

POS Upgrade Strategies

Omni-channel operations now shape POS decision-making

Delivering a quick and efficient checkout experience used to be retailers' top point-of-sale concern, but as omni-channel shoppers increasingly demand an Internet-like shopping experience at the store level, the role of the POS is rapidly changing. Eager to improve customer service and satisfy consumers' rising expectations, innovative retailers are seeking ways to upgrade their POS systems with functionalities that allow them to attune their service offerings to the needs of this new generation of shoppers.

The POS is described as the heart of the retail store. Besides being the lifeline in the shopper-retailer relationship, it has become a hub that connects as many as 30 retail systems, including order management, inventory control, financial reporting, fulfillment, cash management, pricing and promotions.

Over the last decade, however, the POS has evolved from primarily a transactional and data collection device into a critical customer service touchpoint. It's the omni-channel environment retailers operate in today that has changed the game. Now, the POS has critical roles in every chain's omni-channel operations, particularly now that shoppers expect a seamless shopping experience regardless of where and how they interact with their favorite retailer.

While 95 percent of retail purchase activity still takes place in the store environment, according to the Securities and Exchange Commission and the National Retail Federation, the POS must now serve as the in-store



nucleus powering an expanding array of activities. Today's POS needs to be able to track customer orders that were first placed online or via mobile commerce, as well as complete transactions that began in these channels or even through a social retailing outlet. The POS must also be able to handle both in-store pickups and returns of items purchased via digital or social channels.

Today's POS should also be able to provide a window into inventory – not just what's available in the brick-and-mortar store itself but throughout the retail enterprise, in other stores, distribution centers and even available

for shipment by suppliers.

In addition, a small but growing number of retailers are giving their POS systems "legs," adopting mobile POS solutions as a complement to their fixed terminal systems. These retailers, which include giants like Home Depot and leading-edge companies such as Urban Outfitters and Nordstrom, must integrate their existing POS systems with mobile devices to create a seamless in-store experience.

In fact, the top three POS "pain points" identified by retailers in June 2011 *RIS* research were "need to add mobile commerce functions," chosen by 47.4 percent of respon-

dents; “not aligned with future needs” (39.5 percent) and “e-commerce divorced from store” (34.2 percent).

HIGHER STAKES FOR POS UPGRADES

The multiplication of channels, functions and devices within the retail enterprise makes a POS upgrade – rarely a simple matter in the first place – an increasingly daunting task. However, retailers are viewing these upgrades as necessary steps for maintaining a competitive edge in an omni-channel world.

Before jumping into any upgrade decision, industry experts urge retailers to take a hard look at their business strategies, the shoppers they serve, and the roles that their POS systems currently play. With a clear understanding of this configuration, retailers can define their customer experience and determine how it will look in the future.

Companies eager to improve their in-store flexibility and customer interactions are considering several of the following areas when

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pursuing POS upgrades.

HARDWARE MAINTENANCE A COST CONCERN

The volatile economy, the erosion of the U.S. dollar, low consumer confidence and high unemployment rates have forced retailers to stretch the lifecycle of their existing POS hardware in hopes of minimizing capital expenditures. As POS systems reach the end of their lifecycles, however, many retailers are facing higher maintenance costs as well as an inability to integrate and take advantage of newer customer-facing and store solutions.

Merchants are finally considering their options and evaluating how to create a forward-

looking POS fleet that is stable, scalable, secure and open – efforts that will make future functionality integrations seamless.

These investments have helped increase POS terminal shipments by more than eight percent in the second quarter of 2011 year over year on a worldwide basis, according to the IHL Group’s *Quarterly POS Shipment Database*. This report tracks the top 25 POS vendors and shipments on a quarterly basis by region, segment, operating system and processor. Brazil, China, India, EMEA and North America led shipment growth.

Looking ahead, more than 75 percent of retailers plan to replace their POS hardware in less than four years, according to Boston Retail Partners 12th Annual *POS Benchmarking Survey*, a 2011 study compiled based on the responses of more than 500 U.S.-based retailers.

