

COLUMNS

Luxury retail KPIs and incentive schemes need a makeover

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In luxury retail these days – or any retail, for that matter – it all seems to be about the Internet and millennials, does it not?

Retailers would tell you that digital technologies have disrupted the business, then go on to add that millennials are proving a tough demographic to crack. And all of this is absolutely correct, but the picture is far more nuanced.

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Let us first consider the impact of the Internet.

In the case of retailers, it turned their world upside down after shopping became as simple as opening a Web site and clicking a few online store buttons. This ease spawned all sorts of challenges, first and foremost the obsolescence of the product and transactional model upon which retail was built. It is easier, faster and sometimes cheaper for consumers to conduct a transaction online.

Now let us spend a minute on millennials. I recently came across [an article](#) where the author very aptly noted that “retail moves at the speed of culture.” And culture nowadays is dominated by those born between 1980 and 2000.

Being the first generation to grow up amid a boom in Web and mobile technologies, millennials are a key demographic in terms of spending.

According to [a study by Accenture](#), millennials contribute \$600 billion to the annual U.S. shopping tally. But that same study established some other critically important points as it challenged certain myths associated with millennials.

Yes, they are extremely well informed, tech-savvy shoppers, but it is not all about online with them – millennials have not lost the love for bricks-and-mortar stores. Moreover, they are not the loyalty-challenged bunch many make them out to be.

In fact, Accenture found that when made to feel welcome in stores and treated right, millennials can be extremely loyal customers. And for luxury brands, loyalty is the make-or-break factor, more so than in other retail segments.

But a memorable and distinctive experience is not something that only young people seek. It is what baby boomers and Generation X-ers want as well, so we can safely assume that shoppers of all ages want to feel special when they cross the threshold of a luxury goods store. The thing is that the physical location is no longer the final destination, but a touch point: customers may come in to browse and then opt to conclude the transaction elsewhere.

All of the above brings us to the issue at hand: in the current luxury retail environment, it makes no sense to have retail key performance indicators (KPIs) and incentive schemes that force a sales team to focus on the immediate transaction. They promote pushy behavior, which is particularly problematic with millennials – a generation that online shopping has made averse to being pressured into buying.

How should luxury retailers respond?

Traditional retail KPIs need to be revisited and adapted to support a model based on experience and relationship. These are the forces that trigger a transaction, not the other around, and luxury brands have to embrace this fact.

What we continue to see are retailers that obsess about the conversion rate without realizing one crucial thing: it is not just an issue of how many customers buy in the store on a given day, but also how many of the non-buyers the brand can still talk to after the store visit.

Maintaining the dialogue requires obtaining the customer's contact information. A pivotal question that needs answering is what percentage of those non-buying visitors leave their contact details and would like to hear from the brand.

If they are to address adequately the needs of modern luxury retail, new KPIs and incentive schemes have to focus on what leads to a transaction, not on the transaction itself or at least not entirely.

To ensure maximum relevance and effect, the design of these updated versions should involve client-facing teams since store manager and sales assistants are the people whose fingers are truly on the customer pulse.

What does it take?

This is admittedly a big step to take as it requires letting go of the comfort of familiar practices and long-ingrained perceptions of floor personnel.

Managers often assume that sales staff push product because they have an immediate incentive to do it, but this is not the case. There is a huge payoff in trusting and empowering sales teams to meet customer expectations, which essentially boil down to building a relationship and fostering memorable experiences.

CULTURE DOES play a crucial role.

With luxury retail brands, the goal should be to build a culture where the sales team feels it is its primary task to delight clients.

With empowered, dedicated employees and customers who feel pampered and valued, formidable results will not be long in coming.

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