

## 6<sup>th</sup> Annual POS Benchmarking Survey: A Retailer Perspective

**As customers become more sophisticated, expecting more benefits and incentives to remain loyal, customer service continues to be the top priority for specialty retailers. To satisfy customer service requirements, retailers are trying to differentiate their offerings while maintaining the focus on the overall return on investment (ROI).**

*LakeWest Group surveyed the top 100 U.S. Specialty Retailers based on revenues, as identified in the August 2004 issue of STORES magazine. LakeWest Group received 32 responses between October 1 and November 30, 2004. Respondents were typically Chief Information Officers or Directors of Store Operating 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, LakeWest Group serves all retail segments and channels.*

Retailers are looking to enhance their customer service levels and justify the costs of these service initiatives in five major areas at the store level:

1. **Customer Interaction** – *Understanding profitable customers and their purchase patterns and then utilizing that information to recommend products to customers and offer a personalized shopping experience.*
2. **Multi-Channel Integration** – *Providing their customers a seamless and consistent shopping experience across all channels.*
3. **Store Dashboard Functionality** – *Utilizing sales and inventory information at the store level to more accurately and effectively transact with the customer and manage the store.*
4. **Labor Utilization** – *Managing store labor, including resources and tasks, to ensure that payroll dollars are effectively utilized to address customer needs.*
5. **Software and Infrastructure Deployment** – *Offering additional customer service functionality through faster and more effective software, hardware, and connectivity.*

In their continued quest for improved customer service, retailers have prioritized their upcoming initiatives. According to this year's survey, the key priorities that retailers have identified include: increased customer flow-through, better gathering of customer information, hardware replacement, improved store labor management, and seamless integration (see Figure 1).

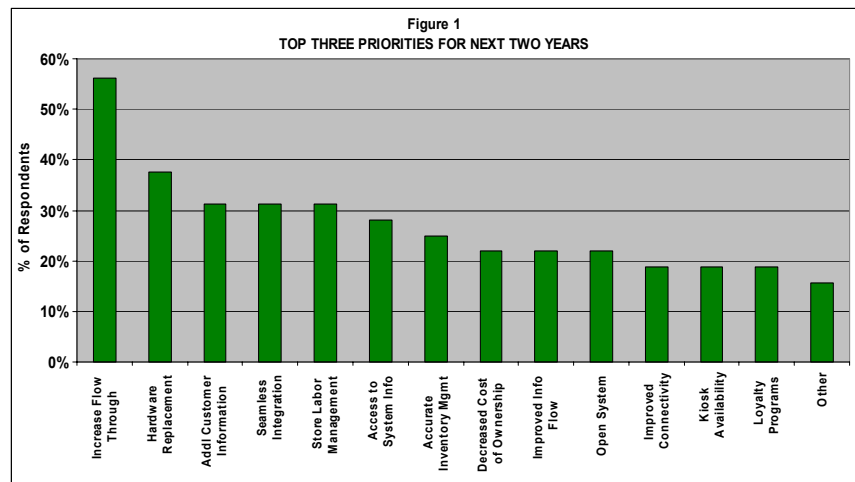
The store experience is critical to overall customer satisfaction. Customers can be pleased by a store where they are greeted at the door, the desired products are in stock, and the associates are knowledgeable and helpful. But, they can also be easily disappointed when the item they are searching for is not available and they are not able to order it from another store or online, or if a store seems disorganized and the associates are distracted. All of these experiences can easily erode a customer's overall view of the retailer.

The point-of-sale register (POS), which is the last touch point for customers as they conclude their store experience, can also easily change a good store experience into a poor one due to slow processing or a lack of functionality. Thus, more than half of the survey respondents indicate that increased customer flow-through is one of their top-three priorities. In addition, more than one-third indicate that hardware replacement is a top priority to ensure that customers are getting through the checkout efficiently and effectively.

Customer service enhancement is also indicated as a priority through the ability to offer a seamless shopping experience across channels, the gathering and utilization of additional customer information to offer more personalized service, and the improved management of payroll and store labor (nearly one-third of the respondents indicated each of these as one of their top-three priorities).

As we have indicated over the last few years in our survey, there is an increase in interest in the upgrade or replacement of POS systems. Many systems are old and outdated and cannot support new customer service and support applications. But often as retailers begin to review POS applications, they find that “POS” includes not only cashiering, but also inventory, customer relationship management (CRM), sales audit, loss prevention, labor scheduling, time and attendance, and wireless functionality. This often causes the retailer to reevaluate how these functions will fit within the current and future infrastructure. Often retailers are then identifying some subset of functions that will provide the best return on investment and allow their organizations to assimilate the change and meet the overall business strategy.

Luckily, the very functionality that is driving the need for newer, faster systems can also help to justify the ROI for replacing hardware and software. POS systems are the center of the store’s operations, now offering much more than just a cash register, truly becoming the command center for most in-store systems. Labor scheduling applications enable the retailer to more accurately and effectively allocate store resources, lowering labor costs by improving the ability to manage based on better reporting. RF handhelds can also lower labor costs by streamlining inventory functions, such as receiving and cycle counts. Offering special-order capabilities at the POS or via kiosks ensures that a customer can order products that may not be available in the store, eliminating lost sales for the retailer. And implementing a centralized returns management database to help eliminate fraudulent returns can easily translate into millions of dollars of savings to a large retailer.



For the sixth consecutive year, LakeWest Group conducted its POS Benchmarking Survey of the top 100 specialty retailers as identified by STORES magazine in August 2004. This paper summarizes the results of this survey and offers insight into retailers’ current and future customer focus, their POS-related priorities, the underlying technology infrastructure needed to support these initiatives, and how retailers can begin to justify the time and resources needed to achieve these objectives.

## 1 – CUSTOMER INTERACTION

### Customer Relationship Management (CRM)

The newest buzzword in the customer service arena is “customer intimacy,” which builds upon the daily interactions with the customer to create true and lasting relationships. These relationships build brand loyalty and help to create profitable customers.

