Boston Retail Partners

January 2011

12th Annual POS Benchmarking Survey

Mobilizing POS

Sponsored by:

IBM micros® Retalix

12th Annual POS Benchmarking Survey

Mobilizing POS

Boston Retail Partners
http://www.bostonretailpartners.com

Executive Summary

"Innovation—the heart of the knowledge economy—is fundamentally social." — Malcolm Gladwell

Most analysts agree that Retailing as we have come to know it has been changed forever.

Consumers today are well- informed, well-connected and highly mobile, and we are beginning to see that they expect the same from the companies they do business with. While less than 15% of the retailers who participated in our survey indicated they had an active mobile web presence today, over 50% of these retailers plan to launch this capability within two years. Mobilizing POS means many things, and we hope our 12th Annual POS Benchmarking Survey adds additional insight to the subject.

Boston Retail Partners (BRP), along with our sponsors is pleased to present this survey of the retail point-of-sale (POS) and store system technology trends. In this paper, we examine a number of areas critical to retailer success – customers, the associates available to assist them, and the technology to support the shopping experience.

We sincerely hope you enjoy reading it.

Boston Retail Partners surveyed more than 500 U.S. Retailers for the 12th Annual POS Benchmarking Survey. Online responses were solicited in November - December, 2010. Respondents were generally C-level executives or VP/Directors of Store Systems.

Boston Retail Partners is an innovative and independent retail management consulting firm dedicated to providing superior service and enduring value to our clients. Boston Retail Partners combines its consultants' deep retail business knowledge and cross-functional capabilities to deliver superior design and implementation of strategy, technology, and process solutions. The firm's unique combination of industry focus, knowledge-based approach, and rapid, end-to-end solution deployment helps clients to achieve their business potential.

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Table of Contents

Executive Summary 2
Table of Contents 3
Introduction 4
Four Areas of Focus 5
POS Hardware 6
Trend: Hardware replacement 7
Opportunity: Hardware virtualization 7
POS Software 8
Trend: Software implementation 8
Opportunity: PII protection 9
Opportunity: Virtualization of POS 9
Opportunity: Improve auxiliary tool functionality 10
CRM 11
Trend: In-store loyalty functionality 11
Trend: Focus on customer experience 13
Opportunity: Identify customer earlier in process 14
Mobile Solutions 15
Trend: Expanding channels 15
Opportunity: Enhance mobile offerings 16
Opportunity: Improve networks 17
Additional Trends to Watch 18
Trend: Non-traditional marketing methods 18
Trend: Enterprise selling 19
Conclusion 20
About Boston Retail Partners 21
Our Sponsors 22

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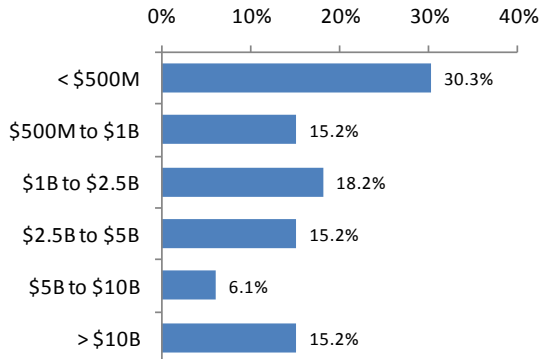
Introduction

2010 was yet another challenging year for Retail, and the idea that things will settle down and "get back to normal" seems to be slipping away. Consumers remain concerned about the economy and continue to watch their spending very closely. Retailers continue to seek new and/or better ways to reduce expenses while trying to increase sales. Getting the ever more frugal customer to shop at your store instead of the competition continues to be a challenge for every retailer, across all shopping channels.

It is within this ever-changing environment that Boston Retail Partners (BRP) conducted the 12th Annual POS Benchmarking Survey of U.S. retailers. BRP surveyed more than 500 top U.S. retailers in November and December 2010. This paper summarizes the results and key findings of this survey, offers insight and observations into the store-level tactics and strategies that retailers have utilized and are utilizing to survive, and identifies the current store-level trends in the industry along with some opportunities for retailers to continue to evolve and prosper in the future.

