

## A REVIEW OF THE CONVERSION RATE IN MONITORING THE MARKETING PERFORMANCE OF RETAIL WINE SHOPS

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### Abstract

*The success of a business can be evaluated by various performance indicators. Selecting the right key indicator for the marketing performance evaluation of a shop can often lead to the identification of potential improvements. For the evaluation of wine shops one of the most useful key performance indicators was identified as being the traffic conversion rate and the paper explains the possibilities to measure and calculate this parameter, its advantages and effectiveness. The objective of the paper is to integrate existing knowledge and findings about conversion rate, to highlight the implications and the advantages of this indicator in monitoring the marketing performance of physical (bricks-and-mortar) wine shops. The findings are drawn from literature review and is followed by analyse and discussion about the implications and the challenges of using the conversion rate indicator in practice. The paper is an overview of the conversion rate and findings reveal the importance of this indicator for assessing the marketing performance of the retail wine stores and the limits that generated lack of adoption on a large scale.*

**Key words:** traffic, conversion rate, purchasing behaviour, key performance indicators, wine shop

### INTRODUCTION

When analysing the shop performance, the most useful information collected are the ones that could not only show the outcome, but the ones that could help the managers find the cause and improve or prevent situations that generate loss in sales (Ryski, 2005).

The majority of retail analyse – wine shops included – relies on measuring sales and other indicators in relation with this values and the performance of the shop is monitored and evaluated based mostly on this indicators.

Faster and more effective availability of data is a competitive issue for most organizations. For example, businesses which have higher operational/credit risk (involving for example credit cards or wealth management) may want weekly or even daily availability of KPI (Key Performance Indicators) analysis, facilitated by appropriate IT systems and tools.

For retail, the most commonly used KPI's are: Total sales, Sales per hour, Average sale (per Customers/ Transaction), Sales per square

meter, Customers per day, Items per customer/ transaction, Annualized sales per sales person, Sales compared to the previous year, Sales compared to target, Average Gross Margin, Revenue Market Share, Customer Profit, Gross Margin Return on Inventory Investment (GMROI) (Farris *et al.*, 2006; PricewaterhouseCoopers LLP, 2011; Velimirovića *et al.*, 2011).

The most relevant mean of understanding the success and the potential of the business is measuring the results comparative to the potential (opportunity), respectively how many customers purchased from the total that visited the shop. This can be accomplished using the conversion rate indicator, which reveals the performance in the context of the sale opportunities that existed (Underhill, 2009 and Ryski, 2011), as opposed to the sales only related indicators that offers no indication about the meaning of the values without considering them together with the circumstances.

The (traffic) conversion rate is as one of the 10 most important marketing key performance

indicators in e-commerce and for performance assessment in online industry in general (Perry, 2013).

For bricks-and-mortar retail wine shops, considering the high costs involved for measures taken for increasing the sales by generating more traffic or more prospects to enter the shop (advertising costs and the cost of the location), the traffic and conversion rate analyse offers a perspective on the existing potential – prospects already in the shop – allowing an incremental increase of the sales based on what is already there (intensive). Early identification and prevention of loss of sale, through conversion rate analyse, can work both as a *cost-cutting* and a revenue growth measure.

Therefore, in this work we assessed the options to better evaluate a shop performance by measuring and analyzing the traffic data, number of transactions and sale values.

## MATERIALS AND METHODS

The study took into account the existent literature regarding the assessment of marketing performance of (physical/ bricks-and-mortar) shops in general, trying to select the most suitable key performance indicator to be used later on for the evaluation of the marketing performance of a wine shop.

The term marketing should be understood here as the broader area of all the actions undertaken in order to gain (paying) customers, while aiming the company goals (growth/ increasing the net income).

