

# 8<sup>th</sup> Annual POS Benchmarking Survey

*Exceeding Your Customers' Expectations*

2007



## 8<sup>th</sup> Annual POS Benchmarking Survey: *Exceeding Your Customers' Expectations*

LakeWest Group, LLC  
<http://www.lakewest.com>

### Executive Summary

Today's competitive environment offers many purchasing options for customers and many challenges for retailers. Customers expect to shop wherever, whenever, and however they choose and they demand that retailers meet these expectations. Retailers constantly strive to attract new customers and retain loyal customers, at the same time competing against a myriad of other retailers who are also trying to gain and maintain many of these same customers. So how does a retailer meet the customers' expectations and gain a competitive advantage?

The key to success for retailers is to look at the shopping experience from the customer's point of view. The customer has a number of preferences, expectations, wants, and needs that drive the purchasing decision. These can include:

- **Product** – This includes the specific item the customer needs, the overall assortment, and the in-stock position.
- **Services** – The overall customer service that is offered, which could also mean self-service offerings, plus any additional services such as loyalty programs, special order capabilities, personal shoppers, home delivery, and more.
- **Location** – Not only the location of the physical store but other points of accessibility such as a website or kiosk.
- **Pricing** – This refers to the regular price of the item plus promotions, coupons, or other deal pricing.

These drivers guide the customer's purchasing decision and when the customer finds the retailer whose customer value proposition matches the customer's expectations, the first step is taken towards establishing a valuable customer relationship. So it is up to the retailer to discover what the customer's expectations are and then meet and exceed those expectations.

By understanding the customers; identifying the customers' current needs, including their preferred channel or touch points; and forecasting their future demand; the retailer can build a successful organization around this customer value proposition. Retailers can then align the organization's people, processes, and technology to fulfill their customer strategy and gain loyal customers.

For the eighth consecutive year, LakeWest Group conducted its POS Benchmarking Survey of the top retailers in the United States. This year the survey is based on the Hot 100 retailers as identified by STORES magazine in August 2006. Although this year's survey includes the Hot 100 Retailers and our past surveys involved the Top 100 Specialty Retailers, half of the retailers have appeared on both lists. This paper summarizes the results of the survey and offers insight into the hottest retailers' understanding of their valued customers, how they are orienting their business towards enhancing that customer shopping experience, and successfully meeting and exceeding their customer's demands.

LakeWest Group surveyed the Hot 100 Retailers as identified in the August 2006 issue of STORES magazine. The Hot 100 Retailers are U.S. based publicly-held companies with the highest year-to-year sales percentage gains. LakeWest Group received 32 responses between October 1 and December 7, 2006. Respondents were typically Chief Information Officers or Directors of Store Systems.

Established in 1990, LakeWest Group is the premier management consulting firm dedicated to the retail and consumer products industries. With deep retail business knowledge and cross-functional capabilities, the firm delivers superior design and implementation of strategy, technology, and process solutions to help its clients achieve their full business potential. Headquartered in Cleveland with offices in New York City and Boston, LakeWest Group serves all retail segments and channels.

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## The Customer is The Driver

Today's marketplace is often described as customer-driven but, in actuality, the retail marketplace has always been driven by the customer. The difference is that in today's dynamic world the customer has more information and options available than ever before. Not long ago, the customer was limited to products offered at the local general store or through one of the few nationally distributed catalogs. Customers' shopping options have changed drastically over the last century and today customers have access to many more products.

Through the advent of technology such as the Internet, a new phase in the customer-driven marketplace has been initiated. Customers have more control over their shopping experience through the decisions they can make on where, when, and how they purchase.

Customers now spend time researching product information and prices before they make a purchase, especially on high-ticket or electronic items. They expect detailed product information to make informed purchasing decisions and may also require professional or customer reviews to research products and prices. The customer now relies on many different touch points and channels to interact with the retailer and make a purchase.

Multi-channel retailing continues to be a critical driver for many retailers to thrive. A majority of U.S. households shop online – they have been trained to shop whenever they want, however they want, and wherever they want. But, while the onset of the Internet was forecasted to supplant brick-and-mortar stores, it has actually served as a means of refocusing on the store. The store is where customers go to touch items they may have seen in a catalog or where they pick up orders they placed online. Or, it can be where the customer first sees and touches the product and then goes home and orders it online. So, the store experience continues to be a critical factor.

*The customer now relies on many different touch points and channels to interact with the retailer and make a purchase.*

In some ways, customers may actually face too many choices today. Technology gives them product information like never before plus, with different channels to shop, all the choices can be confusing. One of the ways that retailers can respond to their customers' needs is by providing their customers the right kind of information to make choices.

By offering their customers the information, services, and shopping experience that they require, retailers can create loyal and valuable customers. Retailers are focusing on understanding who their customer is; what the customer's current and future

expectations, wants, and needs are; and where the customer prefers to interact. With this information the retailer can create their customer strategy, or customer value proposition, and tailor the organization to meet and exceed these customer expectations.

There are many different types of customers with varying demands – if you think about it as a value continuum, your loyal customers are at one end and the casual shopper, who may only come into your store once a year, is at the other end. Customers are influenced by many different factors such as price, service offerings, location, frequency, even life changes – such as a new baby or retirement – can influence why a shopper may choose to purchase from your brand. The goal for retailers is to convert the casual shopper into a loyal, satisfied customer. As LakeWest Group discusses in its White Paper “Building the Foundation for Successful Customer Conversion” (available at [www.lakewest.com](http://www.lakewest.com)), the key is to define the customer value proposition and then align your people, processes, and technology to continually meet and exceed customer expectations. Part of this is having a thorough understanding of your customer and the drivers that influence them to purchase from your store.

The Casual Shopper is a customer who shops your store at times but also willingly shops the competition. They do not feel a strong loyalty to your brand. Some of their potential drivers are:

- **Service** – A specific service that you offer, such as self-checkout, may be a driver for a casual shopper. They may only need to pick up one item and feel that they can get in and out of your store easily, or they may simply expect a fast checkout at your store.
- **Price** – This customer may just be a bargain shopper looking for the best price, so their only preference is finding the lowest price.
- **Location** – The location of your store may be convenient to this customer at certain times; this may be the primary reason they shop there.
- **Product** – The products or types of products that you offer may not be regular purchases for this customer. The assortment you offer may not be critical because they visit your store only when they are looking for a particular item.

