Improve Your Average Transaction Size

Learn How to Use Financial Metrics From the *Cost of Doing Business Study* to Improve Your Business

Understanding the Metric

WHAT IS AVERAGE TRANSACTION SIZE?

Average transaction size, also known as average ticket size or sales per customer, is a metric that is extremely important to all retail businesses because it directly affects sales revenue. Average transaction size is calculated by dividing total sales for a given period by the total number of transactions for that same period. In other words, the metric is the average amount your customer spends on merchandise on a shopping trip.

Since average transaction size can be calculated for a period of time, the metric can be used to compare hourly, daily, weekly or monthly time frames.

WHY IS AVERAGE TRANSACTION SIZE IMPORTANT?

Generally, you can only grow top-line sales in three primary ways:
1. Increase prices
2. Increase the number of customers that frequent your store
3. Increase average transaction size.

It is important for you to focus on all three strategies, but recruiting new customers takes time and money. Price increases are difficult to do continuously when trying to remain competitive.

However, improving average transaction size can be achieved relatively quickly. This strategy for driving top-line sales can be highly effective because you are working with customers you already have in your store.

Understanding average transaction size and its effect on driving your store's sales can help your business grow profitability and help you make smarter business decisions. For example, the numbers can help as you evaluate marketing campaigns or promotional events. If you run two different promotions and want to measure their effectiveness on driving item sales as well as the greater impact promoting those items has on your business, you can calculate the average transaction size for the time frame of each promotion and compare their success.

Tracking average transaction size is also helpful when you are developing and running a customer loyalty program.

A loyalty program's software can typically calculate average transaction size for each shopper, so you can send different coupons or promotions to loyalty members based on their average spending.

HOW DOES YOUR STORE MEASURE UP?

Before you begin to implement new strategies to grow your average transaction size, you should compare your store to others in the industry. Benchmarking your store against others can de done with the North American Hardware and Paint Association (NHPA) *Cost of Doing Business Study*. This study has been conducted annually for more than 100 years and provides detailed financial information from hardware stores, home centers and lumber/building material outlets and also compares typical and high-profit stores.

Use the numbers below to see if your store is above or below high-profit retailers' average transaction size in your sector. If you fall below high-profit retailers, read on to discover ways you can increase your transaction size and learn from methods other retailers have used to improve their own metrics.

AVERAGE TRANSACTION SIZE PER STORE		
	Typical	High-Profit
Hardware Store	$	

HOW CAN YOU IMPACT AVERAGE TRANSACTION SIZE?

If your average transaction size falls below the industry's high-profit stores, then it is time to create a strategy and implement some best practices that can move your customers to buy more products. The following best practices are ideal ways to grow transaction size. They feature some methods that require employee involvement and others that are more dependent on creative marketing and merchandising. It is important to note that the full effect of implementing these strategies will not be felt if other areas of the retail operation are lacking.

Below are a few suggestions you might try to help increase your average transaction size. This is not a comprehensive list and additional tactics can effectively increase transaction size, but these ideas could serve as a starting point for your operation.

- **Add-On Sales:** Choose a small, high-margin product to promote, making it the add-on of the day or week. Create a competition among associates and have them keep track of how many products they add on at the cash register.

- **Bundling:** Bundle together items for projects, events or holidays. This tactic gives you control of the margin, makes customers feel like they are getting a bargain and also requires no employee involvement in the sale.

- **Project-Based Merchandising:** Create simple checklists of the items needed to complete a project and post them throughout the store near those products. Checklists can also accompany project-based endcaps to help customers access all of the items they need for their projects in one location.

- **Cross Merchandising:** Use clip strips to hang lighters near grills or batteries next to flashlights so customers are reminded of the additional products they may need.

MORE THAN
80 PERCENT

of consumers surveyed by TimeTrade Systems, Inc. say they are receptive to making unplanned purchases when shopping and will often buy more than they originally intended when shopping.

- **Supersizing Products:** Stock household products in bulk, such as water bottles, lightbulbs or dog food, since consumers feel as though they are getting a bargain when they buy large quantities. Since the products are commodity or consumable items, consumers will always need them and be more willing to stock up.

- **Unique Items:** Source items that are local to your area and intrigue customers. Place smaller items near the cash registers that grab customers' attention through their novelty or low price. Many retailers place fun soda pop, candy or toys near the register. Consider stocking items that may be outside of the typical hardware store offerings.

