Key Performance Indicators.

10 metrics for guiding and measuring store success.

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Introduction.

Get a clear picture of your store's performance and sharpen your competitive edge with the right data.

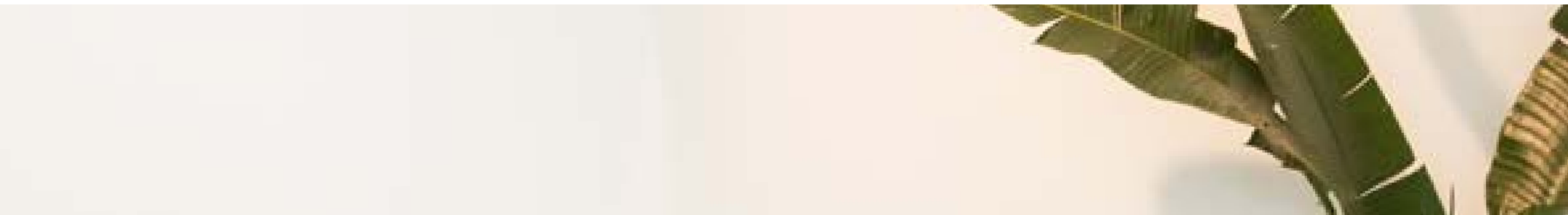
As a retailer, you're likely bombarded with a ton of data and information. There's revenue and profit, sales per square foot, sales per hour, inventory data, and more. With so many numbers surrounding your business, how do you know which ones to track and take action on?

That's where your Key Performance Indicators (KPIs) come in. KPIs are the most important metrics in your business. They help you answer difficult questions so you can measure the health of your retail store and determine the steps you need to take.

Think of it this way: every car has a number of gauges on its dashboard, including the gas gauge, speedometer, temperature, etc. When you're driving, you need to keep an eye on these devices in order to know if you're moving at the correct speed, if your car is doing okay, or if you need to tweak anything under the hood.

The same thing can be said about retail KPIs. These are numbers that you must regularly monitor so you can determine if your business is on the right track.

Now, every business is different, so KPIs may vary from one company to the next. But in the retail industry, we've found the following KPIs to be the most significant. Go through the items below, see which ones can be applied in your business, then start tracking, tweaking, and improving!



Gregory, Newmarket.

02

Sales per square foot.

This key performance indicator is a good measure of how efficient you are with the use of sales space and assets.

Sales per square foot is one of the best metrics you can use for gauging and comparing the performance of your brick-and-mortar stores.

What it is.

Sales per square foot (or square meter) is your store's average revenue for every foot of sales space.

To find it, simply **divide your sales by the store's total square feet of sales space.** So if say, a joke shop sold $1 million worth of whoopee cushions, rubber chickens, and other prank items in its 1,800 sq. ft shop, that company's sales per square foot would be:

$1,000,000 / 1,800 sq. ft. = $555 per square ft.

Why it's important.

This KPI is a good indicator of how efficient you are with the use of sales space and assets. It can help you determine which store layouts or locations are most profitable, and you can use it to make inventory, marketing, and layout decisions.

In most cases, the sales per square foot for certain industries, locations, and stores is publicly available through trade associations, annual reports, and more, so you can check them out to see how your business is doing compared to others in your industry or area.

We did a bit of research and found that for apparel retailers, the average sales per square foot is $336, while specialty stores see an average of $325. Meanwhile, grocery stores have an average sales per square foot of $510.
(Source: Retail Benchmarking Survey).

Alternatively, if you're looking to see how efficient you are in terms of shelf space, you can opt to measure revenue according to linear square foot. Linear square footage pertains to every 12 inches of rack or shelf space in a store. You can find this metric by using a tape measure or ruler to measure how much shelf space you have, and then dividing your sales by that amount.

How often should you review it?

Review your sales per square foot (or linear square foot) whenever necessary, e.g. when you need to compare your store's performance from last year, when it's time to re-negotiate your rent, when planning your store's layout, etc.

03

Foot Traffic.

Measuring foot traffic gives you tons of insights about several aspects of your store, and can help you make decisions when it comes to staffing, marketing, store layout, and more.

Foot traffic refers to the number of people in your shop during a particular period. In-store analytics tools such as people counters and mobile device detectors are often used to measure it.

What it is.

Foot traffic pertains to the number of shoppers in your store at a given time period.

The easiest way to measure this is to use people counters, but there are also more advanced tools such as mobile tracking technology, heat sensors, or video surveillance.

These tools not only count the number of people in your store, they can also track shopper behavior, dwell time, and other metrics.