The Loyal Customer is your desired customer. Your customer value proposition meets this customer's needs. This customer has chosen your store over the competition and is consistently loyal to your brand. The potential drivers for this customer are:

- **Service** – The service levels you offer meet this customer's needs. This does not necessarily mean you need to offer the highest levels of personal customer service; it could be that you offer many self-service options that this customer appreciates, or that you offer auxiliary services such as a loyalty program or special ordering capabilities.
- **Price** – The customer feels that you always offer a fair price for products so they do not want or need to spend time shopping around.
- **Location** – In some cases, your loyal customer may simply choose your brand because your location is the most convenient. Or you may offer many locations for the customer to choose from, including physical stores, a website, and even kiosks, which makes it convenient for the customer.

- **Product** – Your loyal customer shops for the products you offer, is happy with the depth and breadth of your assortment, and is comfortable with your in-stock position.

It is fairly obvious that your loyal customers are valuable to your business. There is generally less expense for a retailer once the relationship has been established, plus it has been proven that your top customers are more profitable to you as a retailer. Multiple studies have also indicated that loyal customers who shop multiple channels spend more. So the focus for a retailer is to develop and maintain the customer value proposition to continue to meet your customer's needs.

Retailers must now focus not only on meeting current customer expectations, but also on forecasting future expectations to keep up with customer demand. The customer experience continues to be a buzzword – give the customer what they want and they will keep coming back. In LakeWest Group's 7<sup>th</sup> Annual POS Benchmarking Survey we discussed customer intimacy – understanding who your customer is, what they purchase, which channel is preferred, and then tailoring the entire experience to the individual customer to create a customized experience and build upon your differentiating factor. This year we witnessed the Hot 100 Retailers creating strong customer strategies as they view their stores, business processes, technology, strategies, and organization from the customer viewpoint. The customer is truly the driver, as evidenced by TIME magazine's Person of the Year for 2006: You.

## The Retailer Responds

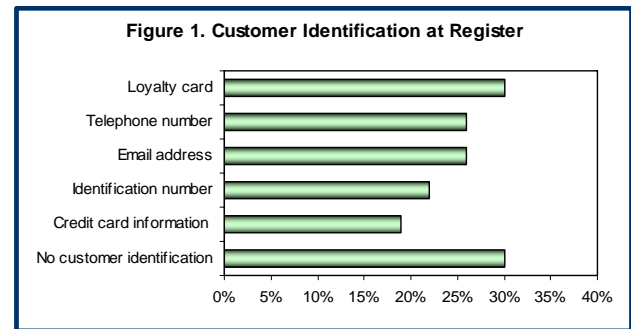
Because today's customers are more informed than previous generations, they have far greater expectations than ever before. To fulfill those expectations, retailers need to have an even better understanding of their customers. Successful retailers are not just reacting to customer needs; they are being proactive and determining their customers' future needs and expectations. To succeed, retailers are aligning their marketing, merchandising, pricing, and overall corporate strategies to their loyal and valuable customer and that customer's needs and expectations.

### Understanding Who The Customer Is

When we asked the Hot 100 Retailers about understanding who their customer is, we found two-thirds of the respondents regularly survey their customers to understand the customer and their shopping preferences. Retailers are continuing their shift from simple customer analysis at the corporate office, to gathering and utilizing customer and sales data at the store to enhance the customer's shopping experience. To get an accurate picture of their customers and preferences, leading retailers gather information through customer surveys, loyalty card data, industry research, and POS data. By cross referencing information gathered, such as customer demographics, product types, and even the different store formats, and then analyzing the data in different ways, the retailer can gain better insight into their customer's current and future needs.

A major step in understanding the customer and their preferences is being able to identify the customer at the register. (**Figure 1.**)

While retailers have made huge strides – more than two-thirds of this year's respondents are able to identify their customers at the register through a loyalty card, telephone number, or email address – nearly one-third of the respondents are still not able to identify the customer at the register. There continues to be opportunity for retailers to tailor the shopping experience to the customer.



As we see, retailers are beginning to realize the potential of gathering customer information but lagging retailers are still trying to catch up and many retailers continue to struggle with the analysis at corporate and the execution at the store level based on this information.

### Understanding What Motivates The Customer

As discussed earlier there are many drivers that can motivate customers to purchase. When a customer makes a purchasing decision they are influenced by the type of shopper they are, whether a casual shopper or loyal customer, plus one or more of the following criteria may actually drive the purchase: pricing, product, location, services, and personalization.

When we asked the Hot 100 Retailers what their customers find valuable to their shopping experience, customer service ranked as the top driver with more than three-quarters of the responses. (**Figure 2.**)



### Product

As we see in **Figure 2**, product assortment and in-stock position also rank as two of the top drivers affecting the customer's shopping experience. Assortment is defined as the breadth and depth of product that the retailer offers. Once again, the type of

customer and the customer's expectations drive the assortment expectation. For example, a customer may be a "low cost electronics shopper" and for this customer a limited assortment may meet their expectations. But for the "electronics aficionado" they may expect a broad assortment of electronics with knowledgeable sales associates plus kiosks with additional product information available.

The assortment available at a retailer; whether in the physical store, on the website, or in the catalog; is of critical importance to the customer. There can also be different expectations based on different locations. Retailers are realizing that while offering the same assortment across all stores is the easiest way to allocate merchandise, it does not necessarily offer a model that helps sell merchandise at full price. Many retailers are seeing the benefits gained from merchandising stores according to the local market even though this model can be very complex to manage. The local demographics and cultural tastes are helping to drive retailers towards more localized assortments. The buzzword for this initiative is micro-merchandising and we are seeing a number of top retailers adopting this model.

The assortment is important, but even more critical is the in-stock position of the retailer. A customer can not purchase the product if it is unavailable. Unfortunately, retailers, on average, are out-of-stock 10% of the time. Your in-stock position can be a critical driver for your customers and affect your customers' shopping experience.

## Services

The services that a retailer offers are also important; especially when you look at what is offered to the customer across different touch points and channels. Retailers use ancillary services to help entice new customers and to enrich the shopping experience of their loyal customers. These services not only offer valuable benefits to the customer but can also be a critical component for meeting the customer's demands and establishing that critical customer relationship.

Loyalty programs and special order availability are two additional services that customers have indicated are valuable to them, especially as you look at these services across channels.