Among the top choices in POS hardware, which includes check stands, peripherals and servers, are units that are rugged enough to operate in a harsh retail environment while delivering a lifecycle of at least seven years.

Yet, as always in retail, cost remains a concern. In fact, one-fifth of companies in the market for an upgrade plan to decrease their spending on hardware maintenance, according to the Boston Retail Partners study.

Companies eager to stretch their POS budgets are considering the opportunities that virtualization offers. Whether opting for a formal cloud computing configuration or blade servers that replace distributed, departmental computing, virtualization allows chains to use thin client POS stations that access applica-



POS Opportunities During a Transitional Period

Universal customer data, cloud computing, and new POS functionalities impacting retail

The rise of omni-channel retailing has placed new requirements on store systems in general and on POS in particular. Which POS functionalities are most important in linking the store to digital channels in ways that help the retailer's business?

A Universal view of inventory and customer data are the most important functionalities in POS for omni-channel retailing. Not only do retailers need consistent views of purchases, trends, and preferred shopping channels, but sales associates require real-time insight into what's available and where to satisfy customers and to save-the-sale. Loyalty programs also top the list of importance for omni-channel retailing as customers need to be engaged and expect to be recognized by all channels simultaneously while earning rewards for purchases.

Mobile POS seems to be gaining significant momentum in retail. How can retailers determine if their business model will benefit from using this technology?

Mobile POS has a lot of opportunity for retailers with high volume sales, seasonal peaks, limited space, or an intimate shopping environment. Consumer expectations are growing so rapidly that they are flipping retail into a market driven by consumers with smart phones who want information instantly. Mobile POS devices don't require real estate, freeing up room for product, and are excellent line-busting tools to keep customers happy. Mobile POS additionally offers a personal or intimate sales environment, in which the sales associate benefits from the functionality of the POS system without having to leave the customer's side to find items, place special orders, or even process payment.

New digital payment methods and e-coupons are already having an impact on retailers' POS requirements. Do you see these continuing to grow, and if so, what will be some of the key impacts on POS technology?

Absolutely, these methods will continue to grow and at a rapid

pace. With the introduction of new technologies like Google Wallet, Groupon, and phone 'bump' money transfers, cooperative marketing is going to be the new trend and POS will follow that trend. This will impact POS technology with new standards to rely on for payment processing and the development of new peripherals that allow faster, easier deployment of these digital payment and e-coupon processors to POS systems.

Many elements of POS systems are in flux during this transitional period, including mobility, cloud computing/virtualization, significant e-commerce growth, etc. Which of these present the biggest opportunities to retailers?

Cloud computing presents the biggest opportunity to retailers, especially in this economic transitional period. Retailers who prepare for future growth with Virtualization now by establishing their business in 'The Cloud' will be ready to integrate new applications and functionalities across their enterprise as they become available. Cloud computing offers lower infrastructure costs and allows retailers to easily scale up or down as needed, which means retailers don't have to wait until they are financially prepared for a large investment to switch to cloud computing.

Do you see POS replacement cycles getting shorter in retail, and if so, why?

As new POS technologies emerge and retailers require next generation functionality, we're definitely seeing the 5-7 year cycle get shorter. For most retailers, the actual POS application is remaining on-premise but most of the integrated solutions such as CRM, loyalty, payroll and back office are now available as cloud based solutions making the integration process quicker and cheaper. Retailers are also signing up for the pay-as-you-go, SaaS model resulting in monthly payments versus huge up-front costs which is a significant factor for being able to replace an antiquated POS solution sooner than later.

Retail Anywhere delivers an integrated suite of retail management software and services for midsize retailers. Designed to optimize operations, improve profitability and deliver enhanced customer service across all channels, Retail Anywhere's software suite includes POS, Merchandising, Inventory Management, Business Intelligence, CRM, Warehouse Management and more. Certified ARTS Data Model conformant and leveraging Microsoft's .NET and SQL technologies, Retail Anywhere Solutions are available on-demand in a pay-as-you-go SaaS model.