Generally, the marketing performance can be measured using metrics related to :

- Consumer attitudes and satisfaction: *Awareness, Perceived quality, Consumer satisfaction, Relevance to consumer, Image/personality, Perceived differentiation, Brand/product knowledge, Customer satisfaction, Number of complaints;*
- Comparison with competitors: *Relative consumer satisfaction, Perceived quality, Share of voice;*
- Consumer behaviour: *Total number of consumers, Number of new consumers, Loyalty/retention, Conversion, Number of consumer complaints;*

- Innovation: *Number of new products, Revenue of new products, Margin of new products;*

- Accounting/ Business performance: *Sales, Gross margins, Profitability* (Ambler *et al.*, 2004).

Metrics alone could only help the managers getting the information/ gain access to data, the correct selection of the metrics, trend and context analyse, could contour the insights, but most important when measuring performance is having clear goals and evaluating them with the right KPIs (Key Performance Indicators).

And one of the most important goals should be intensive growth based on the existing potential, hence using the most of what the company already has (prospective customers inside the shop).

## RESULTS AND DISCUSSIONS

According to a benchmark survey by the Chartered Institute of Marketing in collaboration with Deloitte LLC, only 7% of organisations *always* set clear key performance indicators for marketing initiatives, and only 10% of businesses have core strategic meters that remain consistent to enable longer term reporting and over 2/3 of the companies feel that their KPIs are not optimal form measuring the impact of marketing (Brown and Turner, 2010).

Generally, retail companies use indicators related to capital expenditure, shop portfolio changes, expected return on new shops, customer satisfaction, same shop/like-for-like sales, sales per square metre (Pricewaterhouse Coopers LLP., 2011).

A performance indicator should be presented in form of numbers, should integrate well with present shop activity, should help to determine if the business is getting better and should be put into practice to produce a desired effect (Lake, 2013). In other words, the indicator should be Quantitative, Practical, Directional and Actionable. The most useful parameter found to obey these requirements and which can be used in assessing the marketing performance of wine shops is the conversion rate, as shown by the formula (1).

$$\text{Conversion rate (\%)} = \frac{\text{Number of transactions}}{\text{Traffic}} \quad (1)$$

This parameter can be used as such, monitored over time, used along with other indicators, analysing patterns and changes, or mapped together with other factors that influence the purchase occurrence.

As eloquently exemplified by Mark Ryski (2013) without conversion and traffic data it is impossible to understand if for example a 10 % sales improvement compared to the previous period is a success or a failure, because one needs to compare it with the values of traffic. If traffic increased with more than 10%, than the conversion rate is smaller and this means the performance of the shop, in the context of the sales opportunities it had, it is lower, in spite of the sales increase.

The key aspect of the conversion rate is actually the part that is missing (up to completing the 100%), as this represents the 'grey area' never reported, the unsuccessful shopping experiences from the customer's point of view or lost opportunity in sales from the business's perspective. All this missed customers are never captured in the sales results figures and neither in standard customer surveys (Ryski, 2011) and they can represent a large potential area of intensive expansion for the business.

The conversion rate indicator, also referred as *customer conversion* (Conroy and Bearse, 2006), *buyers-to-shoppers ratio* (Chung and Hing 2010) or *close rate* (according to Ryski, 2011), illustrates the percentage of buying customers from the total potential customers entering the shop (traffic), as shown by the formula (1). For a higher accuracy it is recommended that instead of (total) traffic or gross traffic, only the total number of prospective customers (the number of individual customers that have entered the shop with intention of buying), or net traffic to be used (Ryski, 2011).

Regularly used in e-commerce and for performance assessment in online industry in general, conversion rate is not as frequent used in physical (bricks-and-mortar) shops.

According to Ambler, Kokkinaki and Puntoni (2004), accounting related metrics like Sales (Value and/or Volume), Gross margins and

Profitability are still the dominant metrics used relative to consumer behaviour and according to their findings regarding the usage of marketing metrics in the UK in small, medium and large size businesses from various sectors, the conversion was not among the top 15 most used metrics by frequency (> 62 percent usage).