As the retail market continues to be saturated both in physical locations and online possibilities, retailers must focus on consistently creating and offering a positive shopping experience across all channels to reap the rewards of customer loyalty. It’s more than just offering discounts and promotions, it is creating a personalized experience, being in-stock, presenting a consistent brand, offering a quick and efficient checkout experience, and ensuring that sales associates are available for assistance if needed and have the knowledge to meet the customer’s needs.

### Survey Findings

The first step towards meeting the customer’s needs is the ability to identify the customer. Two-thirds of the survey respondents indicated that they are able to identify customers during the sale with another two-thirds of those utilizing the customer’s telephone number as the primary method of identification.

Of those retailers who are able to identify their customers, almost all of them (85%) can identify purchasing patterns at the corporate office. This number also coincides with last year’s results and paints a consistent picture across the last year.

When asked whether retailers make customer information available to their associates at the POS, 56% offer visibility to customer information at the stores. Half of the respondents who offer visibility make contact information available, nearly one-third are able to illustrate sales history, and 16% offer purchasing suggestions based on past purchases at that store or another store. Only 20% of those offering purchasing suggestions are able to view sales history across channels at the store.

While it is impressive that nearly all the retailers can identify purchasing patterns at corporate, this information is available only after the customer has already left the store and does not contribute to the personalization of the customer’s experience while they are at the store.

### Our Perspective

Identifying customers, capturing demographic information, and monitoring and analyzing purchasing

patterns have been the cornerstones of the CRM movement for the last few years. And loyalty programs have been key tools in gathering this information. CRM continues to dominate as one of the top initiatives retailers are focusing on, but it's important to note that CRM facilitates loyalty initiatives, but loyalty programs are not CRM. We are still seeing few examples of retailers transforming the data collected into perceived customer value – customers get generic POS discounts or reward points but rarely see vast improvements to their overall shopping experience. Those retailers that are able to personalize the shopping experience are seeing huge rewards.

True CRM must tie all customer touch points together by understanding each individual customer and which customers are profitable. It also must take into consideration the individual store type; i.e., big-box electronics retailers address CRM differently than a specialized ladies' apparel retailer, and the associate training and support of the program. When all the elements are properly addressed, successful CRM includes the ability to deliver superior customer shopping experiences through personalized service and provide cross-sell/up-sell suggestions based on individual preferences. Offering this personalized service boosts conversion rates at the store, translating to more sales for the retailer.

At the corporate level, the ability to create a 360-degree view of customers with emphasis on multi-channel shoppers enables the retailer to do market-basket analysis. Utilizing data that identifies how items are purchased together allows retailers to more accurately determine their assortment needs, which leads to improved store assortments and layouts and better launch success of new stores. It also provides a roadmap as to how to effectively promote to that customer.

Many CRM programs have been unsuccessful due to a lack of an overall strategic objective. This is then reflected by poor execution at corporate, as various functional areas compete against one another as opposed to working together towards a common objective. This is further complicated at the store level when identifying how much information should be provided and how

it will be used. Most retailers will unequivocally state that they need "CRM." But when asked what their overall business objective is and how or if stores should utilize this information, they often can not answer the question.

We will continue to hear about CRM and different customer interaction initiatives in the future, and we find that the numbers this year are consistent with last year. As additional retailers look at upgrading or replacing their POS systems in the next few years, we expect to see an increase in the visibility and utilization of customer information to personalize the customer's shopping experience.

### Ancillary Customer Services

In addition to offering more personalized service based on gathered customer information and trends, many retailers offer additional services to entice customers to shop at their stores and to increase the loyalty of the customers who already shop there. These services that offer valuable benefits to the customer are critical to customer satisfaction and loyalty. The recent popularity of loyalty programs and the increased demand for special-order capability are just two examples of retailers meeting the needs of their customers by offering ancillary services. Additional examples that we are seeing retailers offer include personal shoppers, in-home consultations, "how-to" guides, in-store classes, and product support services.

### Survey Findings

According to the survey, 59% of respondents offer the ability for special

ordering and 38% offer loyalty programs. These numbers correspond closely with the findings from last year's survey.

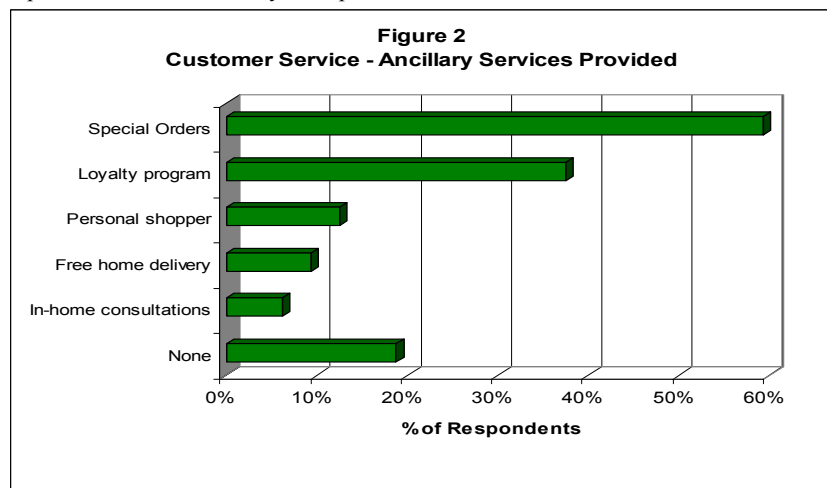
To understand retailers' loyalty program offerings in greater detail, we asked what types of incentives are offered. Two-thirds of the retailers who offer a loyalty program provide points for shopping, half provide real-time discounts at the POS, and 42% provide invitations to in-store events, while only 8% utilize loyalty programs to target promotions to customers.

An additional service that has become increasingly popular and profitable is the stored value card (SVC). Survey respondents placed the value of stored value cards to their customers very high – more than three-quarters of the respondents already offer stored value cards and an additional third of those who do not currently offer stored value cards plan to implement programs within the next two years.

### Our Perspective

Value-added services such as special orders, in-store classes, "how-to" guides, loyalty programs, and stored value cards are offered more and more frequently as another tool to develop and maintain brand loyalty. In addition, these value-added services must show a return on investment. We expect to see these services gaining even more momentum over the next few years and also serving as a key integration point.