Offering special orders is a win-win situation for the retailer and customer. The retailer can offer customers the ability to order products that are not normally carried, or out-of-stock, and ensure that the retailer gets the sale instead of the competition. The customer gets the benefit of purchasing the product right there and not having to look for it somewhere else. Special orders will continue to gain popularity as retailers realize the benefit of immediately fulfilling the customer's need and enhancing customer loyalty.

Value-added services such as special orders, personal shoppers, home delivery, loyalty programs, and suggestive selling will also continue to increase in popularity as retailers focus on exceeding their customers' expectations.

## Location

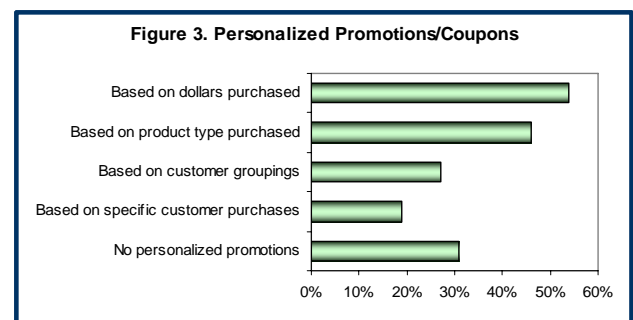
Not long ago, location generally referred to the physical location of the store, but now location covers many possibilities including

catalogs, websites, or even kiosks. The key question here is how accessible your channels are to the customer. Does your customer expect an in-store kiosk to gain more product knowledge before they purchase? Is your customer more comfortable researching product in the store and then later purchasing online?

There are more locations than ever before for customers to shop. This means that understanding what your customers expect from your brand, plus realizing that you need to compete with more than just the store down the street, is critical to meeting your customers' expectations.

## Pricing

Customers are looking for a "fair price" for the products they purchase. Depending on the type of customer and product the "fair price" may be the lowest price or it may be a deal price. Offering deals to customers in the form of promotions and coupons is much more prolific these days. Many retailers we have worked with in the past few years have indicated that promotion functionality is one of their top requirements in a new POS application. The Hot 100 Retailers are focusing on pricing to entice their customers to shop, with more than two-thirds of the respondents offering promotions/coupons to their customers, generally based on dollars purchased. (**Figure 3.**)



There is also a second piece to offering promotions/coupons. Personalized promotions are becoming a tool to get and maintain customer loyalty. As we see above, more than 20% of the Hot 100 Retailers offer targeted promotions based on specific customer purchases or customer groupings.

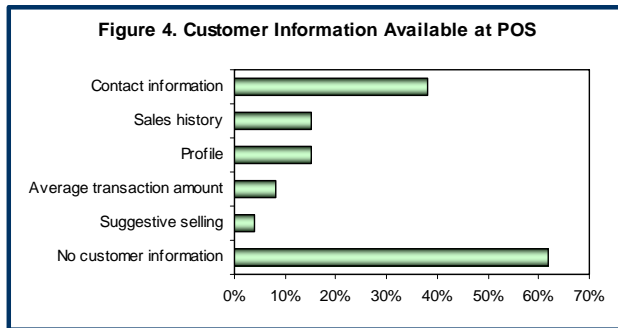
## Personalization

Loyal customers want to be recognized for their purchases and personalizing the shopping experience is one way to accomplish this. The key is to ensure that you are rewarding your most profitable customers as opposed to your casual shoppers.

Personalization is the foundation of loyalty. It is really not surprising that customers like to be recognized and that they will frequent retailers who recognize them and gear the shopping experience towards their preferences.

We asked the Hot 100 Retailers what customer information they are providing their associate at the register to help personalize the experience. Interestingly, only 40% make customer contact information available at the POS and only about 15% make sales history or any profiling data available to the associate at the POS.

(Figure 4.) This is obviously an area of great opportunity as retailers are reviewing their customer strategies.



There are various ways to reward your valued customers after you have identified them. Understanding what is important to your customers is critical. Your customers may be looking for coupons based on their purchases, specific services such as personal shopping, or maybe rewards in the form of invitations to special events based on their preferences.

Value-added programs such as loyalty programs have been proven to entice customers; customers look at the experience, not just the price. Loyalty programs can take on different forms – based on frequency of purchase, amount of purchase, combination of product purchases – but the purpose is still to personalize the customer's shopping experience and make them a loyal customer.

Loyalty programs offer a twofold benefit: they offer rewards to the customer, plus they can provide necessary information about the customer to the retailer. Retailers can then use the data to help drive marketing, pricing, assortments, visual merchandising, and even the physical layout and location of the store.

Unfortunately though, we still see many retailers not taking advantage of this data to offer personalized shopping experiences, but simply offering blanket promotions or discounts. Thus, the customer has become less likely to share their personal information because they are not seeing benefits tailored to their shopping habits. As this happens, retailers may see their margins erode due to missed opportunities to build customer loyalty.

We also see promotions and discounts targeted to win new customers, while loyal customers are not able to participate in these offers. While enticing new customers to shop with you is important, it is even more critical to continue to serve your loyal customers since they are proven to be more valuable.

As retailers try to understand who their valuable and profitable customers are, loyalty programs can offer the additional benefit of identifying and managing these customers. Retailers who understand their valuable customers and can anticipate what these customers will likely purchase can then be proactive and ensure that their assortment will cater to what the customer will likely purchase.

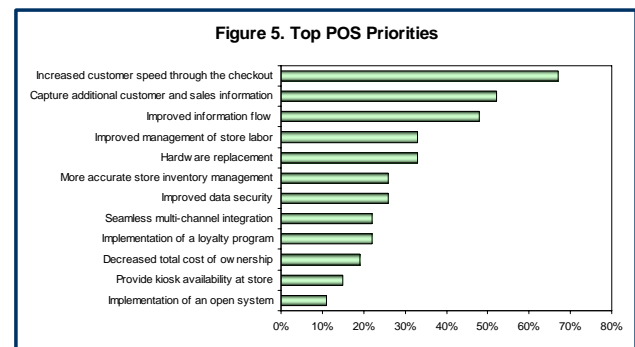
We expect to see this trend towards personalization continue. We believe that retailers are going to continue to focus more and more on how they can reward loyal customers.

As we have discussed, this year customers have indicated that customer service is the key to enhancing their shopping experience. This can be through offering the right product assortment, auxiliary services, fair pricing, pertinent locations, or shopping personalization. So how are the Hot 100 Retailers responding to these demands?

