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XQ Interactive Retail ROI Guide

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XQ Interactive Retail ROI Guide

"Measuring the Success of XQ Interactive Retail"

There's a well known truism in business: You get what you measure. Only if you monitor and measure the performance of XQ Interactive Retail, will you will be able to optimize its performance and gain valuable information to help you achieve your goals.

This ROI guide will help you to answer four key questions:

1. What benefits can you expect from XQ Interactive Retail?
2. How can you observe and measure results?
3. What return can you expect on your investment (ROI)?
4. How long does it take to recoup the cost (payback period)?

Benefits

XQ Interactive Retail is a unique application that impacts your business in a whole new way. Some of benefits can be seen in the short term, while others will help your business flourish in the long run. Other benefits, such as an improved customer experience and increased sales productivity, are less easily quantified, but they have a significant impact on your bottom line. Therefore, to evaluate and get an accurate view of the project's success, it is important to consider all benefits in terms of both financial (hard) and non-financial (soft) benefits.

For example, two clients who have implemented XQ Interactive Retail estimate that they are able to reduce customer interaction time by approximately 50%. This is because customers use XQ to learn about products and narrow their choices down before speaking with sales staff. Instead of spending time educating, staff can focus on consulting and selling. Staff can also engage with more than one customer at the a time. As a result, our clients can maintain or reduce total work hours, even though the sales volume increases.

With XQ Interactive Retail, you can expect to improve:

- Customer Experience
- Sales Efficiency
- Sales and Profit.

Customer Experience

A great customer experience produces two key results: customer satisfaction and brand loyalty. Happy customers are likely to spend more money in your store. They come back, spread good word of mouth and encourage others to visit. Consequently, you can maintain your current customer base, while at the same time attracting new customers to your store.

Despite the difficulty in quantifying how a good customer experience contributes to the bottom line, you can evaluate the level of impact by observing or conducting a customer survey (see Exhibit 1, for an example).

XQ contributes to a great customer experience in the following ways:

- Creates a unique shopping environment
- Engages the customer via relevant and entertaining content
- Reduces perceived wait times and increases the convenience of checking out
- Provides information for the consumer to make an informed decision.

Example of XQ Results from Current Customers

- "This store is sick!" - feedback from 15-year old SaskTel customer[1]
- "I love the new system that you installed" - feedback from American Cellular customer[2]
- Average score of "Likelihood to recommend": 9.8 out of 10[1]
- Average score of "Easy to do business with": 9.5 out of 10[1]

Benefits	Metrics	Suggested Tools/ Measuring Method
Increase in Customer Satisfaction	• Overall customer satisfaction score • Perceived wait time • AVR time spent on XQ touch screen • Customers' comments	• Customer survey (See an example in Exhibit 1)
Increase in Brand Loyalty	• Repeat purchase rate • Likelihood to recommend	• Customer survey

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[1] SaskTel Case Study, August, 2011

[2] American Cellular Case Study, February, 2012

Sales Efficiency

XQ Interactive Retail is proven to be an excellent training tool and sales aid. Well trained and upbeat staff are more likely to deliver great customer service. Training time is reduced, and sales are closed faster. XQ also increases efficiency in daily operations, such as reducing time to check pricing information and product inventory. This allows your staff to spend more time engaging with more customers and closing sales, which in turn increases your net profit.

Example of XQ Results from Current Customers

- Average score of rep experience: 9.6 out of 10.[3]
- " XQ gives us the confidence to answer questions and makes our job easier because we don't have to memorize all the detail," Elena, Store Manager, Connectivity Source, Sprint Dealer.[4]
- "We are able to engage more people even when salespeople are not available. For us, it's not about how many people walk in; it's about how many we can engage with." [5]
- "We are in love with XQ Browse. Our retail staff is very excited to use it, and our customer absolutely love it," David Anderson, Operational Systems Manager, American Cellular, Verizon Dealer.[5]

Benefits	Metrics	Suggested Tools/ Measuring Method
Reduce Training Time	• Training time • Length of orientation period	• Observation • Employee surveys to measure how well trained and confident sales people feel
Boost Sales Efficiency	• AVR # transaction per hour • AVR Qty sold per hour • AVR sales per hour • AVR gross profit per hour	• Comparing sales with number of staff working hours

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[3] SaskTel Case Study, August, 2011

[4] Interview with Connectivity Source store manager, Sprint Preferred Dealer

[5] American Cellular Case Study, February, 2012

Close Sales Faster	• AVR sales length cycle	• Observation
Reduce Product Return Rate	• Product return rate	• Product return rate = *Quantity of returned product ÷ Total product sold*
Reduce Turnover Rate	• Employee turnover rate	• Employee turnover rate = *Number of separation during the month ÷ AVR number of employees during the month* • Employee Survey

Sales and Profit

XQ Interactive Retail increases sales opportunities by attracting more prospects and allowing sales staff to engage with more customers. It drives sales conversions by influencing customers at the point of purchase. Profit also increases by cross-selling and up-selling products, while the operating cost is maintained or reduced.