Special orders as a customer service enhancement offer benefits to both the retailer and customer. For the retailer,



giving the customer the ability to order an out-of-stock or new product while they are standing in the store ensures that the retailer will make the sale instead of losing the sale to the competition. The benefit to the customer is the convenience of purchasing the item right then and there, and oftentimes the retailer absorbs the delivery fee or charges a minimal delivery fee. The customer then walks out of the store satisfied, instead of frustrated and possibly visiting the competition whether down the street or online. For retailers not offering this service, it puts them at a severe disadvantage.

Stored value cards are reloadable or disposable cards representing a monetary value that a customer can either spend or give to another individual. They come in many forms, including loyalty cards, prepaid cards, merchandise return credits, and gift cards. Stored value cards are gaining acceptance through a number of different uses, including gift cards, which is the primary use we refer to in the survey.

Stored value card functionality has revolutionized the idea of giving a gift certificate. Today, gift cards are an extremely popular form of gift-giving with retailers allocating valuable sales space to card displays in stores. There has also been an increase in the number and variety of co-branded gift cards that are available for customers to buy from one retailer and use at a number of other retailers. Even the credit card providers offer gift cards for purchase, which can be used at any retailer that accepts the credit card. Customers have not only accepted gift cards but have now come to expect retailers to offer them.

The benefits of offering gift cards to customers are clear. In addition to the obvious advantage stored value cards offer by eliminating the paper process associated with gift certificates and the ability to track and manage stored value cards, it is also an easy and effective behind-the-scenes form of marketing for retailers. For regular customers, stored value cards increase the convenience by which they can make purchases and also provide a sense of community with the retailer. Thus, stored value cards can help develop and sustain customer loyalty, keeping customers from shopping the competition.

More retailers are also seeing the advantage in using stored value cards for rebating purposes. By rebating directly to a stored value card instead of offering cash back, the retailer encourages repeat traffic and upselling. Also, because even minimal balances can be maintained on the cards, retailers no longer need to provide cash back for low card balances.

While retailers grapple with legislation in some states surrounding expiration dates on gift cards, there are tangible bottom-line impacts. Customers are more inclined to put their card balance toward a higher-priced item plus increase the number of items in their transaction. This results in average transactions that are generally higher when stored value cards are utilized.

The loyalty programs that often accompany stored value cards are also a service incentive for customers to remain brand loyal. Combining stored value cards and loyalty programs continues to be a trend allowing retailers to track customer purchasing patterns through the use of the card.

The future may bring a combined gift card and loyalty card with credit card capabilities. Consumers are running out of room in their wallets for all the loyalty cards, gift cards, and store credit cards that are offered. Most retailers now offer 10% off when opening a store charge account so the customer incentive has been diminished; in the future, retailers will have to do more to keep their customers loyal.

Another possibility for stored value cards in the future includes the incorporation of RFID capabilities, giving retailers the ability to load cards with customer information, assign loyalty values, and carry balances. While this idea sounds appealing, adoption will likely be slow due to integration issues, infrastructure costs, and consumer privacy concerns.

Technological advancements continue to impact the point-of-sale and offer additional options for retailers to consider now and in the future as they enhance customer interactions. We asked the specialty retailers surveyed whether they currently utilize a variety of new technologies or whether they had plans to include them in the future (refer to Figure 6 for details). Many of these

advancements can also be utilized to help justify the costs associated with the upgraded software and infrastructure that may be necessary to support this new functionality.

POS checkout flexibility through the use of RF handhelds or mobile POS can improve customer throughput and increase the ways that retailers can offer products for sale to customers.

RF handhelds for lane-busting have the flexibility of also being able to be utilized for inventory purposes. So, in many cases, the hardware is already available at the store. The advantage to the retailer is tangible in the ability to eliminate customers abandoning their cart at the site of long lines at the checkout.

RF handhelds continue to attract attention with a few specialty retailers utilizing handhelds to improve customer flow-through. Additionally, almost half of those who do not currently offer it are planning to within two years.

Mobile POS also can be used for lane-busting, and has the flexibility of being able to be utilized outside the store for tent sales or special events where temporary POS stations can be an attractive option for additional sales. Mobile POS is currently utilized by one-fifth of survey respondents.

While POS checkout flexibility through RF handhelds or mobile POS offers additional options to retailers, there are still many issues to be addressed in the adoption of these tools. They have been proven to improve customer service by offering checkout flexibility, but there are additional concerns such as cash management, polling data, bagging issues, loss prevention, and the need for a wireless infrastructure.

Signature capture devices are utilized by more specialty retailers than last year, with one-quarter of the respondents utilizing the technology and many additional retailers planning to offer signature capture devices within two years. Signature capture devices offer retailers savings by reducing paper storage needs and provide better transaction information for sales audit purposes in addition to expediting the checkout process. They also offer

retailers additional flexibility to accept credit cards, debit cards, and smart cards.

Because of the cost-saving, information capture, and customer service benefits, we expect to see a further adoption of signature capture devices as retailers focus on replacing hardware in the next few years.

Biometrics continue to gain interest in the grocery and electronics sectors as a labor savings tool by reducing payroll-check-cashing fraud and eliminating buddy punching of time cards. On the consumer side, biometrics can be used to easily verify age and identification of customers and improve customer throughput. Finger-scan identification technology is becoming more affordable, but it is really not the technology that is the issue; it is consumer behavior and whether consumers will embrace it.

Most specialty retailers are still adopting a wait-and-see attitude while a few retailers test the technology and consumers get educated on the benefits, including identity protection and convenience. Only one of the specialty retailers surveyed currently utilizes the technology with another few retailers who do not currently offer it planning to implement the technology at some point in the future.

Smart cards or contactless payments offer benefits to the retailer through faster transactions, improved operational efficiencies, and lower operating costs, which translate to increased revenue. Consumers enjoy the convenience and security of hands-free payment. While smart cards can be very beneficial to retail segments where speed and convenience of payment are essential, such as fast food restaurants, gas stations, convenience stores, and entertainment venues, only a few of the specialty retailers surveyed currently offer the ability.

E-check, or electronic check, converts a check at the POS to an electronic transaction that provides retailers with a safe, quick, and cost-effective payment option, reducing costs and the risks of fraud. It offers consumers all the conveniences of a check, and consumers seem to be comfortable with the process as acceptance has been high. Benefits to both consumers and retailers include quicker checkouts and funds settlement.