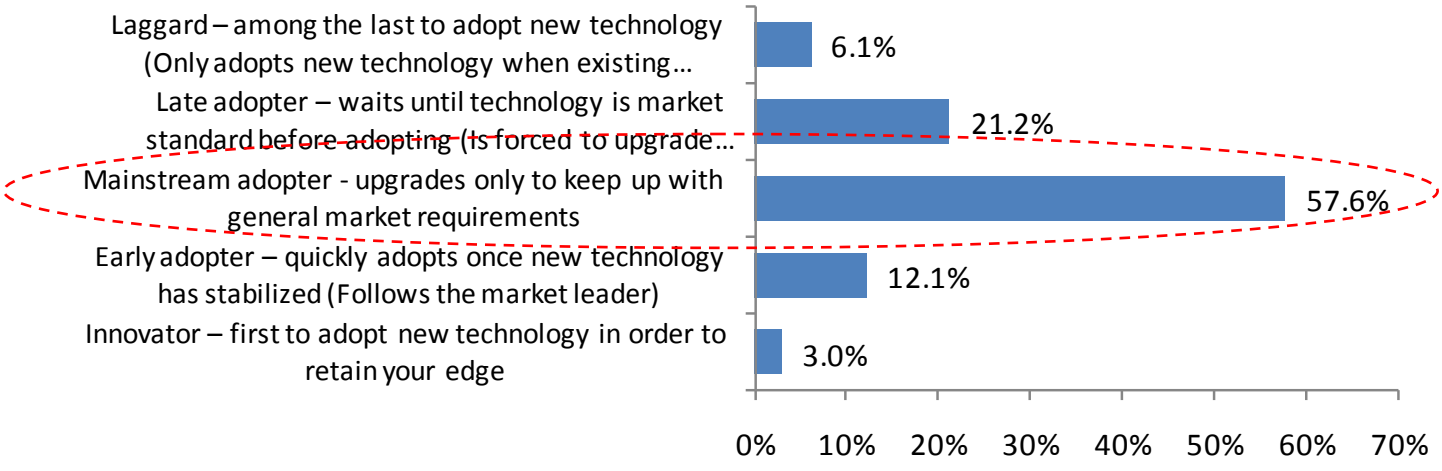
Exhibit 1
Company gross annual revenue



The retailers we surveyed included retailers beyond specialty, such as automotive, furniture, and grocery but the majority fell into the specialty category. The focus within this paper is on the specialty retail segment. Of the retailers surveyed, the breakdown in size based on annual revenue included a selection of Tier 1, 2 and 3 retailers with approximately half falling under $1B and the other half with revenue above $1B **(Exhibit 1)**. The specific respondents for each company were mainly C-level executives or VP/Directors of Store Systems.

As in the past, Retailers continue to classify themselves as followers with regard to the adoption of information technology. When we asked respondents how they would classify their organization. Fifteen percent of retailers labeled their organizations as technology followers, and nearly 60% were classified as mainstream adopters. One-quarter of survey responders indicated their organizations were either late adopters or laggards **(Exhibit 2)**.