Why it's important.

Measuring foot traffic gives you tons of insights about several aspects of your store including:

Store layout - Foot traffic analytics can tell you which parts of your store are getting the most and least traffic. In addition, the data can also give you an indication of where people are getting stuck or if there are any bottlenecks disrupting visitor flow, enabling you to improve your store's layout.

Marketing and advertising - Which store displays or banners are bringing in the most traffic? Are window shoppers enticed enough to actually walk into the shop? Counting the people in your store will help you answer such questions so you can improve your marketing and advertising.

Staffing - By using people counters and other foot traffic tools, you can find out your store's peak traffic hours and make staffing decisions accordingly. For instance, if you discover that in-store traffic peaks at noon, you can decide to put more associates (or your best salespeople) on the floor during this time to ensure a healthy staff to customer ratio.

How often should you measure it?

As often as necessary. Measure foot traffic whenever you need to make decisions pertaining to in-store components like the ones mentioned above.

A note on measuring foot traffic:

Manually counting each customer who walks into your store can take a great deal of effort. You'll be much better off automatically tracking your shop's foot traffic with the use of in-store analytics tools.

Check out this nifty table of foot traffic analytics solutions created by tech expert David Strom. The table lists the names and websites of various retail analytics providers along with their notable features. Go through them and see if you can use any of them in your location:

VENDOR	URL	NOTABLE FEATURES
Aisle Labs	aislelabs.com	Shopper demographics
Aisle411	aisle411.com	User navigate store maps
Brickstream	brickstream.com	3D Tracking
Euclid Analytics	euclidanalytics.com	Rich APIs
Gozio	gozio.me	User navigate store maps
Iinside	Iinside.com	Precise locations on existing Wi-Fi hardware
inMarket CheckPoints	Inmarket.com	Pay-for-performance apps
Measurence	measurence.com	Analytic tools
Mexia Interactive	mexia.ca	Precise locations on their hardware
Navizon	navizon.com	REST API access
NEON	trxsystems.com	Underground support
Qualcomm Gimbal	Gimbal.com	Personal content delivery
Radius Networks	radiusNetworks.com	Apple iBeacon support
Retail Next	retailnext.com	Wide software tools including POS integration
Shopper Trak	shoppertrak.com	Managed SaaS service
Solomo Technology	solomotechnology.com	Real-time map display
Swarm	swarm-mobile.com	POS integration
Turnstyle Solutions	getturnstyle.com	Push and SMS messaging
Walkbase	walkbase.com	A/B testing
YFind	ruckuswireless.com	Precise locations and Wi-Fi integration

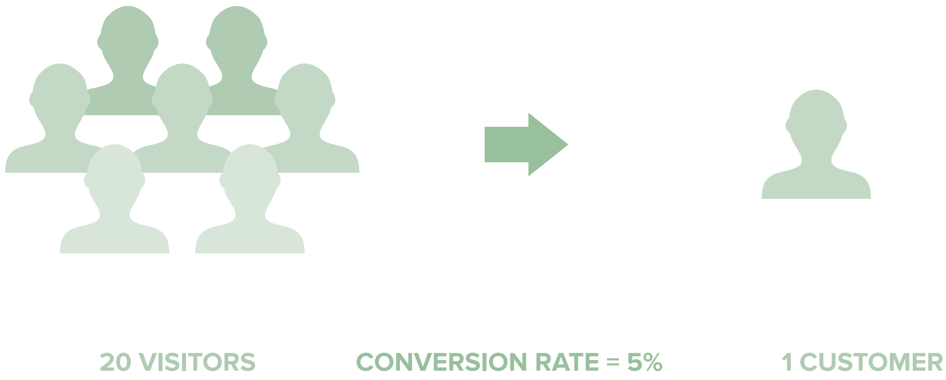
Credit: David Strom via Software Advice

04

Conversion rate.

This KPI helps you measure the performance of various in-store components, including customer service, merchandising, and more.

Conversion rate is the percentage of customers who bought from you. You can find it by dividing the number of sales by gross traffic.



What it is.

Conversion rate is the proportion of store visits to the number of shoppers who made a purchase.

To calculate it, simply **divide the number of sales transactions by gross traffic.** Say your store got 100 visits and 45 of those shoppers completed a purchase. This means your store's conversion rate is 45%.

Why it's important.

This KPI helps you measure the performance of various in-store components, including customer service, merchandising, shopper experience, and more.

For instance, a high amount of foot traffic with a low conversion rate could indicate that while you're doing a good job bringing people into your store, shoppers aren't quite connecting with your brand once they're inside.