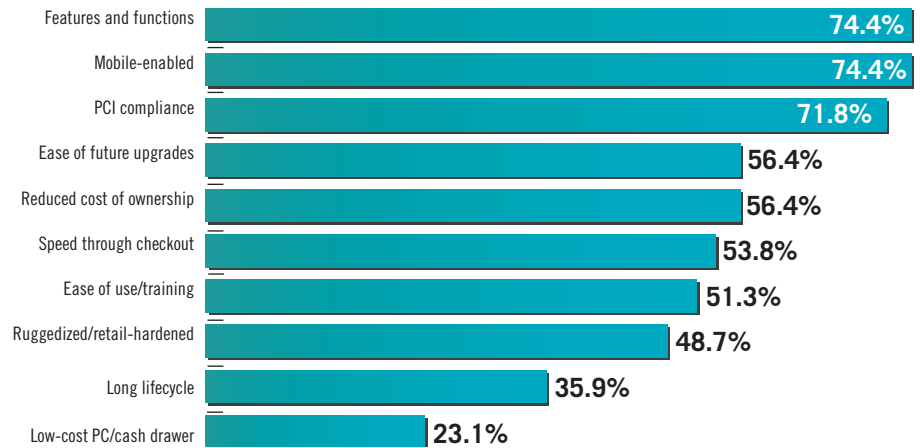
tions from servers located in the home office or in a private cloud.

While less than 25 percent of retailers currently embrace virtualization, its benefits do make it an appealing option. Retailers no longer need to invest in and install POS applications at one or more servers at each store location, which alleviates some of the burdens of hardware and software maintenance, ongoing operation and support. Using less processing power at the store level also enables retailers to leverage existing or less expensive equipment there.

VIRTUALIZATION ADDS SOFTWARE OPTIONS

With renewed attention to the customer experience, retailers are considering how to integrate functionality that includes promotions and coupons (including in-store, digital and mobile versions), enterprise and cross-

CRITICAL FACTORS FOR NEXT POS PURCHASE



Source: RIS News, June 2011 Custom Research

Mobile enablement has quickly become one of the most important POS functions for retailers.

Virtualization allows chains to use thin client POS stations that access applications from servers located in the home office or in a private cloud

channel selling operations and special orders. Realizing that their aging legacy software applications will not support these and future customer-facing operations without extensive customization, many companies are considering upgrades. Specifically, more than one-third of retailers reported that they plan to add new POS software within the next 24 months, according to the Boston Retail Partners study.

In the software area, cost concerns are pushing centralized configurations to the top of priority lists. Servers, operating systems and applications are consolidated at the data center versus at the individual store, supported

by a thin or lean client environment. Fewer devices and licenses are deployed and maintained, and applications are upgraded and managed centrally – all of which contributes to a more agile environment that can provide a more streamlined shopping experience.

With the increased reliability of telecommunications networks, specifically broadband connections, retailers are exploring centralized options such as cloud-based POS applications. Since virtual clouds enable companies to electronically “share” computing resources on demand, these configurations deliver a lower total cost of ownership as well as the speed

and agility needed “to get applications up and running quickly,” explains Andrew Greenway, cloud program lead at Accenture. “The solutions are reliable enough to support companies’ functionality.”

Long POS product lifecycles and retailers’ caution when it comes to new technologies has kept the adoption rate of these technologies low, at least so far. The 2011 RIS/Gartner Technology Trends Study reported that 15.3 percent of retailers are using a cloud computing software architecture, and 33.3 percent use on-demand/software-as-a-service software models. These statistics rose from 11 percent

and 24 percent respectively compared to the previous year's study.

Even among those leveraging virtualization, many choose to keep mission-critical POS apps tucked away on client server platforms just to ensure transactions can be performed despite any outages or connection losses. But "auxiliary" applications, including payroll, reporting, customer relationship management, electronic coupons, loyalty, store portals, price and inventory lookup and kiosk/self-service ordering functionality are successfully being moved into virtualized configurations.