Because of these benefits, a few retailers have already started offering the ability to their customers, and more are looking at implementing the technology in the next few years. We expect to see most specialty retailers offering this option within the next three to five years.

## 2 – MULTI-CHANNEL INTEGRATION

When the Internet was new, customers were happy to see a web presence from their favorite retailer but did not expect much from the site. There was often little more than a store locator and an advertisement for the company. Now customers not only expect a retailer to have a website but also the full array of services they receive in the store. They expect a broad assortment of products, competitive and consistent pricing, reliable service, the ability to easily make a transaction, and the ability to have the item quickly shipped wherever they would prefer or have the option to pick up at the store. In addition, the creation of the Internet offers further customer service functionality to the store in terms of web-based applications.

Traditionally, multi-channel indicated brick-and-mortar stores, website, and catalog, but today there is a fourth channel in the form of the kiosk. Multi-channel integration of all four channels involves the assimilation of systems and processes in a way that provides a seamless and consistent experience for the consumer across all channels, leveraging the infrastructure, assets, tools, and resources across the organization. Additionally, real-time inventory updates for all channels are required for retailers to allow customers to order across channels. The key is providing the right information, right tools, and right products in the right channel.

## Survey Findings

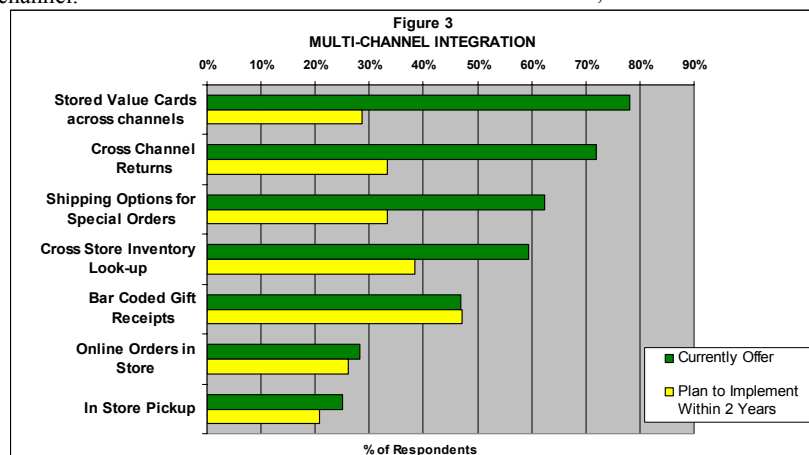
Of those retailers surveyed, the majority operate across multiple channels with nearly all of them offering online capabilities, 63% offering a catalog, and 37% utilizing kiosks. Most of the multi-channel retailers operate in at least three channels and nearly one-third operate in all four sales channels (retail stores, Internet, catalog, and kiosks).

As we noted last year, the use of kiosks continues to increase with half of those retailers surveyed who are using kiosks offering the ability to place a web order and 37% offering product information at the kiosk. Additional kiosk uses include gift registry, customer list sign-up, and HR applications.

Currently, 47% of the respondents are using their POS terminals for some web-based functions to support multi-channel integration, including accessing the company website (93%), centralized look-up (80%), online customer ordering (80%), and communication between the stores and corporate (80%).

Of those 53% who do not currently offer web-enabled terminals, one-quarter plan to implement web-enabled technology within the next two years. There are an additional 23% who do not have plans to implement web-enabled terminals at all; some retailers indicated that they do not want to give their associates web access at the POS.

To understand how retailers have integrated policies across channels, we asked those retailers who identified themselves as multi-channel retailers to indicate which policies are integrated. More than half of the multi-channel retailers offer a consistent returns policy across channels, half offer stored value



cards that can be used across channels, while one-third each offer special ordering that crosses channels and consistent pricing and promotions across channels.

### **Our Perspective**

Customers no longer think of each sales channel as a distinct shopping medium. This has resulted in retailers reevaluating their multi-channel strategy and functionality to better meet the customer's expectations of seamless multi-channel integration.

The ongoing challenge to retailers is integrating all the systems to support policy decisions, to offer a complete view of customer, to support distribution/order fulfillment, and allow for inventory management across all channels. There are a number of roadblocks that retailers may face as they contemplate integration across channels: system integration is difficult and costly; data structures or hierarchies could be unique to each channel; there may be inconsistent processes, policies, and procedures across channels; key functions necessary to each channel (i.e., forecasting, planning) may be separately managed by each channel; and the organizational structure may be channel-oriented instead of brand- or customer-oriented.

But even with these potential roadblocks, retailers have demonstrated the benefits that true integration of the policies, processes, and systems across all the channels offers and can justify the expense and difficulties that may be encountered when trying to accomplish multi-channel integration.

It has been proven in a number of different studies that multi-channel customers are significantly more profitable than single-channel customers. Customers often use one channel as research and then purchase through another channel, and customers who are able to pick up online orders in the store are likely to make additional purchases while in the store. In its simplest form, a customer may want to order product through any sales channel. For the retailer to be able to confirm product availability, real-time inventory updates are necessary.

All of this adds up to a more profitable customer for the retailer and another case for cost justification. In addition, as successful retailers integrate their channels, they are raising the bar for the competition in the industry. Retailers who do not offer stored value cards and return capabilities across channels may find themselves at a disadvantage since more than 70% of the retailers surveyed currently provide this functionality.

The addition of kiosks as a sales medium is increasing as retailers realize the benefits that kiosks can offer. Web-based kiosks have long promised a change in the way consumers shop in stores, but retailers have been reluctant, arguing that they would change the shopping experience too much – with the rise of multi-channel retailing the opposition to kiosks is fading. Consumers have demonstrated that, over time, they will use kiosks as long as they are intuitive and easy to use. It wasn't that long ago that using a kiosk to withdraw or deposit money into your bank account or to check in for a flight seemed far from the realm of possibility; now it's a common everyday occurrence.