- **Creating a Win-Win:** Select an item from your store and pledge a percentage of sales to a local charity. This tactic works with promoted or non-price sensitive items and lets you control the percentage pledged. Not only will you help the shoppers feel good about their purchases, but you will also reinforce your store's image as a local business.

- **Targeted Promotions:** Use your loyalty program data to create targeted, specific promotions on products that complement members' previous purchases. You could also send promotions to customers based on how much money they spend and create a game out of getting them to spend more to earn greater discounts.

- **Flash Promotions:** Use time- or product-specific promotions on low-dollar, high-margin items. These flash sales will make consumers feel like they are getting a limited-time bargain and will create a sense of urgency to buy as well as a fun atmosphere within the store.

- **Free Samples and Demos:** Choose items that are unique and new to your inventory and demonstrate them to customers during high-traffic times. If the products are consumable, give out free samples. This strategy will give customers hands-on experiences with the products and also create a lively environment in your store.

- **Single-Queue Checkout:** Converting to a single queue is a major project, but it provides great results. The long checkout line layout can expose customers to the maximum amount of lower-priced, high-margin items.

- **Training:** All of these strategies are solid ways to improve average transaction size, but the method with the most impact is employee training. Since educating your employees is a long-term process, you should start small if you don't already offer frequent training. Initiate 30-minute weekly training sessions. The learning opportunities will help your workers become better employees overall, as well as understand, implement and improve strategies to increase average transaction size.

This article is reprinted from 2016

Keough's Paint & Hardware

Stamford and Ridgefield, Connecticut

Ray Barrett, general manager of Keough's Paint & Hardware, knew he had to find a way to increase existing customer spending to grow the business.

The business' two stores are located in small Connecticut communities, don't draw much out-of-town traffic and have a limited customer base.

Making some price changes and staying well stocked helped boost transaction sizes, but pushing the customer rewards program Keough's offers through its co-op made a big difference.

Keough's has provided the rewards program to shoppers for 10 years, but didn't promote it much until about three years ago.

> **"This is an opportunity to grow our business with a tool we already have that we're just not utilizing."**
> —*Ray Barrett, Keough's Paint & Hardware*

The co-op helped Barrett understand the sales opportunity the rewards program could be.

The rewards program helps increase transaction size by encouraging customers to spend more money. The more they spend, the more discounts they get, which motivates them to make bigger and more frequent purchases.

Barrett began offering incentives to his team of employees to promote the program. At first, workers would earn $1 for every new customer who signed up. Now, the employee who signs up the most shoppers in a week earns a free lunch.

"Every customer is asked, 'Are you part of our rewards program?'" Barrett says.

When he and his team took the co-op's advice to promote the rewards program, they were quickly impressed.

"This is an opportunity to grow our business with a tool we already have that we're just not utilizing," he says.

Average ticket size has increased about 20 percent over the past three years, and 65 percent of transactions are now rewards transactions, Barrett says.

"It works," he says.

This article is reprinted from 2016

Sunshine Ace Hardware

Seven locations in Florida

The idea wasn't expensive or complex, but paid almost immediate dividends.

Michael Wynn, president of Sunshine Ace Hardware in Florida, ordered dozens of red shopping baskets and started a new initiative to get a basket into the hands of every shopper who walked into one of his stores.

The plan? "Change how customers, ultimately, shop our store," Wynn says.

The goal was to use that change to increase average ticket size at every store.

For more than 50 years, many customers had walked into Sunshine Ace stores and bought only what they could carry in their hands, Wynn says. If the shoppers already had long shopping lists, they would grab a shopping basket or cart. If they didn't plan on buying much, then they bought what they could hold and reduced their ability to make impulse purchases or add-on buys.

Starting in 2012, Sunshine Ace staffers placed more baskets at the front of the stores than in the past, as well as in convenient locations throughout the stores. Greeters stood at store entrances not only to welcome customers, but also to offer them shopping baskets. The baskets were no longer simply available to grab if a customer wanted one. An employee would hand baskets to the customers, and in most cases, the shoppers took them, no questions asked.

"Like many ideas in retail, we simply took a good idea and we've been absolutely laser focused," Wynn says.

Cashiers would scan barcodes at the checkout counters to track red basket purchases.

