales dollars.

Customer Feedback – The biggest and simplest conversion improvement opportunity for any organization is to share customer feedback with the people who deliver the customer’s store experience. Provide honest feedback on both the positive and negative responses from customers so that there is an understanding of what works and what does not work. People respond to honest feedback. Simply providing the feedback in a frequent and timely manner without repercussions often will drive the behavioral changes that are desired at the front line of the organization.

How Much Staff? – Deloitte’s analysis of its customer experience data has found that conversion is enhanced at a minimum threshold of service that varies with the merchandise category and presentation. As shown in Figure 2, increasing the levels of service generally results in greater conversion until a maximum rate of conversion is achieved or the cost of service exceeds the margin contribution from sales. Higher levels of service then have rapidly diminishing returns on the labor cost. The challenge is to achieve the service level that optimizes the net effect of the sale contributions and the marginal cost to deliver it. Most store staffing models simply guess at the right level of service or let the store determine it based on the staffing that is left over after other tasks have been completed.

Figure 2. Determining the Optimum Level of Service



Operational Excellence Counts! – Destination and self-service shoppers who have a specific item in mind respond with high success rates to operational factors such as signage, store navigation, in-stock position, and store organization. Poor performance on operational factors drives lower conversion and higher customer service needs in these environments. One of Deloitte’s studies found that the retail client created over half of its demand for customer service through store execution and organizational issues. Fixing these issues increased sales and reduced the cost of sales at the same time.

Try it, You’ll Probably Buy it – Merchandise trial is a proven method for converting customers into buyers by enabling them to try out or try on the merchandise. In the results below, customers who tried merchandise converted more often and bought more merchandise at a higher dollar value for this Deloitte client. We have observed and quantified this effect in most merchandise trial situations.

Figure 3. Merchandise Trial Improves Conversion

	Users of Fitting Rooms	Non-Users of Fitting Rooms
Average Dollar Sale	\$73.87	\$53.29
% Who Bought More	37%	17%
Conversion Rate	85%	58%

When selling those types of products where the need to try or experience is high, most types of sales assistance can dramatically improve conversion. In the results shown in Figure 4, conversion increased to 75% for health and beauty aid customers who were given “personal testimony” assistance from the sales associate. For shoppers who received no assistance, the conversion rate was only 41% at this retail client.

Figure 4. Personal Testimony Can Dramatically Improve Conversion

Assistance Type	Conversion Rate
Associate offered personal testimony	75%
Associate offered suggestions	73%
Open-ended question asked during client interaction	62%
Associates provided product information and answered questions	61%
No assistance	41%

Conversion Drives Long-term Customer Loyalty

Many retailers consider customer traffic and frequency of shopping independently of customer conversion. This can be a mistake, because an unsuccessful shopping trip is both a lost sale to the retailer and a waste of time for the customer. Customers consider their past experiences when they make their future choices. In numerous studies undertaken for our clients, Deloitte has found that lost conversion and lost customer loyalty are strongly related. But retailers need not just take our word for it. Other similar findings suggest that benefits can accrue from improving customer centricity and conversion:

- More than 50% of American shoppers say that a negative shopping experience of a friend or colleague will prevent them from setting foot in a store altogether, according to the 'Customer Dissatisfaction Study' by The Verde Group and the Baker Retailing Initiative at Wharton.
- Over the last decade, the number of men shopping at major department stores dropped from 23% to 7%, according to America's Research Group, a consumer research firm. The two major reasons for the decline in shopping were: (1) there was no one available to help with their purchases for a wife/girlfriend and (2) the store was not easy to shop.
- In a 2006 study conducted by BIGresearch, more than half (50.4%) of consumers felt that customer service was getting worse. Further, 53% of those consumers that had a bad experience with a store's employee thought it was a poor reflection on the entire company.
- According to a customer service trends survey conducted by the Mystery Shopping Providers Association, nearly half (46%) of the mystery shoppers cited up-selling as being the element in which businesses were most often lacking.
- A recent Forrester Research survey of North American organizations found that 60% felt it was "critical" that their firm improve the customer's experience.

An understanding of the customer's shopping experiences provides visibility into lost opportunities. Retailers should consider collecting customer experience information from both purchasers and non-purchasers. It is critical to capture all the components of the customer's shopping experience that might influence conversion. In each segment, format, or channel, it is possible to map the paths and touch points of the collective experiences of the customers. Think of a "purchase" as a vote for a successful combination of events that form the customer's experience. Conversely, a non-purchase can mean that there was a point of failure in the path of events influencing the customer.

A substantial sample of shopping experiences and their purchase outcomes is required to develop a statistically significant analysis of results. This customer experience information is collected to provide a deeper understanding of the drivers of, and deterrents to, conversion.

Customer Value Can Turn into Shareholder Value

Longer term, if a retailer is able to create recognized value for its customers, that value can turn into shareholder value that is recognized in the equity marketplace. To achieve this goal, the company might consider spending less time watching competitors and more time listening to and understanding its customers. A retail brand, for better or worse, is built from the cumulative effects of its shoppers' experiences over time.

The greatest improvement opportunities are being revealed every day in the customers' shopping experiences. Collectively, improvements in these experiences can enhance the retailer's short-term sales results and its longer-term market share.

Put simply, a strategic priority to driving business value in retail is learning from the customers' experiences.

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