This could be probably be explained by the difficulty to measure the part of the traffic that is relevant as prospective customers. For a more accurate conversion rate, it is recommended that the value of the traffic used in calculating the conversion rate to be refined, in order to include only people entering the shop relating to buying/ with intention of buying (Ryski, 2011).

As follows, from the gross traffic or the total number of peoples entering the shop, a net traffic value can be extracted, by eliminated the staff's multiple entries, supply and maintenance personal entries, the people accompanying the prospect (often people shop in groups, with family or friends, but only one from the group is a prospect) and customers' multiple entries (especially for specific businesses, e.g. auto dealers) (Ryski, 2005). In order to obtain an adjusting factor that allows eliminating from the total traffic, the percentage of persons that are not entering the shop with intention of buying, a pre-study can be done, using the method of observation, and if possible re-tested periodically. The critical aspect is the consistency in usage of the adjustment factor to allow a correct conversion rate comparison on different time frames and factors.

A more useful formula for understanding the conversion rate is the one that reveals its impact on the growth potential of the business, as follows:

$$\text{Sales Revenue} = \text{Traffic} \times \text{Conversion rate} \times \text{Average Sale Value} \quad (2)$$

As the formula shows an increase in either of the factors involved – traffic, conversion rate or average sale value – will have a direct impact on the sales.

In comparison with the costs involved for increasing the traffic – high costs for advertising and for the location of the shop–

and the limits of the average sale increase techniques that, when used poorly, often leave a negative impression to the customer, the conversion rate can be more efficiently improved by monitoring the traffic and conversion rate, action upon the factors influencing the buying and measure the impact of this actions.

The conversion rate evolution reflects the success or the failure of all the factors involved in delivering customer experience – from marketing and sales to operational – in convincing them to becoming paying customers. The continuous monitoring and control of this indicator along with the factors involved allows shop managers to make better informed decisions.

The factors that influence the purchase decision and the conversion rate are:

- staff expertise and effectiveness (qualitative);
- staffing levels (quantitative) and waiting time/ till availability;
- the comfort of the environment (retail design, the dimension and the structure of the space/ shop, ambient, usability and ergonomic aspects);
- products availability, range and variety;
- price level (real and the customer perception);
- visibility and the ease of finding the products/ information about products (merchandising);
- the possibility to test (or touch/ interact with) the products;
- customer's group type;
- customer motivation, involvement and the occasion regarding the purchase;
- customer's preferences, expectations previous knowledge and understanding about the products (premium wines in this case);
- the factors with direct influence on the traffic: advertising and promotions, location (convenience), competition (competitors), weather conditions

(Underhill, 2009; Ryski, 2011; Ariely, 2008; Lindstrom and Kotler, 2011).

One of the most important factors influencing the conversion rate is the shop's personal, which has a positive impact on the conversion rate. Both the qualitative aspect – knowledge

about the products, expertise and professionalism – and quantitative – enough personal to help, inform, answer inquiries and finalise the transactions with the customers – are important.

It was found that the existence of interaction with the personal (interception rate) has a significant impact on the conversion rate, this increased with 50% when the personal offered assistance to customers compared with the situation without any interaction (Underhill, 2009). Furthermore the type of interaction have direct influence on the conversion, personal testimony and offering suggestion generating higher conversion rate than simply informing about the product (Conroy and Bearse, 2006).

From quantitative perspective, long queues contribute at the failing of purchases, and not particularly solely in connection with the waiting time, solely the perception or the expectation of a long wait can discourage the customers.

Second, the discomfort created by a large number of customers present in a limited (small) space deter the purchase, particularly the repeated touching with the other customers (or the lack of possibility to avoid this) will determine more customers to leave without buying (Underhill, 2009) or will have a negative impact on the average sale value (Perdikaki, Kesavan, Swaminathan, 2011).

This effect can be visualised in Figure 1 (Ryski, 2011), reflected in the positive relation between the traffic and the number of transactions, up to a point of the traffic, after which the number of transaction will tend to level, with a negative impact on the conversion rate.

