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Mobile selling solutions: Four steps to measuring ROI

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One of the frequent questions we hear from retailers who are developing an omnichannel commerce strategy is "What's the ROI on in-store mobile selling solutions?"

Whether you are launching a pilot project in 2013 or budgeting for 2014, understanding the return on your investment in your retail store solutions is a critical measurement of success.

Simple return on investment (ROI) is often calculated with a basic formula:

(Gain from Investment Cost of Investment)

(Cost of Investment)

So, then the question becomes, "How do you determine the gain from an investment before making the investment?" It is challenging to measure gain if there are no measurements in place for where your business is today.

Here are the recommended steps to calculating simple ROI:

Step 1: Benchmark current business metrics

By measuring your business against the current metrics commonly used in retail today, a benchmark can be determined. Widely-adopted metrics include:

Average number of transactions per day per store

Average order value of each transaction

The time/labor cost spent training new sales associates

Revenue generated per store per square foot of retail space

Step 2: Estimate savings

After a benchmark of current business metrics has been established, estimating the cost savings of implementing next generation retail store systems and solutions can be gained by looking at the following areas:

Legacy hardware and software costs versus next-generation hardware and software costs

Maintenance and support fees on legacy systems versus next-generation IT infrastructure maintenance and support fees

Real estate and space used by cash wraps versus merchandising space versus additional square footage available for selling space costs

Training time of sales associates on legacy systems versus easy-to-use devices and user interfaces (costs associated to labor)

Multi-use hardware i.e. using an iPad for store manager functions when not in use as a POS terminal

Step 3: Estimate costs

The next generation of retail store solutions requires an investment in new hardware form factors and software. Examples of costs include:

IT infrastructure investments for secure, in-store wireless networks

Mobile device management services

Training sales associates for the evolving customer engagement model of suggestive selling and leveraging new tools

Step 4: Applying the ROI formula

Let us apply this ROI formula to a fictitious retailer: StarMountain Sports

StarMountain Sports is a Tier 2 sporting goods and apparel retailer, with $350 million in annual revenue and more than 100 stores in the United States and Canada. StarMountain Sports has recently struggled to compete with other sporting goods retailers as well as pure-play online retailers.

The company conducted an analysis and benchmarking of its current business processes and determined the following metrics:

Its average number of transactions per day per store is 325

The average order value of each transaction is $75

It takes 6-8 hours to train a new sales associate on the current POS solution, with an average wage of $9 per hour

The average revenue generated per store per square foot of retail space is $350

It believes that seven to 10 sales are lost per store each day due to items not in stock and currently it does not have a way to assist customers in ordering items from the ecommerce channel

The board of directors has encouraged the StarMountain Sports executive team to develop a competitive strategy to enhance the brand, customer loyalty and overall revenues.

In addition, the board determined that some of their business challenges were due to legacy technologies that do not allow for a 360-degree view of the customer as well as the ability to "save the sale" by locating products for customers at the point of purchase.

The executive team assembled a group of stakeholders from store operations, ecommerce and IT to estimate a potential ROI on a new competitive strategy.

The team agreed that an omnichannel strategy using mobile selling tools integrated to current IT systems would allow them to have visibility into their customers, their inventory availability, and also allow for transactions from multiple channels to occur from anywhere in the store.

The investment for this type of solution is estimated to be $3.5 million over five years. Factors that were considered to generate this cost were the cost of new software, wireless infrastructure, mobile device management services, and new hardware.

However, taking the benchmark metrics and identifying ways in which the mobile selling solution would drive change, they determined that there would be a gain in revenues from its investment of $6.5 million over five years.

Factors that were considered to generate the gain from the investment were the increase in number of transactions occurring per day (line-busting capabilities with mobile), increase average order value (suggestive selling), reduction in training costs (easier user interface), and the ability to integrate to ecommerce for cross-channel selling (saving 2-3 sales per store per day).

Plugging these numbers into the ROI formula, we find that over the next five years:

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Simple ROI

Savings over five years ($6.5 million) Cost of investment over five years ($3.5 million)

Cost of investment over five years ($3.5 million)

= 53 percent over five years or 10 percent per year

CALCULATING ROI can be challenging, since benchmarking metrics vary from retailer to retailer and future gains are speculative, based on the business goals and internal stakeholders' judgments.

While investing in a mobile selling solution can drive a positive ROI, overall gains in revenue, brand or customer loyalty can only be achieved through a carefully planned and executed implementation and delivery of that solution, managed by the retailer and its stakeholders.

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