Average transaction size shot up at every store, with increases ranging from 10 percent to 30 percent, depending on the location. Affluent customers took the baskets without a thought, and immediately began spending more money.

"In the end, there are a lot of customers that want to spend more with us, but we're not always making it easy for them to do so," Wynn says.

Shoppers in more working-class neighborhoods resisted taking the baskets because they understood the goal was to get them to spend more, Wynn says.

In those areas, the stores began offering incentives for customers to take the baskets. For example, barcodes on some baskets would be associated with prizes, and no one knew which baskets would be winners. A winning basket provided instant discounts on a customer's purchase.

Three years later, many Sunshine Ace customers have been trained to walk in and pick up baskets without greeters offering them.

Every week, managers report average transaction sizes associated with the baskets as compared to nonbasket users' spending. They compare statistics month to month, and keep data dating back to the start of the initiative.

At many businesses in a variety of retail sectors, customers pull out their shopper rewards cards before being prompted. Sunshine Ace customers have a similar habit with the red baskets now.

"It's part of their shopping routine now, and they're just accustomed to it after having been prompted over the last several years," Wynn says.

This article is reprinted from 2016

Wilco

Sixteen stores throughout Oregon and Washington

Wilco in Oregon and Washington doesn't push add-on sales in their 16 store locations. Instead, the company focuses on suggestive selling to enhance customers' purchases or projects and ultimately increase transaction size.

The company takes three different factors into consideration when organizing a suggestive selling promotion, according to TJ Colson, district manager for Wilco.
- Is the product seasonal?
- Has the promotion worked in the past?
- Can we create a competition to get employees on board?

Wilco's most successful suggestive-selling promotion has been on plant food, and the business has taken all three factors into consideration when planning for stores to reuse the proven strategy.

Selling hanging flower baskets is a big business for Wilco during the spring, and the company makes the most of the baskets' popularity by taking the opportunity to do suggestive selling with plant food at each register.

Employees are encouraged to educate customers who buy hanging baskets about the importance of feeding the plants, while also offering plant food for them to purchase.

The offer not only drives additional sales for Wilco but more importantly provides customers healthier and longer lasting plants.

The trick to making the program successful is that cashiers aren't required to participate, Colson says.

"We don't make it mandatory and choose not to be forceful when encouraging the employees to participate," Colson says. "We've found that we gain more of a natural buy-in from the employees when a nonessential competition is involved."

Management organizes a friendly contest that involves sharing weekly percentage-based reports with each store's staff and motivating employees to work harder at selling the plant food. The employees compete to beat out the other store locations for the grand prize, which in this case was a pizza party.

Wilco's tactics prove to be successful. In 2012, the company saw an increase of 55 percent in plant food sales associated with their suggestive selling campaign.

The store also uses merchandising tactics and strategic placement of products to increase transaction size, according to Colson. However, the plant food promotion is most successful because it's educational and improves the purchase and experience of the customer, he says.

"Ninety-nine percent of the time an independent retailer will say that sales come second to customer service," Colson says. "We see suggestive selling as more of a service to customers than a way to increase sales. No customer wants a dead hanging basket in a week and we're helping to prevent that."

Wilco extends this philosophy to its staff through training and encouraging employees to consider project-based sales not only to increase transaction sizes, but to also improve customer satisfaction.

"If employees start thinking about what else a customer might need based on the items they're purchasing, we're providing a service that's beneficial to the customer and to the company," Colson says.

This article is reprinted from 2016

Buchheit

Eight stores across Illinois and Missouri

Matt Seabaugh, store manager for Buchheit, started installing sidewinders two years ago with the goal of cleaning up stores. He met his goal, but also increased sales and average transaction size along the way.

Seabaugh piloted the sidewinder project in two stores, installing 140 sidewinders, or 5-square-foot add-on fixtures that hang on the side of endcaps in each store. The sidewinders serve as tools to merchandise impulse products and complement aisle merchandise. They also earn a gross profit that's at least 10 points higher than the store average.

During the pilot stages, Seabaugh stocked the sidewinders with 20 items, many of which were already high-selling products for the stores.

"I tried to pick items that were already considered A-items and exploit them by putting them in other areas of the store using the sidewinders," Seabaugh says.