### Meeting The Customer's Demands

To meet customer demands, the Hot 100 Retailers surveyed indicated their top three priorities for the next two years are (Figure 5):

- Increased customer speed through checkout
- Capture additional customer and sales information
- Improved information flow between stores and corporate office



As we look at the respondents' priorities, it is clear that retailers are focusing on getting to know their customers better to meet their needs. They understand that this will increase their loyal customer sales which, in turn, will increase overall shareholder value.

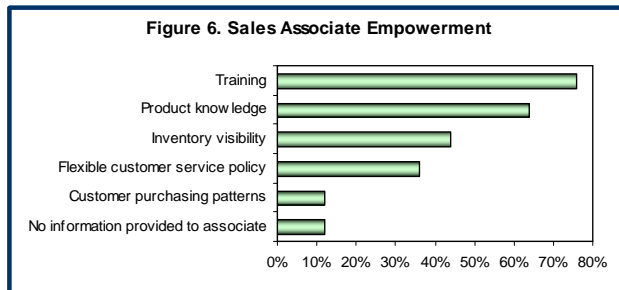
Interestingly, we also saw an increase this year in the focus on data security, with one-third of the retailers indicating this is a top priority. As various technologies are deployed in the store or on the website, the opportunity for a "security leak" increases. And there have been many discussed in the media at length in the past few years. Obviously, the Hot 100 Retailers are concerned about these potential leaks, plus the bad press and customer confidence issues that go hand-in-hand with these security issues, and have made data security a priority for the next two years.

As we look at the top priority for the respondents, it is interesting to note that processing customers through the checkout faster has been the number one priority for retailers for nearly ten years. So what are retailers doing to increase customer speed through the checkout? We found that the Hot 100 Retailers are focusing on the enhancement and upgrade of software and hardware to offer more functionality to both sales associates and customers at the checkout. Retailers also continue to focus on improving the business processes at the store level to empower the sales associate, capture additional customer information, and enhance the customer's overall shopping experience. And, retailers find that the flow of information among the channels and corporate becomes critical as more retailers continue to integrate their processes and policies across channels.



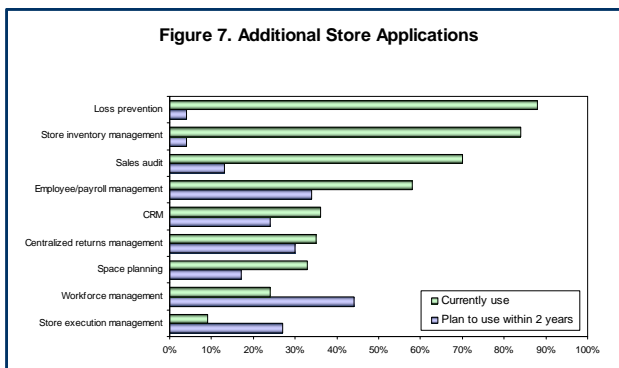
## Business Processes

As was mentioned in last year's survey, retailers are realizing that technology is not the only answer to meeting customer demand. Technology should be viewed as a tool within overall business function to help enhance the customer experience. But technology is only part of the answer, and if it is not implemented without aligning business processes then the initiative will most likely fail and no real benefit will be gained. It is crucial to understand the key business processes involved and provide adequate training to all pertinent personnel to support technology initiatives. Another key that retailers must recognize is the consistency of execution of business processes and training is needed.



The Hot 100 Retailers are focusing on the checkout and a key piece of the experience at the checkout is based on the sales associate. Questions retailers are asking include: Can we make changes to the customer checkout process to increase the speed and efficiency of the process? Is there information that can be provided to the associate to make the checkout process more effective? Our survey respondents indicate that training is a key area of focus with more than three-quarters of the retailers ensuring that their associates have adequate training. (Figure 6.) Respondents are also providing their associates with better product knowledge and inventory visibility to provide enhanced customer service and meet customer demands.

As retailers look to other critical areas to run their business effectively and efficiently, one of the challenges that becomes clear is the need to manage customer, sales, and inventory information to meet customer demands. Retailers are tackling these issues by reviewing business processes and implementing tools such as centralized returns management, employee/payroll management, space planning, and sales audit applications. (Figure 7.)



- **Centralized returns management** – According to the National Retail Federation's (NRF) inaugural *Return Fraud Survey*, the retail industry will lose nearly \$10 billion from fraudulent returns such as returning stolen merchandise or using counterfeit receipts. Centralized returns management applications allow retailers to validate and enforce pricing in addition to having the ability to analyze return rates. By having insight into return rates and being able to proactively monitor returns, retailers can decrease labor, inventory, and fraud costs, and increase shareholder value. Overall, centralized returns management applications have been proven to help improve customer service and meet customer demands.
- **Customer relationship management (CRM)** – As retailers try to gain a 360-degree view and understanding of their customer and their buying habits, CRM applications have been implemented with varying success. Overall, retailers struggle with identifying and understanding their overall strategic objective which causes issues as the various functional areas compete against each other instead of working together to reach a common goal.
- **Employee/payroll management and workforce management** – Labor is one of the largest single costs for retailers, plus the sales associate is also generally the first-hand view that the customer has of the retailer as a whole, so better forecasting, scheduling, and utilization of labor through employee/payroll management is key for successfully meeting customer expectations. Retailers can also ensure that they are fully staffed when there is high demand to meet customer service needs.
- **Store execution management** – By enabling greater visibility of the store workload and offering optimized employee work schedules, labor and tasks can be better prioritized for more efficient resource management and offer the potential for better customer service.
- **Loss prevention** – Loss prevention applications provide exception reporting and rules-based alerts to assist the retailer in more efficient transaction searching.
- **Space planning** – By providing the ability to plan space and inventory more efficiently and effectively at the store level, retailers can improve overall margin.
- **Sales audit** – Sales audit tools manage transaction information and give the corporate office visibility to over/shorts.
- **Store inventory management** – Most retailers utilize store inventory management applications to allow store personnel to efficiently manage inventory and provide customers with an in-stock position.