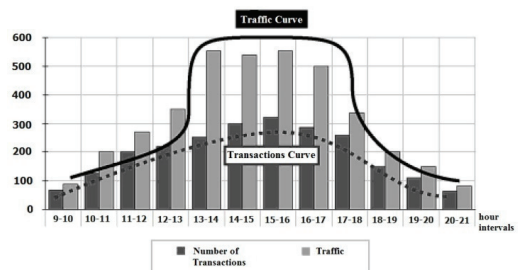


Figure 1. Typical evolution for traffic and number of transactions (Ryski, 2011)

Therefore, to assure comfort and deliver quality service for the consumer, in order to convert more of them into paying customers, the staff

scheduling should be optimise with the traffic level, not with the sales, not with the number of transactions.

Range, variety and availability of the products influence the conversion rate. According to Gruen, Corsten and Bharadwaj (2002) and illustrated in Figure 2, if a customer doesn't find the product she/ he is looking for, 55 % will not buy (do not purchase, buy from another shop or delay purchase) and for the remaining 45% to be satisfied an easy to substitute product should be available.

As recent finding from behavioural economics and neuromarketing shows, around 95% of our decision making is done at subconscious level (Halstead et. al., 2012) and the perception of the customer about the price of a product is mainly subjective and arbitrary.

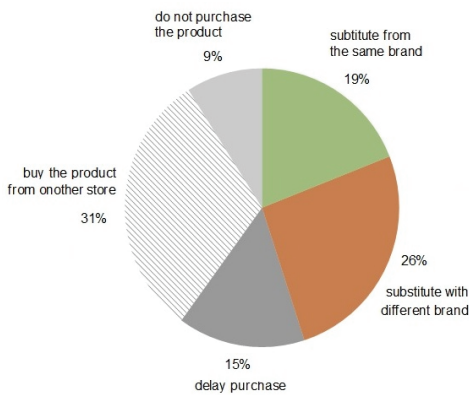


Figure 2. Consumer responses to out of stock (Gruen, Corsten and Bharadwaj, 2002)

Dan Ariely (2008), argues that the consumer behaviour is prone to a degree of irrationality, in regards to the perceived price of a product, mentioning the influence of the context (other prices or other options, not objectively sampled), by a so-called *herding* factor which implies that decisions are influenced by the comporment of other people and by *imprinting* or "*self-herding*" that means decisions based on our previous behaviour, in this context on the first or the previous price agreed to pay, that became an anchor and influences the price willing to pay today.

Furthermore, Lindstrom and Kotler (2011), in their book "Brand sense", argue that products which communicate through sensory channels

– taste, touch and smell – create emotional connection/ engagement with customers that add a "hugely persuasive dimension" generating impulse purchasing, higher sales and high rate of loyal customers.

As shown in Figure 3, the present data available show a large distribution of the averages for this indicator, for different businesses, types of products and different contexts, which can be explained by the multitude and complexity of the factors involved, therefore only general guideline averages for conversion rate per type of business can be mentioned.

Also, when considering a conversion rate average for a retail category, it is important to accurately define the category along with the format, size, location of the shop, the level of price and quality of the products available, and so on. Without this delimitation, large variations can occur, as it can be observed from the data of Conroy and Bearnse (2006) of Deloitte LLC and Atlanta Retail Consulting (2007) collected for Speciality Apparels and Department Store and included in Figure 3.

As Paco Underhill (2009) emphasises, the higher the margin of the business, a lower conversion rate tends to have, and the smaller the margins higher conversion the businesses have. Also the conversion rate for premium and luxury goods is lower than for the mass market merchandise.

According to Mark Ryski (2011), regarding general guidelines for conversion rate empirical encountered, the conversion rate for speciality shop in USA is situated around 20-50%.