Total gross profit increased 180 percent in only two months and many items showed a significant gross profit increase as a result of the sidewinder merchandising that encourages customer to pick up add-on sales items.

The top-selling items from the test stages included hand cream, with a 90 percent increase in sales; wasp and hornet spray, with a 65 percent sales increase; and a penetrating solvent, with a sales increase of 103 percent.

The pilot program exceeded company expectations, and Buchheit stores now use sidewinders in all eight store locations.

The sidewinders work well for merchandising in all of the stores, and sales of the add-on items are holding steady and slightly increasing compared to the project's first-year results, according to Seabaugh.

Seabaugh says that the sidewinders are successful because the staff at Buchheit makes the fixtures a priority.

"We assigned a person in each store to be in charge of the sidewinders, to make sure that the fixtures are full and that inventory and pricing are correct," says Seabaugh. "It's top of mind for us."

It was essential for Buchheit that the program was tested in two stores to determine whether or not the fixtures would provide a significant return on investment. Test stages also helped determine which products worked on the sidewinders and which did not. Seabaugh recommends that any retailer who is interested in adding sidewinders, no matter their size, test part of the program before implementing it throughout their store(s).

"By testing new items in the two pilot stores first, we were able to limit risk before extending the program to all stores," says Seabaugh.

The pilot program exceeded company expectations, and Buchheit stores now use sidewinders in all eight store locations.

Additional Information

OTHER RESOURCES

www.entrepreneur.com/article/191978

www.hardwareretailing.com/increase-transaction-size-with-home-security-products/

www.YourNHPA.org/membership

EXAMPLES FROM OTHER RETAIL STORES:

- **Trader Joe's:** The quirky grocery store chain Trader Joe's is popular for its cheerful employees, unique products from around the world and $2 wine. However, one of the best-loved selling methods Trader Joe's uses includes offering free samples of food and coffee. The samples inspire customers to try new products, but also contribute to the store's fun and energetic atmosphere.

- **Shoe Carnival:** Shoppers walking into a Shoe Carnival store on a weekend will more than likely find other customers spinning a multicolored prize wheel. They will also hear an emcee talking about the latest flash promotion on an aisle of shoes, which might be a special deal that is only available for 30 minutes.

- **Bath & Body Works:** Bath & Body Works is known for its "Try Me" lotions and samples throughout the store. However, the business particularly excels at add-on sales. Often, small items, such as hand sanitizers, nail files or 3-ounce samples of a new fragrance, are sold right at the cash register. Employees are trained to ask if shoppers would like to try the new scent that will be available in larger sizes the following month. When the average transaction size is low at a store, managers create a competition among the employees, and the sales associate who sells the most add-ons in a certain amount of time wins a product from the store.

- **T.J. Maxx & Michaels:** Single-queue checkout lines are making their way into many retail stores across the country. Michaels and T.J. Maxx are two prominent examples. A Michaels store queue is long and flanked with displays of small craft project kits or last-minute items customers may need for a project, such as glue or needles. T.J. Maxx's queue is long, as well, and merchandised with products at low prices. The products are typically small and easy impulse sells, such as picture frames, coffee mugs, gift bags, candles and other similar items.
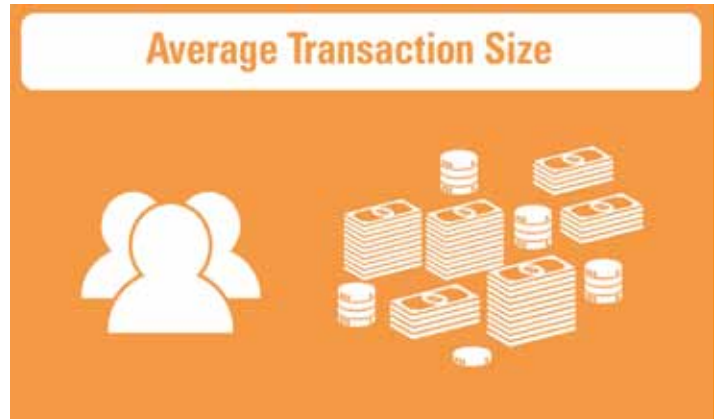
NHPA is offering a video to share with your employees to help them understand the importance of average transaction size and how they can improve the metric. Use this link to access the video: **www.hardwareretailing.com/codb-transaction**.

Photo Courtesy of Michaels