## Technology

Technology adds value to the store and checkout experience if it is used effectively and with the right mix of business processes and training to support it. As we look at POS systems, this is often the last major touch point for the customer in the store and can color the overall shopping experience. If the software, hardware, or connectivity – or all three – are slow or inefficient, the entire shopping experience can end on a dissatisfying note for the customer. If the customer has had a good experience in the store and found the desired products, but they then reach the POS



and the lines are long or the checkout experience is slow, the customer can easily become frustrated with the retailer.

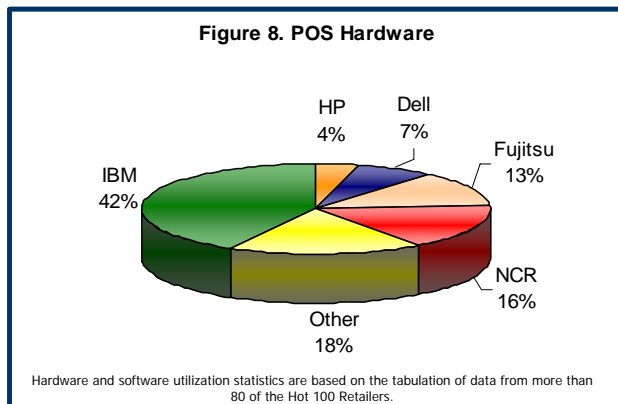
### Hardware (Registers)

As our POS Benchmarking Survey has indicated for the last few years, there is renewed interest in the upgrade or replacement of POS systems. There are still a number of systems in the industry that are more than ten years old and are unable to support some of the newer functionality and applications that customers expect at the checkout. Many retailers have also realized that their older POS applications have reached the maximum capacity of their hardware, plus high maintenance costs and low functionality can lead to unsatisfied customers.

Our survey respondents indicate that the average hardware age is 5.3 years which is very consistent with last year's results at 5.25 years. The remaining useful life indicated is 3.7 years which has fallen slightly from last year's all-time high of 4.03 years but is still significantly higher than the 2.7 indicated in 2005. We still see retailers struggle with implementations and many projects continue to be delayed due to budget constraints and other higher priority initiatives.

The benefits retailers expect from new hardware includes: faster processing to increase the speed at the checkout, maintenance cost savings, improved productivity, and the ability to handle peripherals and new software. We anticipate that retailers will continue to work through budgetary and resource issues to implement new hardware in the next year.

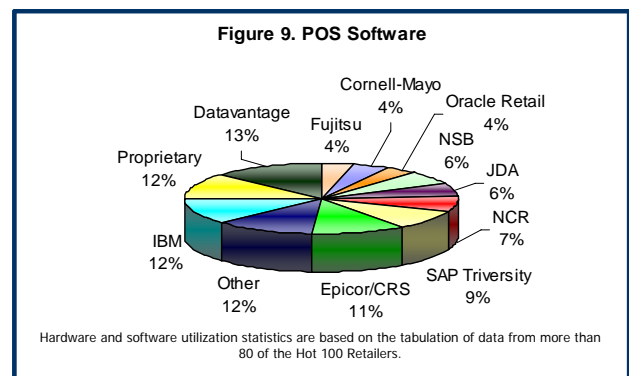
The POS hardware market continues to be dominated by the market leader, IBM, with Fujitsu and NCR continuing to gain market share. Other major players in the market include Dell and HP. (Figure 8.)



Because much of the software functionality that customers expect cannot be run efficiently on old hardware and retailers are finding that some systems are becoming more expensive to maintain as they get older, we see the trend for upgrading hardware to continue for the next few years. As customers become more demanding, retailers will need to ensure that their POS hardware is not slowing down the checkout process and allowing the competition to gain an advantage.

### Software

On the software side, this year's survey indicates a big jump in the average age of POS software from 6.56 years last year to 7.96 years this year. The remaining useful life has decreased from 3.89 years in 2006 to 3.3 years this year, although this still remains in line with 3.13 in 2005 and 3.59 in 2004. From the jump in average age and decline in remaining useful life, it would seem that retailers have been focusing on implementing new hardware this past year as opposed to software. We would expect to see in the next year retailers implementing new software to take advantage of these more powerful POS registers. Some of the benefits that retailers expect from new software include: improved customer service, better productivity, more promotions ability, gains in efficiency, additional flexibility, more functionality, and maintenance cost savings. These should result in satisfying the customer value proposition that the retailer has defined.



While the POS hardware market has continually been dominated by a few major players, the software market is much more segmented with many players owning smaller pieces of the market. (Figure 9.) This year we see that Datavantage has gained a slight edge over other players with a 13% share of the market while IBM and Epicor/CRS are not far behind with 12% and 11%, respectively. Just behind these vendors we see SAP Triversity with 9%, NCR with 7%, NSB and JDA each with 6%, and Cornell-Mayo, Oracle Retail, and Fujitsu all with a presence in the market at 4%. Interestingly, the share of the market labeled Proprietary has decreased slightly with an 18% share last year and 12% this year. There are still a number of retailers running software that was developed internally or was purchased from a software vendor but has been modified and customized so extensively that it is no longer recognizable as the original product.

The POS software marketplace continues to go through changes with mergers, acquisitions, and consolidations over the past two years. We anticipate that there will continue to be changes in the next few years but we still believe that the market will support a variety of software vendors as retailers have different needs due to technology, size, volume, and functionality requirements.

### New Technologies

In addition to POS hardware and software, there are other technologies that are utilized to speed up the checkout process for customers. Each year, we ask retailers about some of these new technologies to understand which are already important and

which we will see more of in the future as retailers adopt them to meet customer demands. (**Figure 10.**)

POS checkout flexibility has become a hot topic in the last few years with retailers looking to utilize **mobile sales devices**, such as a mobile POS or wireless handheld, to improve the customer flow-through at the checkout. These can be set up as a temporary POS stand through a mobile cart or it can be a wireless handheld to speed up the checkout by lane-busting. Wireless handhelds also have the advantage of offering dual functionality by allowing the retailer to use them for inventory purposes in addition to lane-busting. More than half of the respondents already use wireless handhelds for inventory purposes.

Of the retailers surveyed, nearly one-fifth of them currently utilize a mobile sales device with another 38% planning to implement some type of lane-busting within two years. Retailers are still dealing with many of the operational issues that can plague lane-busting such as payment tendering and item bagging. With any type of lane-busting, customers should see the benefits of faster checkout processing, plus reduced time spent waiting in line at the checkout.

