The Business Of Design: How Design Impacts ROI

In measuring ROI, separate the factors within the environment that serve as negative and positive influences

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How does retail design contribute to maximizing sales for a store? Consider that return on investment (ROI) is measured in multiple ways. We can look it as a pure monetary ROI, measured by cash-to-cash volume related to sales volume and margin return (in terms of sales mix). Other metrics, such as, items per transaction and the average dollars per unit should also be considered when looking at ROI.

The other aspect of ROI is the long-term impact, which involves consumer attitudes being changed or shifted through an effective retail experience, not necessarily impacting the bottom line of the company immediately, but rather as a predictive measurement for future ROI through changing consumer attitudes toward the brand.

The brand value in a sense of conversion vs. awareness (a key to look at from investment and traditional needs related to advertising vs. point of sale and store experience), and how the consumer can be a key source of "unpaid media" through ambassadorship, allows the customer to become an advocate of the brand through excitement and satisfaction generated by a new consumer experience. In short, measuring the near term through one set of factors, and the long-term impacted by another set, are both important measurements.

Magic Basket of Factors

The more pragmatic measurement in terms of real time sales is moving the transaction to higher margin goods, allowing the sales associates not to focus on one particular attribute which can increase units per transaction, in turn creating what is termed as a "magic basket" of factors.

For both types of ROI, a clear understanding of what the situation is today is imperative. Looking at historic measurements around margin, units per transaction, etc, but even more importantly the attitudinal perception of the brand is something that only can be effectively analysed before changes are made. And this needs to be done so in a context that is similar and comparable to what the new retail concept exists within.

It is challenging to test the ROI on a location that hasn't existed before with a customer who hasn't shopped, and with a sales and management team related to the store who hasn't worked together. Often a measurement of ROI is best tested in the case of a renovation rather than a new store or relocation, where there may be a number of elements that cloud the measurements.

With these numbers baked into the analysis, the other aspect when looking at ROI is what might the core store cost to maintain? How does it impact the staff? Is the life cycle of the design such that it might minimise the need for renovation, while maximising the opportunities for refreshment and cost-effective renewal?

Measuring Success

Another point in looking at ROI is sales productivity and intensity. Again, a rent per square foot will factor into the bottom line, but other indirect costs such as energy usage, number of personnel required and inventory are also elements to be considered.

As well, inventory turn can highly affect the bottom line, with even the increase of a quarter or half turn making a huge difference literally all the way through the supply chain (interest costs for holding inventory, warehousing cost, distribution, etc.). These are often not seen as direct store cost, but rather as operating cost. Hence, the full ROI "ecosystem" -- looking at product literally from design to sale through customer satisfaction -- must be taken into consideration.

Hershey's: A store can be your most effective showroom, providing a full product experience. At Hershey's Chocolate World – Las Vegas, the entire global line of Hershey's Kisses flavours becomes a focal feature.

McCormick World of Flavors: The store experience can enhance the duration of the consumer visit. Interactive kiosks provide informative facts about the spices and flavours, encouraging more interaction and providing opportunities for "winners" to receive cents-off coupons to purchase more in-store.

Soft Surroundings: Formerly an exclusive online and catalog retail operation, Soft Surroundings tested a physical store in its home market to determine viability, and through its success is now expanding their presence in shopping malls throughout the US.

Using a combination of tools to measure ROI is the best approach. These tools can be as simple as looking at sales analysis through your direct and indirect sales (don't forget that your store is often the brand's most effective showroom), and increasingly sales that need to be attributed as well to the ROI process may not occur in the store, but may be motivated by an earlier visit and sampling of the store's product.

Making It Work

Past the pure accountant's view, many tools exist to help measure productivity as the foundation for improved ROI. These include tools such as video monitoring, traffic counts (helpful for looking at conversion), mobile apps that allow you to track their proximity to the store (with the consumer's permission), number of times that they enter, and even areas of the store in which they may favour to shop. Augmenting mobile customer apps, heat mapping can show the number of visits, interaction, and ultimate conversions that takes place in what would be communicated as "hot spots" or "cold spots," literally down to the tabletop department or areas within the jewelry case. A "cold spot" might suggest that the product quality may be lacking, the price too high, or that the sales associate wasn't there in the proper place to make the final push.

Virtual surveys -- asking customers online what they think based on an experience that might have happened in the past -- is a helpful tool, but often not as effective. The consumer's recollection may be influenced by both the questions and other intervening experiences.

Ultimately, the creation of a prototype store (both virtual and/or physical), is the only way in a real context to measure the effectiveness of the concept and its translation into ROI. While interesting, virtual stores still are not as effective as a physical prototype. In many cases, it is more expensive to create, but a prototype also provides the most effective test.

Lifecycle Costs Are Critical

In trying to isolate the store design itself, certain elements should be taken into consideration such as immediate sales lift vs. sustained sales lift, foot traffic (such as the attraction value of the store), new customers expanding the brand franchise, and mining of returning customers. How does the store incite them to shop better with elements such as visit duration, purchase size and forward purchasing behaviours? In many cases, these areas can be enhanced and/or negatively impacted by things such as poor visual merchandising, store staff, pricing issues and even bad product.

In measuring ROI, separate the factors within the environment that serve as negative and positive influences – and it will help you determine your path to the future. •

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