With that in mind, you can then figure out the reasons behind the low conversion rate and implement changes, such as re-training your staff, improving your merchandise, finding ways to provide a better in-store experience, and more.

How often should you measure it?

Measure your conversion rate on a regular basis, and whenever you make changes in your store. For example, if you're making some staffing changes, be sure to track conversions before and after you do it so can make comparisons.

05

Sale count.

The number of transactions is a fundamental metric that tells you how many sales were made in a given time period.

Sale count refers to the number of transactions completed in your store. You can easily find this by looking at your POS data.

What it is.

This one's pretty straightforward and pertains to how many transactions you process in your store.

Why it's important.

The number of transactions is a fundamental metric that tells you how many sales were made in a given time period. You can use it to evaluate in-store marketing strategies, customer service, customer experience, and more.

Sale count (and sales in general), when tracked according to specific time periods, is also a good indicator of how busy your store is, and can help you make staffing decisions. That's what Kukri Sports does in its stores.

"Not only could we track the sales real-time, but we could evaluate which retail booth was busiest and adjust our staffing levels accordingly," says Michael Scott of Kukri Sports. This, according to him, ensures that they "weren't overrun at any point during the weekend's activity."

Michael Scott, Kukri Sports.

Podarok, a gift shop in the UK uses sales data in a similar way.

> *"My favorite feature has to be the sales reports. By day, by month, by period, by hour, but most importantly, by supplier. We can predict what is going to happen next year and therefore plan our staff rosters and product ordering in advance" says owner Andrey Pronin.*
>
> *"This saves us a lot of time, and therefore, money. We only order what we need and know that will sell. We are able to order only as much as we need because we can see how much was sold before. We also only employ as many staff as we need by looking back at the level of sales."*
>
> Andrey Pronin, Podarok.

And when you look at your number of transactions together with other metrics — such as foot traffic or sales — you'll be able to derive additional KPIs, including conversion rates and dollar amount per transaction.

How often should you measure it?

Like most KPIs, the answer to how you often you should track this depends on your store. You can do it daily, weekly, monthly, quarterly, etc. Vender Summer Lane, for instance, tracks this on a weekly basis.

06

Average Transaction Value / Basket Value.

The average dollar amount per transaction can give you a macro view of how much people are spending as well as the types and quantity of items they buy.

Average transaction value / basket value tells you the average customer spend in your store. You can calculate it by dividing your total revenue by number of transactions.

What it is.

This KPI tells you how much revenue you earn per transaction.

To compute the average dollar per transaction, use the formula **Total Revenue / Number of Transactions.**

Let's say a gift shop's total monthly sales amount to $35,000 and it processed a total of 418 transactions. Its average dollar per transaction is $83.73.

Why it's important.

The average dollar per transaction can give you a macro view of how much people are spending as well as the types and quantity of items they buy. A high dollar amount could mean that shoppers are purchasing your more expensive products or they're buying larger quantities.

You could derive a number of insights and action steps from this KPI. For instance, having a low average dollar per transaction could indicate that you need to rethink your pricing. Or, it could mean that you have to implement new sales tactics such as upsells, bundles, or other offers to get shoppers to spend more.

How often should you review it?

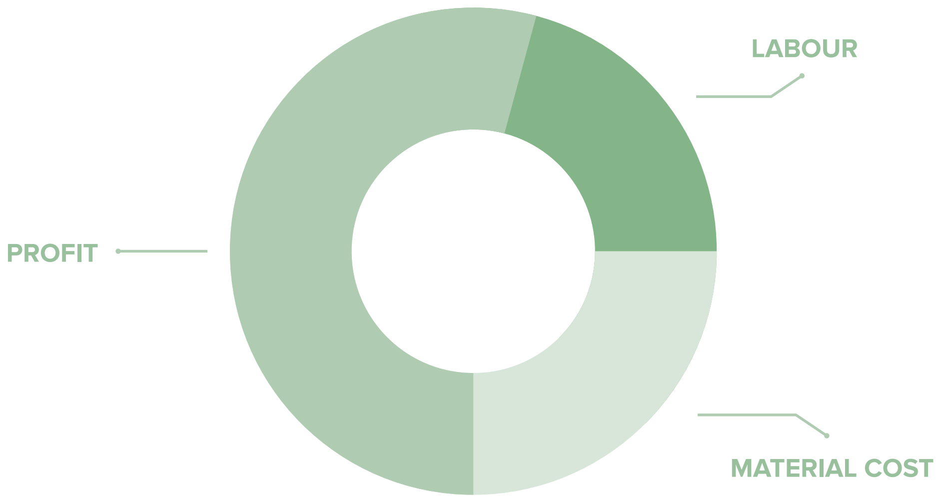
Some retailers choose to track the average dollar per transaction on a daily basis, but others do it on a weekly or monthly basis.