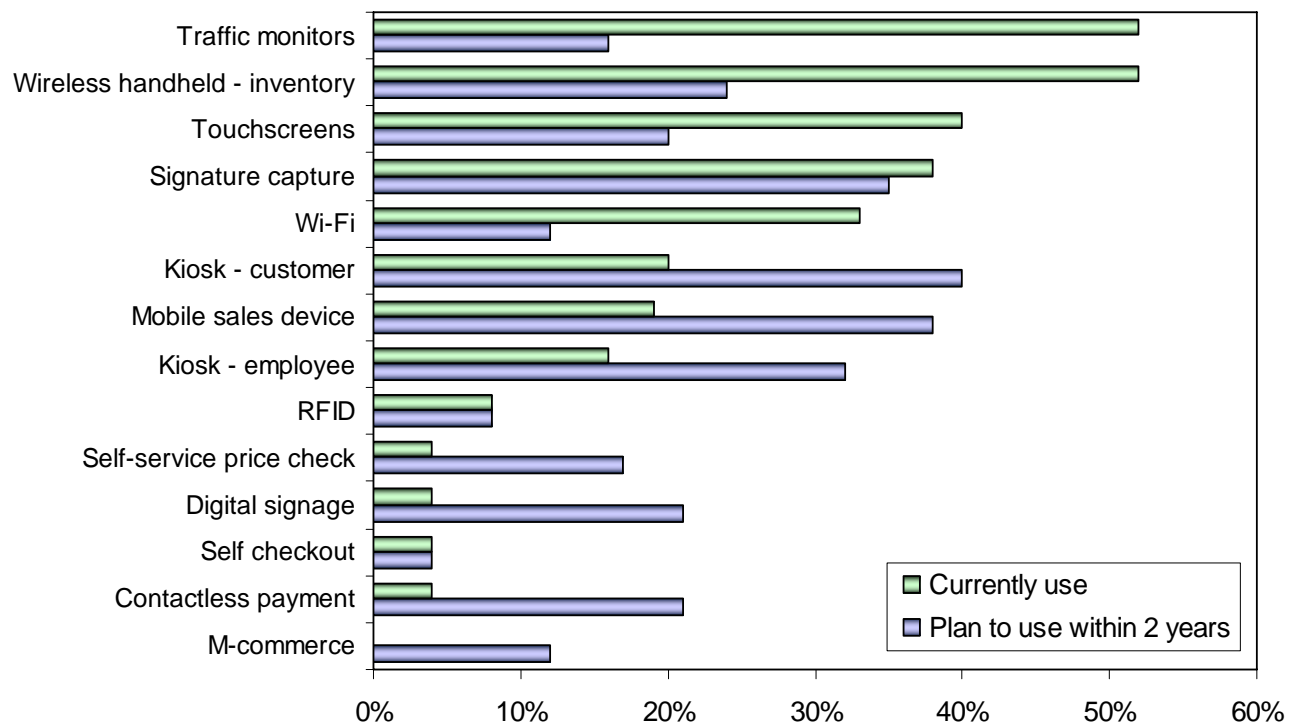
Along the same lines, we asked the Hot 100 Retailers about **self checkout** as a way to speed up the checkout process. This seems to be an area that is still under consideration. Of the 100 Hot Retailers only 4% currently offer self checkouts and an additional 4% plan to use within two years. Grocery stores and do-it-yourself types of retailers seem to be the heaviest adopters with

most other retail areas not as likely to implement. Self checkouts still do have their issues. Retailers who have implemented self checkout can still struggle with employee monitoring problems, bagging issues, and customer frustration with user interfaces. And of course, the question remains whether self checkouts really save customers time at the checkout, or whether customers just feel that they save time because they are able to control their own destiny. While self checkouts seem to work in some retail outlets, we do not foresee a broad adoption across many retail areas in the next few years.

We also see retailers looking at **self-service price checks** as an area for customers to control their shopping experience. Instead of searching for an associate to help look up a price, self-service price checks put that ability into the customer's hand. Of the retailers surveyed, 4% currently utilize these devices, with another 17% planning to utilize within two years.

Another area of self-service that many of the Hot 100 Retailers are looking at is **kiosks**. The addition of kiosks as a sales device is increasing as retailers realize the benefits that can be gained if a well-defined kiosk strategy is in place, and computer-savvy customers realize how easy kiosks can be to use. Kiosks can be utilized for imparting additional product information which can save on training and labor costs; suggestive selling which can increase revenues; and offering the customer the ability to cross channels in the store by ordering an item from the website if the store is out-of-stock.

**Figure 10. Auxiliary Sales Support Tools**



One-fifth of the survey respondents utilize kiosks for customer-facing functionality such as those areas listed above, with another two-fifths of the respondents planning to implement kiosks for customer use within two years. As a tool for employees, more than 15% of the survey respondents already utilize kiosks and another one-third are planning to implement in the next two years. Employee-facing kiosks are generally used for training, recruitment, or HR functions. One of the advantages of kiosks can be the dual functionality allowing customers and employees to both utilize the kiosk at different times and with different benefits.

While kiosks can offer many benefits to retailers there are still additional matters to consider, including physical placement of a kiosk to ensure that it is seen and easily used; design and maintenance issues; and employee training and education to ensure that employees do not feel threatened by the use of a kiosk and can help customers with questions or issues.

As we discuss self-service, possibly the biggest issue to be addressed by retailers is the understanding of what type of service their valuable customers are expecting. Self-service and customer service do not need to be mutually exclusive. In some retail models, offering more self-service functions actually equates to customer service. For some customers, good service can mean less interaction with sales associates and more interaction with self-service technology such as self-service price checks, kiosks, and self-checkout.

*More than one-third of the retailers surveyed indicated they will be looking to implement kiosks (employee-facing and customer-facing), mobile sales devices for lane-busting, and signature capture devices in the next two years.*

Additional technologies that customers will see at the checkout are touch screens, signature capture devices, contactless payment, and biometrics. **Touch screens** provide a user-friendly and intuitive interface for the employee at the POS. They can improve customer processing time plus save the retailer time and money when training new associates. Two-fifths of this year's respondents currently utilize touch screens at the checkout with another 20% planning to implement in the next two years. This is up from last year when one-third of the respondents indicated they utilized touch screens. This makes sense as we have already seen that some retailers were able to upgrade hardware in the last year and included touch screens in the new hardware. These numbers will continue to increase over the next few years as retailers continue their upgrades and look at software that offers further flexibility.