The key to successful kiosk deployment is defining what customer service objectives will be met with a kiosk. For example, will the kiosk be utilized to impart product information, as another sales channel, or to communicate employee information? Successfully integrating kiosks into the store experience also entails training and educating sales personnel to understand and support the kiosk's role in customer service. Kiosks do not take the place of human interaction; they support sales personnel so that associates can spend more time servicing the customer.

Kiosks can augment and improve customers' experiences, provided they are easy to use. They have the distinct advantage of offering the same consistent message to the 100<sup>th</sup> person in line as to the first. Associates may be having a bad day or forget to suggest upselling opportunities, but a kiosk remains consistent. Kiosks can also be used to supplement more routine tasks – live personnel and kiosks may offer the same experience, such as taking an order, but a kiosk may be able to offer a faster, richer experience, and customers won't have to hunt for help.

There are also drawbacks to kiosks that retailers are struggling to overcome. Kiosks can be a draw to link customers to a retailer's website, but it must be an extension, not a duplication, of services offered at the store for the customer to find it valuable. Also, kiosks may suffer from physical issues; they are often tucked away in a corner or are not prominently marketed so customers may not be aware that they even exist, plus they may break down and technical help may not be readily available to get them operational again.

True multi-channel integration can mean the customer is able to use in-store kiosks to shop online or from the catalog, have the associate place a special order by utilizing web-enabled POS terminals, order online and pick up in store, return items to any channel, and redeem coupons and gift cards/certificates across channels. For retailers, it means they are able to understand how customers shop across channels, offer consistent pricing and promotions across channels, offer special-order capabilities across channels, and have a single view of inventory management across channels. Multi-channel integration remains a priority for most retailers, and we expect it to remain important for the next few years.

Future technology that retailers are beginning to implement includes Wi-Fi wireless connectivity, which offers retailers the ability to leverage web-enablement in their stores. While this is still a relatively new technology, one-quarter of the specialty retailers surveyed already offer the technology in their stores with another one-fifth of the remaining retailers planning to implement the technology within the next two years.

### **3 – STORE DASHBOARD FUNCTIONALITY**

The priorities identified by the specialty retailers surveyed include enhancing the customer shopping experience by capturing more customer information and by offering the customer multiple channels in which to shop. Another challenge that becomes clear is that these additional services often require tracking sales and inventory information. In order to effectively provide superior customer service, the store must have information easily available that tracks

sales, inventory, customer, and payroll dollars. The store dashboard allows for communication of key pieces of information to corporate and store personnel to allow for faster and more effective decision-making.

### **Survey Findings**

We asked respondents what type of web-based tools they currently utilize to assist in the management of sales and inventory data. Currently, 16% of the respondents have web-based centralized returns management applications, 13% utilize a web-based sales audit application, and 13% a web-based loss prevention application.

Inventory look-up is also an important tool to enhance customer service and understand inventory movement. Of the specialty retailers surveyed, 59% offer cross-store inventory look-up and sales, 38% of the respondents who don't currently offer it plan to implement it within two years. Last year, approximately the same percentage of respondents offered cross-store inventory look-up at their stores.

An additional customer service enhancement, also providing customer and inventory information, is offering bar-coded gift receipts. Currently, almost half of the respondents offer bar-coded gift receipts to their customers

### **Our Perspective**

Retailers need to provide real-time inventory visibility to all stores and across channels to understand where there are stock issues, whether too much or too little, and where there are opportunities for enhancing customer service by offering customers a larger assortment via other stores or other channels. While there may be significant challenges to integrating systems, there are labor savings benefits, such as eliminating labor-intensive manual ordering from other stores, in addition to the customer service enhancements. As we have seen an increasing interest in providing a seamless experience across channels and offering enhanced customer service, we will continue to see retailers offering real-time look-up capabilities across stores and channels.

A retailer must provide their stores with key pieces of information that includes

inventory, sales, and payroll information. This allows the store to provide superior customer service and manage their store effectively.

Another tool is a centralized returns management application which enables the retailer to validate and enforce pricing/items, capture vital customer information, and analyze return rates. This provides the retailer the ability to decrease fraud, improve customer service, and decrease labor and inventory costs. Centralized returns management can reduce fraudulent return rates, which can potentially translate into millions of dollars of savings directly to the bottom line.

Customer benefits include the ability to look up transactions and receipts at any store by customer name or bar-coded receipt, and to verify that the correct price is credited even when returning without a receipt. Because of the benefits to the retailer and consumer, centralized returns management applications are becoming more of a requirement. They are one of the easiest store system applications on which to show a return on investment, and vendors are building their capabilities in this area. Certainly, as retailers are looking to replace software and hardware, this will be an application that is high on the list of must-haves.

Loss prevention and fraud are issues for all retailers, as shrink averages about 1.8% with the largest chunk of that in the hands of the employees. There is a common loss prevention theory stating that 10% of store employees will never steal, 10% will steal no matter what retailers do, and the remaining 80% are swayed by the controls and supervision that are in place.

Loss prevention applications help prevent shrink by providing exception reporting/rules-based alerts to facilitate the efficient searching of transactions. In the future, as loss prevention application functionality continues to expand, biometrics and RFID are expected to play a greater role in helping to fight shrink.

Sales audit applications assist in the management of transaction information by scrubbing the data, reconciling tenders, and identifying exceptions such as invalid stores, registers, or dates and

duplicate, missing, or out-of-balance transactions. They also offer sales analysis through flash sales at the store and corporate office.

Because retailers are putting greater emphasis on collecting and managing customer, transaction, and inventory information, in addition to many of the POS vendors enhancing their host-based application offerings, we believe that these applications will become a driving force behind system upgrades and replacement.

We also asked retailers about their current usage and future plans for RFID and automatic ordering. RFID applications continue to attract attention, especially with Wal-Mart's mandate to its top 100 suppliers, driving broader adoption of RFID technology for inventory tracking. While none of the survey respondents currently utilize RFID at the item-level, one-fifth plan to implement RFID technology at the item-level over the next two years. At the case level, a few respondents are currently utilizing RFID technology, with another third who do not offer it planning to implement within two years.

It is clear that RFID continues to make inroads into the retail arena and with many larger retailers who share the same suppliers as Wal-Mart also jumping into RFID within the next year and offering their own mandates to suppliers; we expect to see further utilization in the next few years. Although there are still privacy issues to be addressed and consumer education needed, especially when addressing RFID at the item-level, before widespread acceptance will be seen.