Exhibit 2
Retailer information technology adoption



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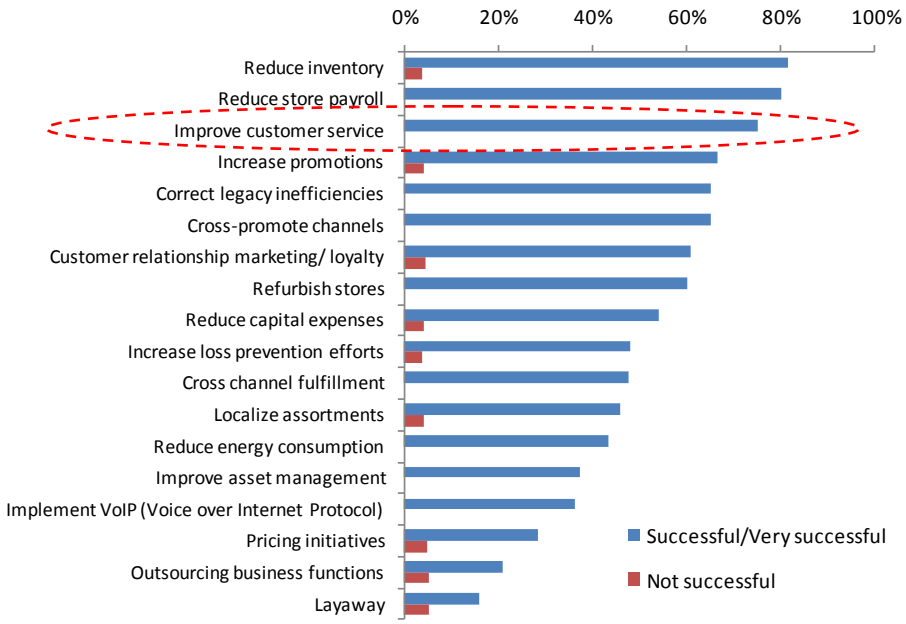
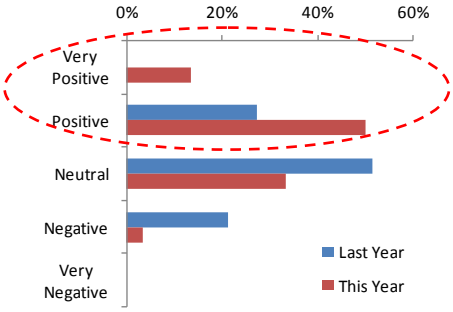
Despite the economy, many of the retailers we surveyed for the 12th Annual POS Benchmarking Survey have survived and indeed thrived. When we asked what steps had been taken to overcome the recent difficult business conditions, we found the responses quite consistent with those from last year's survey results. The most successful involve reducing both inventory and payroll, while also increasing promotions. Improving customer service also continues to rank high with 80% of the retailers finding success in this as a strategy to help improve overall business success **(Exhibit 3)**.

Exhibit 3
Steps taken to overcome difficult conditions



The good news is that it seems to be brighter up ahead. While we saw optimism in last year's survey, this year it seems to be much more pervasive with 63% of the retailers having a positive view of the economy versus 27% last year **(Exhibit 4)**.

Exhibit 4
Economic outlook



Retailers are even more positive when it comes to business prospects for the next 12 months – 90% have a positive view with no retailers thinking negatively, only a few retailers viewing business prospects from a conservatively neutral position. Overall, the retailers surveyed are more positive than last year, especially when discussing business prospects. So what are retailers focusing on as they look to the next year?

Four Areas of Focus

When we surveyed top U.S. retailers to understand the areas of focus for their organizations we found, first of all, that there were far more areas of increased spending than there were last year. Obviously, we are seeing some pent-up demand in many areas. Secondly, there were four major areas of focus that seemed to be consistent across many of the retailers **(Exhibit 5)**.

- **POS Hardware** - 60% of the retailers plan to increase spending in this area.
- **Mobile Solutions** - Nearly 60% are increasing spending over the next 12 months.
- **CRM (Customer Relationship Management)** - More than half the retailers plan to increase spending in this area.
- **POS Software** - Slightly more than half of the retailers are increasing spending over the next year.