**Signature capture devices** also offer a means for expediting the checkout on the customer side. These devices can offer retailers savings by reducing paper storage needs in addition to offering better transaction information for auditing purposes. Nearly 40% of this year's respondents use signature capture devices with another 35% planning to utilize within two years. We expect to see more retailers implementing signature capture devices in the next few years and also leveraging their use by utilizing them as an advertising tool as well.

**Contactless payment** offers more efficient processing for the customer through faster transactions, plus offers the retailer improved operational efficiencies and lower operating costs. Contactless payment is still a relatively new technology with less than 5% of the survey respondents currently utilizing it although more than 20% plan to use within two years. Contactless payment generally sees the most benefit in cash-dominated arenas such as fast food outlets and gas stations where smaller purchases and longer lines may be more common.

**Biometrics** continues to gain interest and media coverage, especially in the grocery sector due to the labor-saving benefits as a time and attendance tool. Use of biometrics for time and attendance helps eliminate "buddy punching" which may cost retailers as much as 5% of total payroll costs. Fingerprint scans have proven to be the best choice and the most accurate. The technology is becoming more affordable but retailers still face issues with implementation. Unfortunately it is not easy to replace your finger if someone gets hold of your biometrics. There also can be concerns about loss of anonymity, and in different tests Gummi Bears, Play-Doh, Silly Putty, and Superglue have all been used to fool the biometrics scanner.

While there are advantages to biometrics; such as ease of use, reducing the potential for fraud and identity theft, and reducing the transaction processing fees for retailers; at this time, none of the retailers surveyed currently use biometrics and less than 10% have any plans to use in the next four years.

**Wi-Fi** wireless connectivity offers benefits to both customers and retailers. Retailers can use the technology to better communicate with corporate office, which is one of retailers' top priorities, plus it offers more opportunities for online training and more effective processing of credit, debit, and gift cards. Customers can often also tap into the wireless network for Internet access. One-third of the retailers surveyed currently utilize Wi-Fi, up from one-quarter of the respondents last year. As our world becomes even more reliant on the Internet – in addition to retailers trying to improve the information available at their stores from corporate, and transfer information up from the stores to corporate – we will expect to see more adoption of Wi-Fi.

As retailers gather additional information about customers and their shopping habits, more than half of the retailers surveyed are utilizing **traffic monitors** to help understand customer buying patterns.

Some of the other technologies that have attracted attention in the last year include:

- **Digital signage** – While less than 5% of the retailers currently utilize digital signs, the potential benefits such as the opportunity to build the brand, additional potential

advertising revenue, and the sales lift that can come from accessory items promoted near core destination items, are enticing enough for an additional one-fifth of the retailers to plan to implement within the next two years.

- **Cart-based tablets** – While these continue to garner media attention, none of the retailers we surveyed currently use cart-based tablets to enhance the shopping experience for customers.
- **M-commerce** (mobile commerce) – One of the newest “channels” for retailers is m-commerce. While m-commerce has a much bigger presence in Europe and Asia – where many people rely on their cell phone as their primary source of communication – more than 200 million Americans own a cell phone, so this is a natural extension. While none of the retailers we surveyed have adopted m-commerce, nearly 15% are planning to utilize this touch point within the next two years. An interesting example of utilizing m-commerce is Meijer Supercenter’s trial beginning last summer. Shoppers who opted in to the service received text messages on their cell phone when gas prices were rising by five cents or more, giving the shoppers a few hours to fill up at the lower price. We expect to see a number of these types of examples in the next year as retailers begin to adopt m-commerce as another means of meeting current and future customer demands.
- **RFID** – It is clear that RFID continues to be newsworthy and those who have deployed case or pallet-level RFID have seen benefits, but item-level continues to be slow to catch on in the industry. RFID will continue to gain traction but this is a long process and will take years to fully implement. Of the retailers we surveyed, nearly 10% utilize RFID and another 10% plan to implement within two years.

The next few years look interesting when reviewing new technologies. We expect to see big changes at the checkout and other touch points with more than one-third of the retailers indicating they will be looking to implement kiosks (employee-facing and customer-facing), mobile sales devices for lane-busting, and signature capture devices in the next two years.

## Multiple Channels

There is strong evidence that retailers offering multi-channel purchase options attract the most desirable customers. The Direct Marketing Association (DMA) estimates that multi-channel shoppers purchase 30 percent more than their single-channel counterparts.

As we have seen over the past few years, seamless multi-channel integration is still a top priority for many retailers (of our respondents, 22% list it as a top priority). Many retailers are still dealing with different infrastructures within their various channels, and customers who cross channels find different experiences in each channel. Multi-channel environments usually consist of disparate and channel-specific technology and business processes which gives the retailer a very fragmented view of their customer, limited visibility into their operations, and a definite lack of flexibility when dealing with customer-facing policies and procedures.

Customers often find different pricing, policies, procedures, information, and even inventory across channels. The person

they order from at a call center may know a lot about the customer and their shopping preferences but the associate who checks them out at the store has no information on their shopping habits. Throughout a transaction a customer is not able to “jump channels” because the retailer has no way of viewing the transaction from another channel, so the customer is unable to go into the store and check on an online order or view a store-placed special order online.

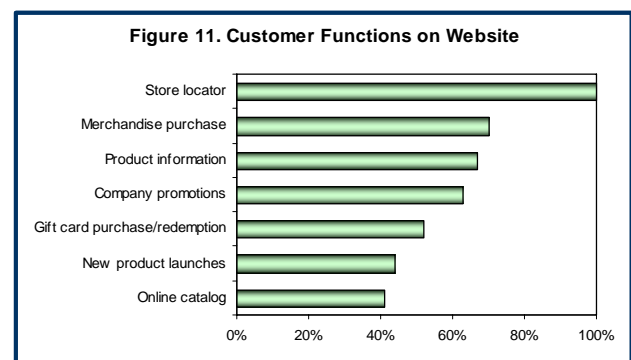
Some of the possibilities for retailers if they can integrate data such as customer information, inventory, products, and fulfillment, in real time across channels include:

- A customer having the ability to check pricing and availability online to know before they order whether the item is available online or in the store
- A customer using registries, gift cards, stored value cards, and coupons within and across channels
- A retailer being able to easily cancel a recent transaction for a customer in any channel or add something to a recent transaction
- Any associate in any channel having access to accurate and updated customer information to be able to personalize the transaction
- A customer being able to add to a recent online transaction through a store kiosk

The payoff for seamless multi-channel integration can be increased revenue from offering customers more places to shop, improved customer loyalty, increased transaction size, higher margins from selling more full-price merchandise, and improved order fill rates.