Automatic ordering offers several ROI benefits to the retailer, including labor cost savings, and a reduction in inventory, while maximizing shelf space at the store level. This translates to more efficient and effective inventory management and enhanced customer service levels. As expected, many of the retailers surveyed are reaping these benefits.

## **4 – LABOR UTILIZATION**

Offering enhanced customer service involves more than just gathering customer and inventory information and utilizing technology to streamline

operations. There is an additional key component involved in managing the labor at the store to provide the expected level of customer service and managing store employees so that they are the most productive. Store employees can spend significant portions of their time on non-selling activities with limited customer interaction. Utilizing labor management tools to redesign, simplify, automate, or eliminate these tasks can reduce labor costs and offer better customer service by ensuring that sales associates can focus on customer-facing tasks.

### **Survey Findings**

As mentioned earlier when we discussed the top priorities identified by the specialty retailers surveyed, nearly one-third of the respondents listed store labor management as one of their top-three priorities for the next two years. Effectively utilizing store employees requires an understanding of past sales trends and expected future requirements to accurately forecast the customers' needs within the store.

When asked about the tools used for labor management, nearly half of the respondents utilize an automated labor scheduling tool, with one-quarter utilizing a web-based application. While there are many applications in the market, including Kronos, Timera (now JDA's Portfolio Workforce Management), and Workbrain, with Blue Cube, Campbell, SAP Staffworks, and TempoSoft utilized most often by our respondents, other specialty retailers still rely on Excel spreadsheets to get the job done.

Store task execution management is a tool developed to assist retailers in their management of personnel and tasks in the store. When asked in this year's survey, 36% of the specialty retailers utilize store task execution management tools.

### **Our Perspective**

Retailers realize that better management of store labor and tasks, including the reallocation of associates to better serve customers, potentially allows for labor savings and customer service enhancement. Retailers are also now focusing on providing stores with easy-to-use tools, such as labor scheduling, store task execution management, and

RF handhelds, to help simplify and prioritize store tasks.

Statistics show that a retailer can potentially reduce timekeeping time and error rates significantly and lower labor costs simply by utilizing a labor scheduling application. Retailers can standardize and consolidate schedules, more accurately track sick and vacation hours, better allocate costs to correct departments and improve their ability to manage based on better reporting.

In the past, most labor scheduling applications were standalone applications; the point-of-sale vendors offered simple time and attendance capabilities. But now, many of the POS vendors are beginning to see the benefit to offering labor management tools within their application or partnering with a labor scheduling provider. As we move into the second half of this decade, we will see further movement into this area, and more retailers moving beyond Excel spreadsheets to automated labor scheduling tools.

Task execution management allows retailers to coordinate, support, and execute vital merchandising, operations, and marketing initiatives. This tool helps to forecast and create a schedule based on available payroll dollars and the required customer service levels. By prioritizing and monitoring store tasks, this application can ensure that stores are allocating and utilizing their resources wisely, and that important tasks are not slipping through the cracks.

Task execution management applications are relatively new players to the store systems arena, but gaining popularity quickly. Task execution tools allow the retailer to prioritize store tasks and then monitor the completion of these tasks. This provides the corporate office or regional manager with a "closed loop" tool to understand which "to do" tasks have yet to be completed. We expect to see an even higher number of specialty retailers utilizing this tool in the near future.

RF handheld devices are widely used in the retail industry to streamline inventory processes, such as receiving, physical inventory, or cycle counts. Utilizing RF handhelds can save labor time and costs and free up associates for customer service, thus translating into

cost savings to the retailer and better service to the customer.

As a tool for better utilization of labor, we asked retailers whether or not they were already using RF handhelds for inventory and what their plans are for the future. RF handhelds for inventory are currently being utilized by nearly half of the respondents, with an additional third of the retailers who do not currently utilize RF handhelds planning to implement within two years.

## **5 – SOFTWARE AND INFRASTRUCTURE DEPLOYMENT**

There are many factors driving software and infrastructure deployment in the specialty retail industry. In the quest to offer customers the shopping experience they expect, retailers realize that slow or inefficient software, hardware, or connectivity – or all three – can result in an inferior customer experience. Many older POS systems require high maintenance costs, lack support of newer faster networks, and offer fewer features that retailers not only expect but require to serve their customers.

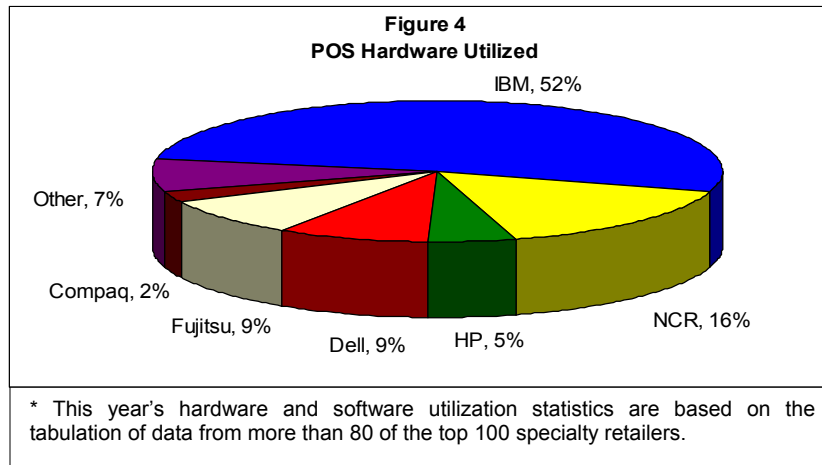
Some of the functionality that we have discussed, such as CRM, centralized returns management, and wireless capabilities may not be available to retailers with older/slower systems. In a world where customer flow-through is still the number-one priority, the checkout experience and the services available in the store can completely color the customer's view of the retailer.

### **Survey Findings\***

#### **Hardware**

Traditionally, the POS hardware market has been dominated by the market leaders, IBM and NCR. This year is no exception; IBM continues to be the most dominant player with 52% of the hardware market. NCR is still a strong number two with 16% of the market. Fujitsu has remained pretty consistent with 9% this year; while Dell may have gained some ground, moving slightly up, to 9% this year.