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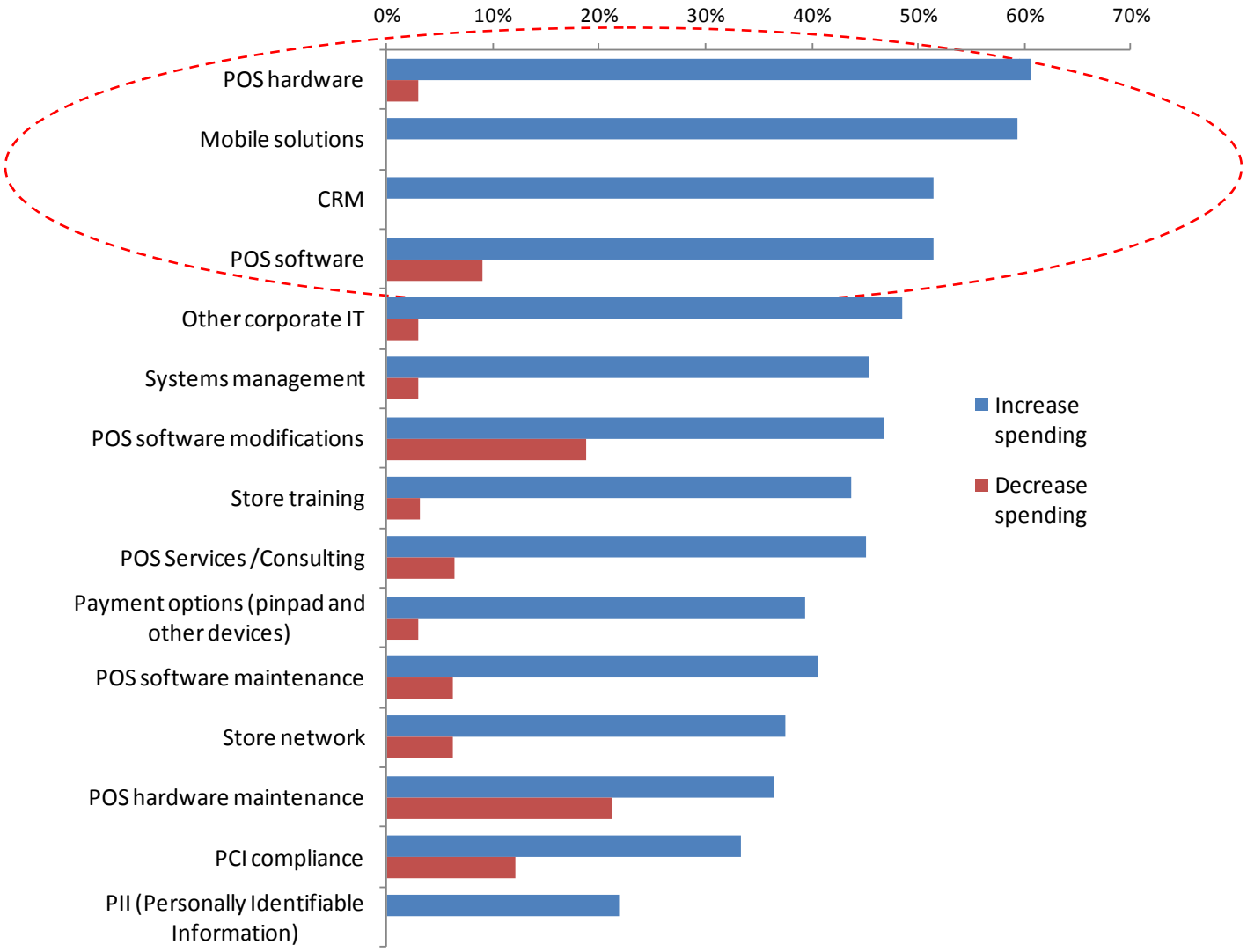
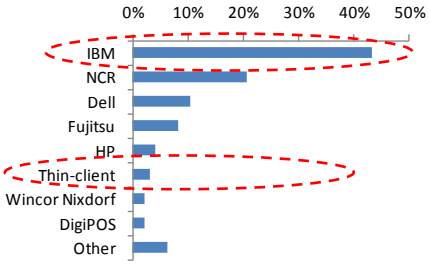
Exhibit 5
Spending plans for next 12 months



POS Hardware

Satisfying the customer continues to grow more challenging. We live in a world of instant gratification and if you can't complete a customer's transaction quickly and efficiently then they are more than willing to take their business elsewhere. The POS in the store takes the center stage as a critical part of successfully meeting the customer's expectations. But to meet these expectations, the POS system needs to be able to efficiently and effectively run the applications necessary to complete the customer transaction in a timely manner. This generally means fast processing speed at the terminal and a high-speed network. As we look at the POS hardware market, it continues to look very similar to past year's with IBM remaining the dominant player and the rest of the market segmented. An interesting addition this year is that we are starting to see a few retailers implementing thin-client solutions **(Exhibit 6)**.

Exhibit 6
POS Terminals



SOURCE: POS Survey, BRP Research

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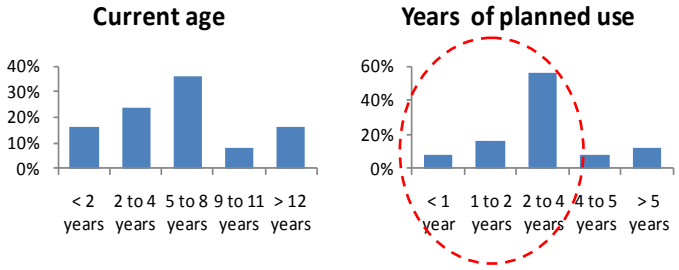
Trend: Hardware replacement

In the last few years we have noticed a resurgence of interest in the upgrade or replacement of POS systems. Many retailers have reached the end of their hardware lifecycle and need to replace it to keep up with customer demands. Other retailers are moving to newer technology as a way to enhance business while holding the line on the expense involved with equipment maintenance.