07

Profit Margin.

Profit margin can indicate how much money is actually going into your pocket.

Profit margin is your main measure of profitability. Calculate it using the formula Gross Profit / Total Revenue x 100.



What it is.

This is a ratio of profit to total revenue. It tells you how much revenue is earned once you've deducted the costs for the goods sold.

The profit margin formula is as follows: **Gross Profit / Total Revenue x 100**.

So if a liquor store has a gross profit of $10,000 and total revenue of $17,000. Its profit margin is 58%.

Why it's important.

Profit margin can indicate how much money is actually going into your pocket. You could be making additional sales, but if it's costing you more than what you're earning from those sales, then you're not really making money.

Your profit margin can help you see if you need to lower costs or increase efficiency in your business. To widen your margins, for example, you can find ways to cut the costs to make your products. Or, you can perhaps tweak your prices.

How often should you measure it?

Every business must measure their profit margins. Do it as often as you need to.

08

Stock Turn.

Stock turn gives you the info you need to make critical inventory decisions.

Stock turn a.k.a. inventory turnover measures the rate at which stock is sold. Calculate stock turn using the formula Cost of Goods Sold / Average Inventory.

What it is.

Also known as inventory turnover, stock turn is the number of times stock is sold through or used in a given time period. In most cases, the higher the stock turn, the better it is for your store because it means you're selling a lot of merchandise without stocking too much inventory.

The stock turn formula is: **Cost of Goods Sold / Average Inventory**

Let's say an apparel store's average inventory is $25,000 and the cost of goods it sold in a 12-month period is $100,000. Its inventory turnover is 4.0 and this means that the store sold out of its inventory four times that year.

Why it's important.

Stock turn gives you the info you need to make critical inventory decisions. How often should you re-order products? Are you stocking too much or not enough merchandise? These are just some of the questions that stock turn can help you answer.

This metric enables you to have a better handle on your inventory so you can make smarter purchasing decisions, keep merchandise moving, and sell more of the products your customers want.

You can also calculate it to see how your store stacks up compared to others in your industry. For instance, the Houston Chronicle cites that "the average merchandise turnover in the retail clothing industry for the 12-month period ending June 2011, was 3.91."

Going back to the example above, since the apparel store has a stock turn rate of 4.0, it means that it's doing a little better than the average clothing retailer in terms of moving inventory.

How often should you measure it?

A business's fiscal year is the most common time frame used when measuring a store's overall inventory turnover, but you can measure stock turn for any given time period depending on what you need to know.

09

Product returns.

A high product return rate could indicate problems in merchandise quality, customer service, or even marketing.

Product returns tells you the percentage of product return. You can calculate this metric by dividing the number of returns by the number of items sold, then multiplying it by 100 to get the percentage.

What it is.

This refers to the percentage of products returned over a given time period and it can be calculated **by dividing the number of returns by the number of items sold, then multiplying it by 100 to get the percentage.**

So if you sold 120 widgets and 5 of them were later returned, the product return rate is 4.17%.

Why it's important.

A high product return rate could indicate problems in merchandise quality, customer service, or even marketing.

For example, people could be returning your products because they're having a hard time figuring it out and your customer service reps need to do a better job educating them. Or perhaps you need to tweak the text in your packaging or marketing messages and be clearer when communicating who the product is for (and who it's NOT for.)

In any case, it's best to be aware of the data so you'll know how to handle and reduce returns in your business.

How often should you measure it?

It's always best to measure your product return rates on a regular basis (again, the frequency depends on your specific store). You should also calculate the product return rate when you introduce new items or after a big shopping event (such as the holidays.)

Bear in mind that you must wait until shoppers are no longer allowed to return items before measuring your rate of return. So if your return cut off is 30 days, and you want to calculate your rate for the month of December, you have to wait until January 31st before running the numbers.

10

Sell through percentage.

You can use the sell through percentage to evaluate product performance.

Sell through percentage refers to the percentage of units sold versus how much inventory was available to begin with.

APRIL

95

500

SELL-THROUGH PERCENTAGE = UNITS SOLD ÷ BEGINNING INVENTORY × 100

What it is.

Sell through is the percentage of units sold versus the number of units that were available to be sold. To calculate for this metric, use the formula:

Number of Units Sold / Beginning Inventory x 100

Let's say a bookstore received 500 copies of a thriller novel from the publisher, and sold 95 books after a month. The book's sell through percentage is 19%.