Meeting customer expectations by simply having a presence in multiple channels is no longer a competitive advantage. Customer expectations and the retailer’s value proposition drive what multi-channel means for each retailer but your channels and your brand must all work together seamlessly to offer your customer a rewarding shopping experience.

As we look at the Hot 100 Retailers, nearly three-quarters of the respondents offer multi-channel capabilities, generally brick-and-mortar stores and a website, while more than a third of the retailers operate in at least three channels.

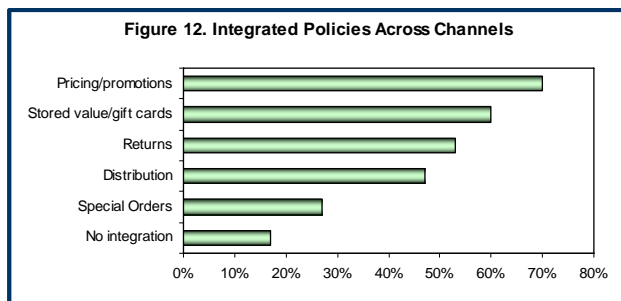


Of those retailers who operate websites, 40% still do not have any integration between the store and website. More than two-thirds of the websites offer customers the ability to purchase



product on the site, which is lower than would be expected and a potential opportunity for some retailers. **(Figure 11.)** All the websites do provide a store locator function to help drive traffic to stores and nearly two-thirds also utilize the website to encourage cross-channel shopping by providing product information and showcasing company promotions. Some of the areas of the website that respondents indicated they were focusing on include: improving product knowledge, increasing the product assortment, improving site navigation, and enhancing shopping cart functions.

To understand how consistent policies and procedures are across channels, we asked about the integration across multiple channels. **(Figure 12.)** We found that the majority of retailers surveyed have integrated their return policies, gift card policies, and pricing and promotions across channels. Nearly three-quarters of the multi-channel retailers offer integrated pricing/promotions, almost two-thirds allow the use of stored value/gift cards across channels, and more than half allow returns to cross channels. What we have found is that as retailers try to gather better customer information, understand their customer better, and define and refine their customer strategy, they are integrating policies and procedures across channels.



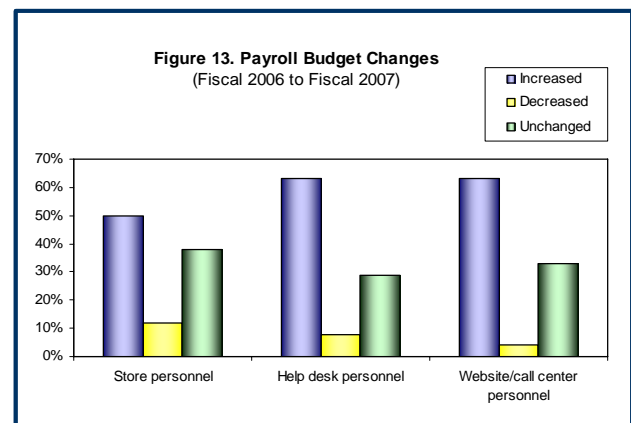
The ongoing challenge to retailers is trying to integrate systems and technology to support consistent policies, processes, distribution, and inventory management across channels. The roadblocks that retailers face are numerous: costly system integration; unique merchandising hierarchies in each channel; and key functions that are “siloeed” within one channel and not spread across channels. But even with these challenges, we have seen retailers demonstrate the benefits that are available with true channel integration. Multi-channel integration remains a key priority for many retailers as they continue to react to the demands and expectations of the customer.

## The Retailer Succeeds

The retail industry is increasingly competitive. There are traditional retailers competing against niche players plus pure-plays competing against multi-channel retailers. Obviously the Hot 100 Retailers are succeeding in many of the areas that we have discussed; otherwise they would not have the major revenue gains that mark this group of 100 retailers. We have reviewed the areas that they are currently focusing on and will be focusing on in the next few years to meet customer demand, but one area that can really shed light on their success is how they allocate their resources to meet the initiatives we have discussed.

Looking at POS/store operations budgets for fiscal 2007, our survey respondents indicate that 29% of their budgets are allocated to software requirements, 58% to hardware requirements, and 14% to other non-specified areas. As discussed earlier, the retailers surveyed have been focusing and will continue to focus on enhancing/upgrading their technology in the stores. One-third of the survey respondents indicated that hardware replacement was one of their top priorities for the next two years. Software also remains a focus as many of the benefits gained from updating software (such as CRM or centralized returns management) can help retailers as they strive to improve their top customer’s shopping experience.

As we asked the Hot 100 Retailers how they are budgeting for payroll in fiscal 2007 as compared to 2006, a majority of the retailers continue to increase payroll dollar spending across all customer touch points, including store personnel, help desk personnel, and call center personnel. **(Figure 13.)**



This investment in the people who deal with the top customers on a daily basis can help ensure that the retailer’s value proposition is consistently met across all touch points.

## Conclusion

Today’s retail marketplace offers customers a plethora of shopping choices:

- **Where** – The ease and accessibility of travel plus access to the Internet means that customers can now shop stores all over the world.
- **When** – Extended hours at many stores and the availability of the Internet offers customers the ability to shop at all hours of the day or night.
- **What** – There are an astounding array of products available today, potentially leaving the customer overwhelmed by choices.

Attaining customer loyalty in today’s world becomes even more challenging for retailers. It is up to retailers to identify and understand their valuable customers and cultivate those customers. The Hot 100 Retailers have made great strides in cultivating their loyal and valuable customers by understanding who their customer is, what their current and future expectations are, and then setting up the retailer’s organizational structure to meet and exceed those expectations.

The key in attracting and retaining loyal customers is to clearly define your customer value proposition and then ensure that the strategies deployed meet and exceed your customer's expectations. The Hot 100 Retailers have proven to be successful but the dynamics of this ever-changing marketplace force retailers to continue to be innovative to remain successful.

To thrive, retailers need to remember that all touch points are interconnected and ensure that they are meeting and exceeding their customer's current and future demands at each touch point.

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