This year the interest in upgrading or replacing POS hardware has increased as more than 75% of the retailers surveyed indicated that they plan to replace their POS hardware in less than 4 years (**Exhibit 7**). Retailers have realized the importance of a strong POS system to support the customer AND the associate at the store.

Exhibit 7
POS terminals

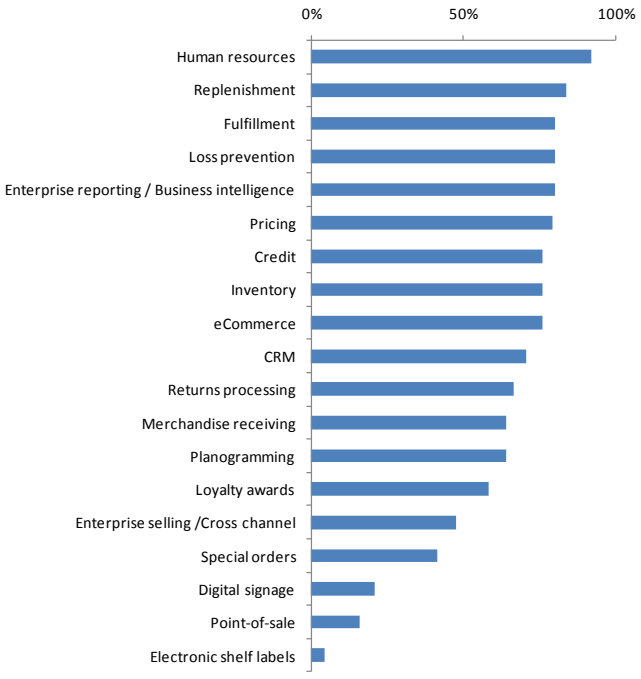


Given the downturn in the economy over the last few years, some retailers have tried to hold onto their POS hardware longer than planned to minimize expenses which may explain why 60% of the retailers' current POS terminals are more than four years old. But given the higher maintenance costs required to run older equipment, as well as ever-advancing technology, the time has now come to upgrade/replace. One-fifth of the retailers also indicated that they plan to decrease spending on POS hardware maintenance which would support the idea that retailers are looking to update/replace current POS hardware.

Opportunity: Hardware virtualization

An opportunity we are seeing today for retailers is an alternative to replacing current hardware with similar POS terminals and the opportunity is virtualization. We have seen tremendous interest in virtualization at the home office with most retailers moving from a distributed model to a central, virtual model. There are solutions available, such as blade servers, to replace distributed, departmental computing including at the desktop level. The time has come for retailers to consider this model in the store environment where most have already embraced the concept for many in-store applications (**Exhibit 8**). Retailers can opt to run a lean or thin client solution where the POS application runs on a server at the home office or in the cloud (private) and relies on the network for transactions.

Exhibit 8
Centralized (Home office process)



The benefits to this type of a model are significant. By eliminating the need to install and run the POS application on one or more servers at each store (thick client), this alleviates some of the retailer's burden of hardware and software maintenance, ongoing operation, and support. There is the ability to utilize existing equipment and/or less-expensive equipment because less processing power is needed at the store-level. This allows the retailer to install less robust and thus, less expensive hardware at the store. There is also the benefit of a more orderly hardware refresh program without the need for a mass replacement of equipment that is unable to keep up with processing requirements and simplifies the support needs.

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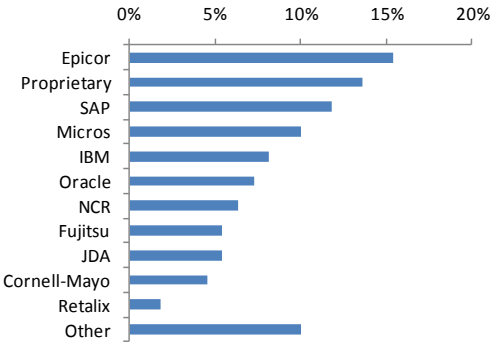
POS Software

The checkout experience continues to be a focus as retailers look to upgrade or replace POS software and hardware. Top retailers realize the importance of the checkout experience and continue to make the checkout a top priority. Additionally much of the new and advanced functionality available to retailers such as more complex promotions and coupons, enterprise selling, and special orders has prompted retailers to consider an upgrade or replacement of POS software. Retailers are beginning to realize that running the same application for 10 – 15 years can put you at a great disadvantage since functionality is continually being enhanced and new applications created.