MOBILITY POWERS OMNI-CHANNEL EFFORTS

The growing enthusiasm for mobile technologies is a major factor forcing retailers to speed up their omni-channel integration efforts. Web-based consumer devices, from smartphones to tablet computers, continue to drop in cost, and consumer adoption is on the rise.

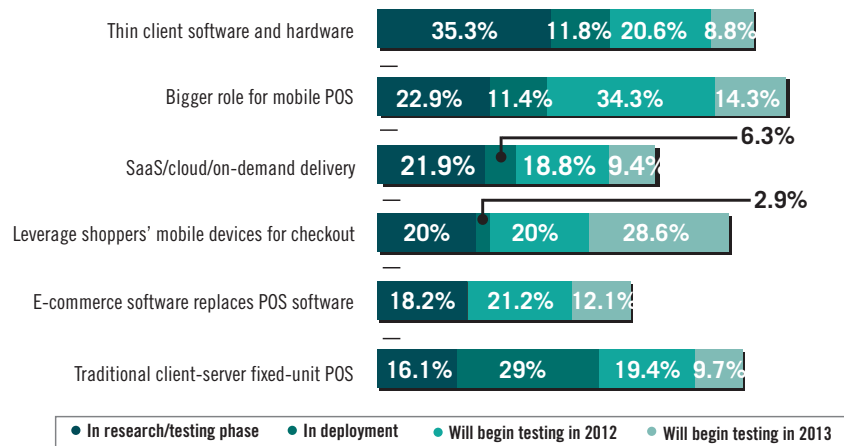
As functionality grows more robust, mobile usage is encouraging retailers to get in the game. In fact, 50 percent of American consumers already rely on personal mobile devices when they shop, according to the *Marketing to the Mobile Shopper* study released by Arc Worldwide, the marketing division of advertising agency Leo Burnett.

Consumers already rely on these devices to confirm merchandise availability, do price comparisons, receive and use digital coupons and even to interact with their customer loyalty accounts. The adoption of m-commerce, which allows shoppers to shop and pay for purchases either online or in-store, is turning up the heat on retailers' POS integration efforts.

Currently, 32 percent of retailers either have a mobile strategy or are piloting a program; another 48 percent are planning their mobile strategies, according to the analyst firm Gartner.

Starbucks has already adopted a multi-pronged mobile strategy, providing Android, Blackberry and iPhone users with an app that allows them to use their smartphones to pay

UPGRADE PLANS FOR NEXT-GENERATION POS ALTERNATIVES



Source: RIS News, June 2011 Custom Research

In addition to larger roles for mobile POS, retailers are exploring cloud and SaaS options for their POS systems.

for orders. Stop & Shop, a division of Ahold USA, launched a similar, albeit limited program called Scan It! Mobile, an app that allows shoppers to scan, bag and pay for groceries using their 3GS or 4G iPhone.

Tablet computers, which feature a larger form factor than smartphones and other mobile devices, are also playing strong roles in retailers' POS upgrade plans. The total global revenue from consumer-grade tablet devices will increase from \$16 billion in 2010 to \$46 billion in 2014, according to The Yankee Group's global tablet forecast, with sales growing at Compound Annual Growth Rate (CAGR) of 31%.

"A mobile world...creates a win for the consumer, and also for the retailer who may use less POS equipment, and avoid additional costs," said Ken Morris, principal of Boston Retail Partners.

POS ON THE MOVE

Consumers often enter a retail store with more knowledge than store associates. The tide needs to shift, and giving "sales associates more information is key," says Jeff Roster, vice president, industry market strategy for retail, Gartner.