Example of XQ Results from Current Customers

- Walkouts decreased from 6% to 0%.[6]
- Sales conversion rate increased from 11.4% to 28.8%.[6]
- Volume sales of accessories increased 14% (versus 8% at all stores).[7]
- While the Saskatoon Store has seen significant volume increases, total hours at work have decreased 16% over this same period.[8]

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[6] Jump.ca Case Study, June 2011

[7] American Cellular Sales Analysis, February, 2012

[8] SaskTel, Sasktoon location, Comparing Year over Year (June -Aug 2010 vs. 2011)

Benefits	Metrics	Suggested Tools/ Measuring Method
Increase in Number of Store Visitors	• Number of foot traffic (visitors) • Walkout rate *(% of customer who leave store without interacting with sales staff or in-store applications)*	• Traffic Counter • Observation (If traffic counter is not used) • Walkout rate *= Visitors who leave the store ÷ Total number of visitors*
Sales Conversion Rate	• % of customers who made purchases	• Sales conversion rate = *Number of transactions ÷ Number of total visitors*
Increase in Sales ($ Value)	• Value sales • AVR spending per transaction • Sales per square foot	• Sales Analysis by Location
Increase in Sales (Volume)	• Number of Items sold • Number of transactions • AVR Items sold per transaction	• Sales by Invoice report
Increase in Cross-sell and Up-sell	• Attachment ratio *(Accessory sales compared to device sales)* • Qty of accessories sold • Value of accessories sold	• Sales by Category report
Decrease in product lost	• Product shrinkage rate *=(Number of items loss ÷ total inventory)*	• Product shrinkage rate *=(Number of items loss ÷ total inventory)*
Decrease in Cost	• Operating expenses • Number of work hours • Number of staff per customer	• Average wages • Working hours comparing to sales volume
Gross Margin	• Gross margin *(Sales - Cost of Good Sold)*	• *Compare percentage of cost of goods sold of XQ store vs. total locations*

Return on Investment & Payback Period

Return On Investment

Investopedia, among others, defines ROI as a "performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio." [9]

$$ROI = \frac{(Gain\ from\ Investment\ -\ Cost\ of\ Investment)}{Cost\ of\ Investment}$$

"Keep in mind that the calculation for return on investment and, therefore the definition, can be modified to suit the situation – it all depends on what you include as returns and cost. The definition of the term in the broadest sense just attempts to measure the profitability of an investment and, as such, there is no one "right" calculation."

XQ Return On Investment

Cost of Investment:

XQ investment mainly consists of hardware cost, monthly license fee and implementation fee. Generally, commercial grade hardware can be amortized for a 3-year period. Therefore, you need to convert the 3-year investment to match the period for which you'd like to calculate the ROI (ie. yearly cost).

Gain from Investment:

To simplify the calculation, it is recommended that you use an incremental gross profit as a "Gain from Investment." Gross Profit is the difference between sales and the cost of making a product before deducting wages or rent. The gain from investment can be calculated by comparing the sales performance of a store with XQ and with the another store that has similar characteristics (i.e. size, average sales, location type).

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[9] Source: http://www.investopedia.com/terms/r/returnoninvestment.asp

Example on how to calculate Gain from Investment:

<u>Assumptions</u>

- Average sales per month = $200,000
- Cost of goods sold = 70%
- Store with XQ can increase sales by 10%

	Store Without XQ	Store With XQ	Incremental Change/Month	Incremental Change/Year
Sales	$ 200,000	$ 220,000	$ 20,000	$240,000
Less Cost of Goods Sold	$ 140,000	$ 154,000		
Contrubution Margin (Gross Profit)	**$ 60,000**	**$ 66,000**	**$ 6,000**	**$ 72,000**

Therefore, XQ can increase gross profit by $6,000/month, or 72,000/year.

Remark:

If XQ is implemented in an existing store, you could also evaluate the "Before XQ" and "After XQ" effect by comparing the performance of this store with the same period year over year. For example, if you launched XQ Interactive Retail in January 2012, and you would like to evaluate how XQ performed in the first quarter, you would compare the gross profit (or sales) of the previous year with the gross profit of the current yea, (January 1 - March 31, 2011 vs. January 1 – March 31, 2012).