Our survey responses indicate an average hardware age of 5.56 (up from 4.48 last year), with an estimated remaining useful life of just under three years at 2.7 (down from 3.22 last year). This year, hardware is older than last



year but we have seen many retailers, who last year indicated that they would be replacing hardware, still struggling with hardware rollout.

### Software

While the hardware market continues to be dominated by a few major players, the software market remains highly competitive with no one vendor dominating the market. Datavantage and IBM each hold 11% of the market, and CRS and Triversity account for 10% and 9% of the market respectively. Everyone else accounts for less than 5% market share. The only large percentage of software is the broad category of proprietary software, where either the retailer completely developed their own software or the product originally was purchased from a software vendor and has been modified and customized to an extent that there is no longer any of the original application that is recognizable.

The average age of our respondents' POS software is 6.81, up from 5.75 last year. While we have seen specialty retailers beginning to upgrade or replace POS software, we have also seen others begin the process and then abandon the process to focus on other corporate priorities or because the scope and expense of change became more than initially planned. We will likely see more activity this year as retailers generally had a stronger year in 2004 and have reached a point where they must upgrade or replace software in the near future to meet customer service levels or integrate channels.

The average remaining useful life of the retailers surveyed is 3.13; down from

3.59 in last year's survey. The interesting thing to note is that more than half of the respondents plan to replace their POS software within the next four years.

### Connectivity

As in past years' surveys, retailers were asked what connectivity methods they were currently utilizing. This year, frame relay was again the primary method of connectivity with 59% currently utilizing frame relay, up slightly from last year. Forty-one percent of the survey respondents still use a dial-up connection for at least some of their stores, down slightly from last year, with 13% each utilizing DSL and VSAT.

When asked about using multiple forms of connectivity, 56% use multiple options, generally frame relay as the primary method and dial-up as a secondary method of connectivity. Most respondents use dial-up for remote store locations or seasonal locations because

of the ease in establishing a dial-up connection; although, it is usually the slowest form of connectivity.

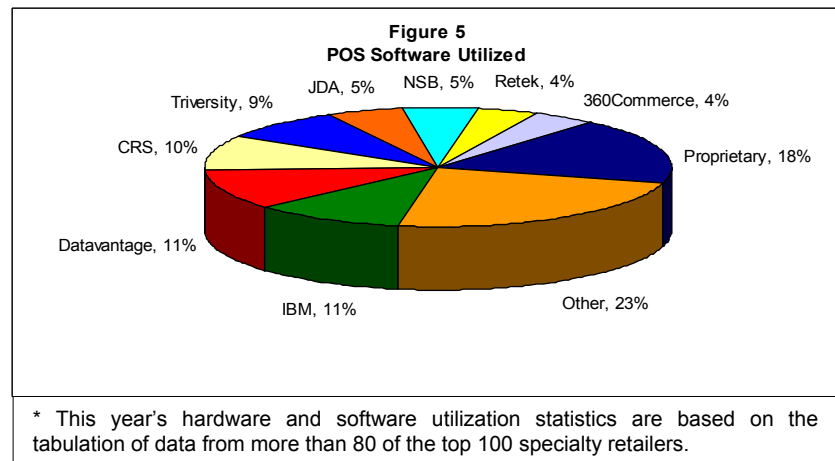
Forty-five percent of the respondents this year have plans to change connectivity, and 50% of those respondents who plan to change connectivity intend to make these changes within the next year.

Connectivity addresses how store systems and corporate systems communicate and affects CRM, centralized returns management, sales audit, and loss prevention functions. This is very important since timely and accurate data transmission is necessary to support decision-making based on sales, customer, and inventory information gathered. Because connectivity also addresses the communication between the POS and credit or stored value card authorization providers, the speed of connection also has an impact on customer flow-through at the register.

### Our Perspective

New store and host-based functionality that we've addressed above (multi-channel functionality, labor scheduling, inventory look-up, and customer information gathering and utilizing) often cannot be supported by older software and hardware. In addition, systems are becoming more expensive to maintain than they are to replace, plus there may be limits to the expansion that is even possible.

There continues to be a focus on POS hardware and infrastructure (45% of respondents have plans to change connectivity; one of retailers top-three priorities is hardware replacement). But



many retailers have started down the replacement path only to be sidetracked by other corporate priorities, reductions in budgets due to lackluster sales and the uncertainty of the economy, plus higher-than-anticipated implementation costs.

The biggest challenge remains the need to understand and prove a return on investment especially with many retailers stating the need to replace hardware, which is the biggest portion of a POS budget, typically accounting for 75-80%. But there is a silver lining to the need for replacement of POS systems due to lacking functionality. Many of the applications/functionality that is driving the need for updated systems also help to provide the ROI needed to justify them.

Centralized returns management functionality, which ensures that items are returned only once at the correct price, can reduce a retailer's fraudulent return rate, potentially translating into millions of dollars of savings to the bottom line of a large retailer.

Loss prevention applications provide exception reporting to be able to identify areas of loss that are not able to be tracked otherwise. This enables the ability to drill down into bad or suspicious transactions and facilitates the efficient searching of transactions, translating to better control of shrink for the retailer.

Signature capture devices have the ability to accommodate lower-fee card

transactions (i.e., debit card instead of credit), which save retailers on each transaction. They also offer the ability to check shoppers through faster and more effectively and eliminate the need and cost of paper processing.

Real-time inventory visibility allows retailers to monitor inventory levels across stores and channels more closely, which increases inventory efficiency. Accurate availability enhances the customer experience, but there are also bottom-line benefits by capturing potentially lost sales when the store is out-of-stock on an item and by understanding where items are selling faster than others to respond with promotions or moving the inventory to capture additional sales.

CRM offers the retailer more accurate and effective targeting of customers to improve store assortments and drive add-on sales that boost conversion rates and result in an increase in sales.

And most importantly, all of these applications and the functionality discussed can translate into more efficient and effective customer flow-through at the point-of-sale, offering superior service levels to the customer.