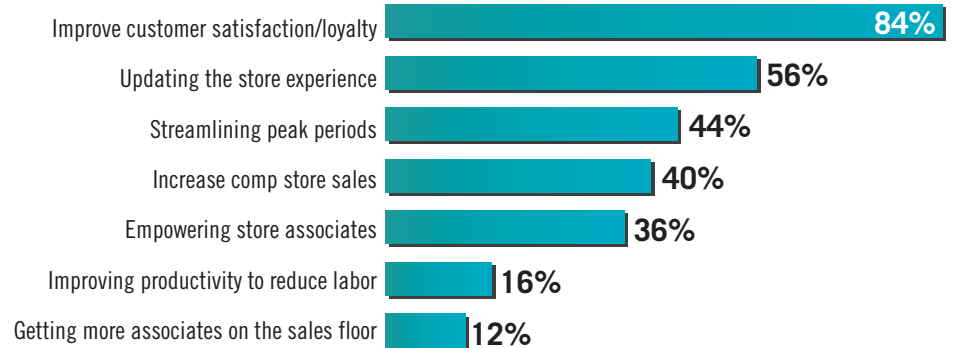
A growing number of retailers are deploying mobile devices for their store associates as a way to equalize this information gap. Home Depot, Nordstrom and Urban Outfitters have moved ahead with mobile POS solutions. As networks become faster, less expensive, and more reliable, more retailers are describing mobile as a cost-effective way to augment POS without investing in expensive hardware and software upgrades.

In addition, Lowe's recently announced the deployment of 42,000 mobile devices providing inventory visibility, the ability to

display how-to videos and access to the home improvement retailer's e-commerce site. Apparel retailer Pacific Sunwear has deployed iPad tablets to 300 of its stores to improve customer engagement with the chain's young shoppers. While these mobile deployments don't currently include a POS function, both retailers indicated that the technology allowed them add functionalities in the future.

Mobile enablement was the top choice among retailers identifying critical factors for their next POS purchase, chosen by 74.4 percent of retailers responding to a June 2011 *RIS* survey. Mobility edged out perennial purchase inducements such as PCI compliance (71.8 percent), reduced cost of ownership (56.4 percent) and increased speed through the check-

KEY DRIVERS FOR MOBILE POS INITIATIVES



Source: *RIS News*, July 2011 Custom Research

Improving customer satisfaction and the store experience are the top business drivers of retailers' mobile POS initiatives.

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out (53.8 percent).

The study also indicates that more than one-third (34.3 percent) of retailers are either testing out a larger role for mobile POS or are already in deployment. The same percentage is planning to begin testing increased roles for mobile POS in 2012.

As physical and digital retailing experiences continue to merge, the time is ripe to create an enterprise dedicated to customer engagement. The POS will remain a core system for delivering this experience in the store.

In fact, among retailers planning a mobile POS deployment, the top tactical goal by far is delivering better customer service, chosen by 87 percent of retailer respondents to a July 2011 *RIS* survey. Tied for second were serving

locations not suitable for fixed POS and line-busting, each chosen by 43.5 percent.

The top choice among retailers asked about the key business drivers of their mobile POS initiative was improving customer satisfaction and loyalty, chosen by 84 percent of respondents. More than half, 56 percent, said updating the store experience was a key driver.

One of the old hurdles that had proved a challenge to widespread deployment of mobile POS was the issue of whether the technology would be able to handle the payment element of transactions. More than half of respondents, 56.5 percent, are facing the challenge directly, saying they intend to handle complete transactions, including payment, with their mobile

POS deployment. Only 34.8 percent are considering deployments where payment takes place at a fixed POS or a self-checkout kiosk.

By a wide margin, credit cards lead the pack among mobile payment options these retailers plan to offer, garnering 90.5 percent of respondents. Less than half this number, 38.1 percent, are planning to accept e-wallet or digital wallet payments, followed by 28.6 percent planning for proximity or contactless payment solutions.

While new functionalities and consumer expectations continue to evolve, it's clear that POS solutions supporting seamless, consistent omni-channel customer interactions are vital to increasing sales, controlling expenses and maintaining a competitive edge. **RIS**