In some cases, the unsold merchandise will be returned to the manufacturer (or in the bookstore's case, the publisher). Some stores can also tack on a discount on the items to improve the sell through percentage.

(Click here for more tips on how to improve sell-through.)

Why it's important.

You can use the sell through percentage to evaluate product performance. This metric also helps you make decisions on which items should be put on sale, returned to the manufacturer, or whether or not you should re-order a particular product.

How often should you measure it?

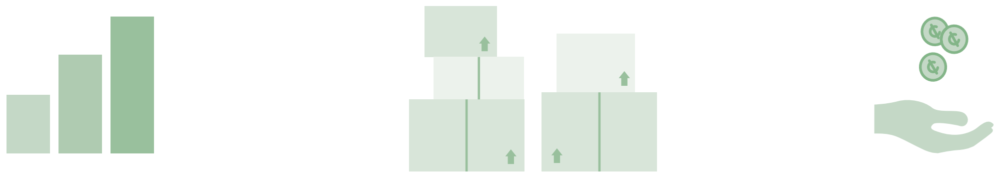
Retailers usually measure sell through on a monthly basis, but it can still vary, depending on the products being sold.

11

GMROI.

> Gross Margin Return on Investment can give you a solid indication of how your store is doing as a whole.

Gross Margin Return on Investment (GMROI) tells you the amount of money you got back (i.e. ROI) for every dollar you spent on inventory.



$55,000 GROSS MARGIN ÷ **$30,000** INVENTORY COST = **$1.83 RETURN** PROFIT RETURN

What it is.

GMROI measures your profit return on the funds invested in stock. It answers the questions, “How many gross margin dollars did I make from my inventory investment?” or “For every dollar invested in inventory, how many dollars did I get back?”

The formula for figuring out your GMROI is: **Gross Margin / Average Inventory Cost**

So let’s say a retail store has gross margin of $55,000 and an average inventory cost of $30,000. Its GMROI is 1.83 and that means the store earns $1.83 for every dollar in inventory.

Why it’s important.

GMROI can give you a solid indication of how your store is doing as a whole. It can also tell you how well specific products or departments are performing so you can get insights on how you can optimize inventory and merchandising.

Let’s say you added a new shirt style in your store. You run the GMROI formula on it after a month and find that your ROI isn’t as high as expected. With that info in mind, you can drill down on why the style isn’t doing well, and decide on the best course of action (i.e. mark it down, take it off the floor, etc.)

How often should you measure it?

It depends on your store. Some retailers run the numbers monthly, quarterly, or after every season.

12

Next step, action.

Now it's over to you.

Before you start analyzing every metric here, look into the state of your business first, and determine which data points would make the most impact.

What’s next?

Your store is awesome in its own unique way, so what’s “key” for one retailer may not necessarily be significant for you. When it comes to data, more doesn’t always mean better.

Before you start analyzing every metric here, look into the state of your business first, and determine which data points would make the most impact.

There you have it! By now you should have a solid idea of which KPIs will help you measure your way to the top. If you’re looking for a solution that can help you track and measure data in your business, sign up for a free 30-day trial of Vend and see how it can help you do all that and more.

Good luck!

13

The authors.

Meet the co-authors, Francesca Nicasio and Ross Stanley.

Francesca Nicasio is a retail expert and author of the Vend eBook, Retail Survival of the Fittest: 7 ways to future-proof your retail store. She is dedicated to writing about trends and tips that help retailers increase sales and serve customers better.

Francesca Nicasio, Retail Expert and B2B Content Strategist

Prior to joining Vend Ross has delivered retail POS, consumer loyalty, data warehousing and visualisation solutions for many global corporates including Deutsche Bank, Global Dairy Trade and multiple telecommunications networks. He’s super excited to be bringing the power of big retail data to Vend’s subscribers.

Ross Stanley, Senior Product Manager - Reporting & Distribution

About Vend.

Vend is a cloud-based retail software platform that enables retailers to accept payments, manage their inventories, reward customer loyalty and garner insights into their business in real time. Vend is simple to set up, works with a wide range of point-of-sale devices and operates on any web-capable device with a browser.

Whether it's simplifying the inventory process, cutting 30 minutes from their end-of-day bookkeeping or making it simpler for them to sell their products on multiple channels, Vend's mission is to make retailers' lives easier.

With Vend, retailers are able to focus less on transaction and inventory concerns and more on creating that relationship with their customers. Vend aims to empower merchants by putting the right data and tools into retailers' hands and enabling them to do things themselves — and succeed.