The costs for traffic and conversion rate analyse are lower that the costs of other measures that could be taken for increasing the sales, and demands a people counter system/ people counter device(s), resources for correctly collect and interpret the data and training of all the staff involved (regarding the purpose of the indicator) for better results through their engagement.

Conversion rate analyse implies first collecting correct data about the traffic (the number of the visitors of the shop), analyse the number of transactions in rapport with the traffic to calculate the indicator, overlay the results with

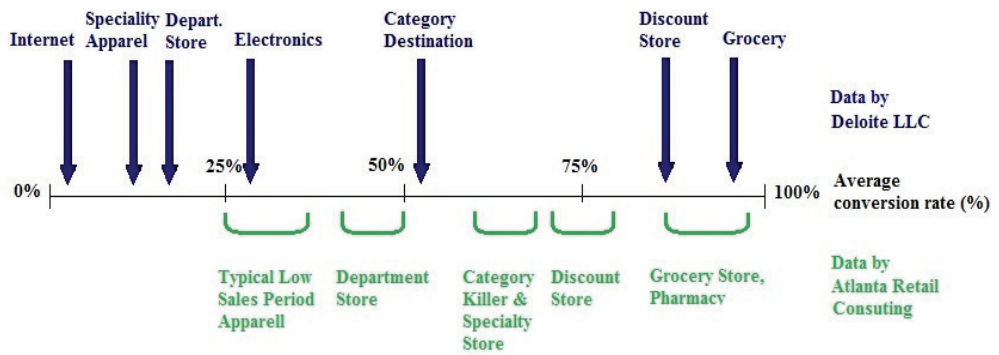


Figure 3. Conversion rate average guidelines for different retail segments and formats according to Deloitte LLC (Conroy and Bearse, 2006) and Atlanta Retail Consulting (2007)

Different factors of influence (staffing allocation, advertising and promotional programs and other factors identified through staff's observation) and interpret the results.

The further important step is taking measures/action to improve the percentage of the customers (visitors) converted into buyers and then analysing the results of this actions with the same methods.

Usually the traffic data is collected using automated devices, but, in order to record additional aspects about purchasing behaviour and about the factors influencing the conversion rate, on a short term, some research using direct observation method is recommended.

As other authors highlighted, this method offers a better understanding of the actual actions of the customer, instead of their impressions about their actions or behaviour (as in surveys), which sometimes tend to be biased by the lack of correct recollection of the actual facts, improvisation when in lack of recollection or the "tendency to rationalize behaviour to make it appear in the best light" (Wells and Sciuto, 1966). From this point of view, Mark Ryski (2011) argues that traffic and conversion rate measurements are more accurate and objective, than the measurements obtained in other methods that involve the subject's opinion about its actions (surveys).

Regarding the limits of the method of observation, the aspects of validity should be taken into account, especially what Lynda Baker (2006) refers as the "researcher bias that may result from selective observation, selective recording of information, or the subjective interpretation of situations".

In order to define measurable goals for the study and to overcome the subjectivity of the observer, it is recommended to use structured observation. A form or a track sheet need to be designed with predefined aspects to be recorded and for each, predefined answers in tick boxes (for ease and faster recording), in scale, definite group intervals or categorical answers that cover all possibility. Also the aspects to be recorded and the answers should have clear meaning (not allow more than one interpretation) and allowing the observer to record objective aspects.

## CONCLUSIONS

Of the many parameters reported in literature for assessing the performance of a commercial unit, the conversion rate allow for better informed decisions.

For retail shops, as it is the case of wine shops, by analysing together the traffic and the number of transactions (the constituents of the conversion rate), one can understand how, up to

a point, traffic has a positive impact on the conversion, as the number of transaction rise, up to a (critical) level, after which the large number of prospects and insufficient personal will generate conversion to decrease, which means losing customers and opportunity in sale.

By having permanent data about traffic and conversion rate, the impact of different factors on sales revenue and conversion can be monitored, acted upon and furthermore the impact of this actions can be measured.

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