Example of ROI Calculation:

<u>Assumptions:</u>

- Gain from investment of an XQ store is $72,000/ year (with 10% increase in sales of a medium-size store)
- XQ hardware cost is $30,000 with 3-year amortization, therefore, cost of investment per year is 30,000 ÷ 3 = $10,000 per year
- XQ license fee is $320/month, therefore, cost of investment per year is $3,840
- Therefore, total cost of investment per year = $10,000+$3840 =$13,840

(See example calculation on following page...)

$$ROI = \frac{(Gain\ from\ Investment\ -\ Cost\ of\ Investment)}{Cost\ of\ Investment}$$

ROI = ($72,000 - 13,840) ÷ $13,840

= 423%

Payback period

The payback period is the length of time that it takes for a project to recoup its initial cost out of the cash receipts it generates. This period is sometimes referred to as "the time that it takes for an investment to pay for itself." When the net annual cash inflow is the same every period, the following formula can be used to calculate the payback period:

$$Payback\ Period = \frac{Initial\ Investment}{Periodic\ Cash\ Flow}$$

Assumptions:

- Incremental monthly gross profit equals cash flow
- Incremental monthly
- Gross profit (periodic cash flow) of an XQ store is $6,000 per month
- Initial hardware cost is $30,000

Example of how to calculate the XQ Payback Period:

$$Payback\ Period = \frac{Initial\ Investment}{Periodic\ Cash\ Flow}$$

Payback period= $30,000 ÷ $6,000

= 5 months

Remark:

The payback period formula is used for quick calculations and is generally not considered an end-all for evaluating whether to make a particular investment. This is because it has not considered the concept of time value for money, the premise that a dollar today is worth more than a dollar in the future.[10] It also ignores cash flows beyond the payback period and therefore does not take into account the complete return that a project can generate, and thus, it may reject a project which in the long term may be beneficial for a company.

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[10] http://www.accounting4management.com/capital_budgeting_decisions.htm

Appendices

Exhibit 1: Customer Experience Survey

Customer Experience Survey

Please take a few moments to complete our store satisfaction survey. The result will provide insights on how to better our products and services to meet your needs. Your responses will be kept confidential.

This survey will take approximately 2 minutes to complete.

Section 1: Current Habits

1. Have you visited this store before?
   - Yes
   - No
2. Have you ever purchased any items from this store before?
   - Yes
   - No
3. What prompted you to visit our store today? (You may choose more than one option.)
   - To make a purchase
   - Just to browse
   - To accompanying my friend/family
   - For a promotion
   - To see the touch screen technology
   - Because of the store's new look
   - Heard about the store from a friend
   - Other (please specify) _____

Section 2: In-Store Experience

4. Overall, how satisfied are you with today's experience?
   - ◉ Highly Satisfied
   - ◉ Satisfied
   - ◉ Not Satisfied
   - ◉ Not Very Satisfied

   If you selected not satisfied or not very satisfied, please provide reason: _____

5. Does the new touch screen technology make your shopping experience more enjoyable?
   - ◉ Yes
   - ◉ No

   If you said no, please tell us why and go to question 8

   _____

6. How do the new touch screens enhance your shopping experience? (Y0u may choose more than one option.)
   - ◉ It is engaging.
   - ◉ It is exciting.
   - ◉ It simplifies and speeds up the shopping process.
   - ◉ It is convenient to research products on.
   - ◉ It provides entertainment while waiting for the next available salesperson.
   - ◉ It caters to my personal needs.
   - ◉ It enables me to make informed decisions.
   - ◉ Other: _____

7. How important is it for you to be able to do in-depth research before making a purchase?
   - ◉ Extremely important
   - ◉ Important
   - ◉ Somewhat Important
   - ◉ Not at all Important

8. To what extent do you agree with following statements?

	Statements	Strongly Agree	Agree	Disagree	Strongly Disagree	N/A Don't know
8.1	The touch screens drew me into this store.					
8.2	The new touch screens make this store stand out from other stores .					
8.3	Waiting in line does not seem long because of the touch screens.					
8.4	The new touch screens enable me to find the information I need to make a purchase decision.					
8.5	The new touch screens assist me in making a purchase decision faster.					
8.6	The new touch screens make my life easier.					
8.8	The suggestive items, such as cases and screen protector, encourage me to buy more.					

Section 3: Store loyalty

10. On a scale of 1 to 10, how likely are you to return to this store?   _____

11. On a scale of 1 to 10, how likely are you to recommend our store to others ?   _____

Section 4: Customer Profile

12. What is your gender?

- Female
- Male

13. What is your current age?

- Under 18
- 18 to 25
- 25 to 35
- 36 to 45
- 46 to 55
- Over 56

14. What is your current annual household income?

- Under $10,000
- $10,000 to $19,999
- $20,000 to $29,999
- $30,000 to $49,999
- $50,000 to $89,999
- $90,000 to $129,999
- More than 130,000