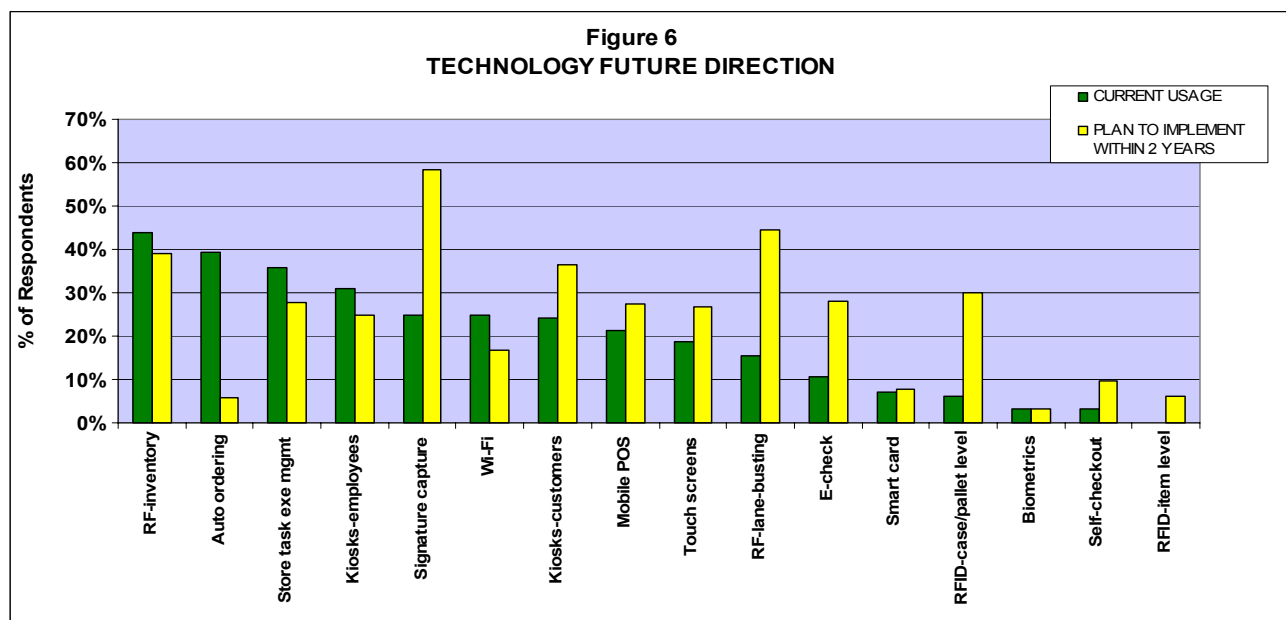
Future hardware and software technology is making inroads into the specialty retail industry. Touch screens provide user-friendly, intuitive computer access to associates at the POS without requiring a keyboard and mouse. They improve

customer transaction times and accuracy, thus improving customer flow-through, with the additional benefit of reducing the time and costs associated with training new associates. One-quarter of the retailers surveyed currently utilize touch screens, and there is great interest in implementing them. We expect to see higher numbers as additional retailers plan to replace their hardware in the next two to three years.

Self-checkout offers proven labor savings related to replacing front-end labor. Ultimately, while the model works well for some retailers, such as the grocery industry or do-it-yourself retailers, it depends on the demographics of the store to see if self-checkout will be a help or hindrance.

While last year there was no interest indicated by the specialty retailers surveyed in offering self-checkouts, this year we have seen a few respondents already offering it or planning to implement in the next two years.

As we have seen again in this year's survey, new and future store and host-based applications and functionality make it easier to develop a strong case for upgrade or replacement of POS systems, leading to enhanced services provided to the customer. But as retailers deploy new systems, they must continue to focus on the business value of these applications and functionality and align this with the overall business strategy.



## **CONCLUSION**

As we move into 2005, retailers continue to focus on enhanced customer service in five major areas at the store.

*Customer Interaction* requires the understanding of profitable customers and their purchasing patterns to be able to offer a personalized shopping experience.

*Multi-Channel Integration* provides the customer a seamless shopping experience across all channels: in stores, at kiosks, online, and through catalogs.

*Store Dashboard Functionality* utilizes sales and inventory information to more effectively transact with the customer.

*Labor Utilization* provides tools for the management of store labor and tasks to

ensure that payroll dollars are effectively used to address customer needs.

*Software and Infrastructure Deployment* offers additional customer services through a more effective and efficient use of technology.

There is also a continued push for new hardware and software; the driving forces include the decreasing costs of new technology versus the increasing costs to maintain the current environment plus additional functionality such as CRM and centralized returns management needed to “keep up” with customers and the competition.

As retailers continue to improve overall customer service, successful implementation will require that the organization agrees

upon the objectives, in addition to having tight integration across other applications, a deep understanding of the overall impact to the business process and the roles and responsibilities within the organization, a reward structure based on a customer-centric focus, and effective training.

The key will be for a retailer to provide the highest level of customer service, while at the same time attaining an effective return on investment.

For more information, contact Sunita Gupta, Executive Vice President; LakeWest Group; Suite 1700 Republic Building, 25 West Prospect Avenue; Cleveland, Ohio 44115; (216) 535-4000; [sgupta@lakewest.com](mailto:sgupta@lakewest.com) or visit our website at [www.lakewest.com](http://www.lakewest.com).

*LakeWest Group, LLC 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, LakeWest Group serves all retail segments and channels.*

*Recent LakeWest Group Publications include*

### *Business Planning and Strategy*

- Retail IT Spending in the Early 21<sup>st</sup> Century, January 2005
- From Identification to Insight: Retailers Eye the ROI Roadmap for RFID-EPC, October 2004
- RFID in Retail: The Future is Now, June 2003

### *Technology Advancement*

- 5<sup>th</sup> Annual POS Benchmarking Survey: A Retailer Perspective, January 2004
- Seven Practices of Successful Implementations, January 2002
- Systems Evaluation and Selection Process: Avoiding the Pitfalls, January 2002

### *Operating Process Enhancement*

- Revenue Optimization: An Overview, June 2002
- Merchandise Management Integration: Five Critical Elements, January 2002

To obtain a copy of any of the publications listed above or to be added to our mailing list, please contact [publications@lakewest.com](mailto:publications@lakewest.com).