Exhibit 9
POS Software



SOURCE: POS Survey, BRP Research

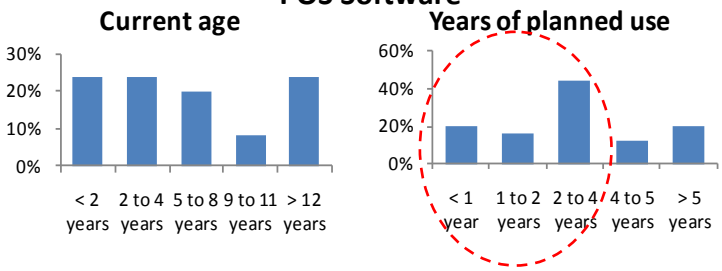
There are a number of retailers who still run proprietary POS software, which is defined as homegrown or software that is modified so much it is virtually unrecognizable from the original. (The base of these solutions is typically an early version of mainstream vendor software). The market share of proprietary software has remained relatively significant over the past few years and it will be interesting to see if this changes in light of other POS replacement trends. The rest of the market remains segmented with Epicor, SAP, and Micros with the most implementations among the POS software vendors **(Exhibit 9)**.

Trend: Software implementation

As the POS Benchmarking Survey continues to indicate, we see significant interest in the upgrade or replacement of POS systems. Nearly half of the retailers indicate their POS software is less than four years old which indicates there has been a steady stream of software replacement over the last few years. More than one-third of the retailers surveyed have indicated they plan to implement new POS software in the next two years (**Exhibit 10**).

Unfortunately, there are still a number of systems in the industry, even among the top retailers, that are approaching a decade in use or even older and unable to support new and advanced functionality or the additional applications that are necessary at the checkout to ensure a smooth checkout experience for the customer.

Exhibit 10
POS Software



Retailers have also realized that older POS applications may have reached their maximum capacity, providing the retailer with low functionality and high maintenance costs. 20% of the retailers plan to decrease spending on POS software modifications, which supports the idea that retailers are looking to update/replace current POS software **(See Exhibit 5 above)**.

There are a few vendors who offer a centralized POS solution. Some are in their infancy (Micros, SAP and Enactor) while others have offered this solution for some time (GK Retail, Tomax and Raymark). These solutions can be implemented in a thick, lean or thin model with thick being a traditional scan and bag environment with traditional hardware and software redundancy at store level. The lean concept has some minimal in-store redundancy and the thin- or cloud-based POS relies on the network and a robust intelligent Integrated Service Router.

Cost is the overriding factor here with upwards of 50% reduction in costs both initial and ongoing depending on the specific environment **(See Exhibit 12 below)**.

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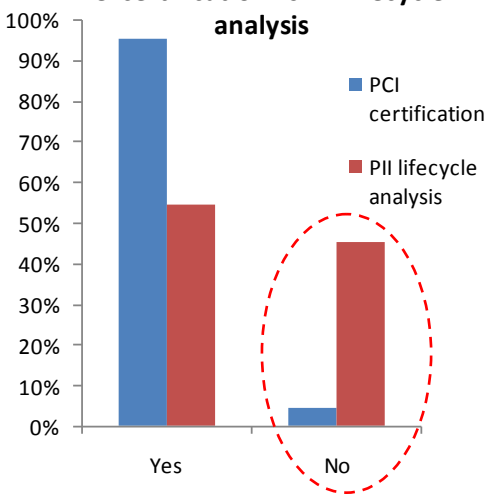
Opportunity: PII protection

PCI compliance continues to contribute to the overall amount of spending on POS systems. The Payment Card Industry Security Standards Council (PCI SSC) is an open global forum comprised of board members American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa, Inc. This council was founded in 2006 for the development, management, and education of the PCI Security Standards, including PCI DSS (Payment Card Industry Data Security Standard).

Retailers have been scrambling since then to meet the continually evolving set of standards while customers have become increasingly concerned about their privacy. Retailers continue to dedicate time and resources to comply with the requirements. Of the retailers surveyed, 96% state that they have completed PCI certification/verification in the last 12 months although globally only about 15% are compliant.

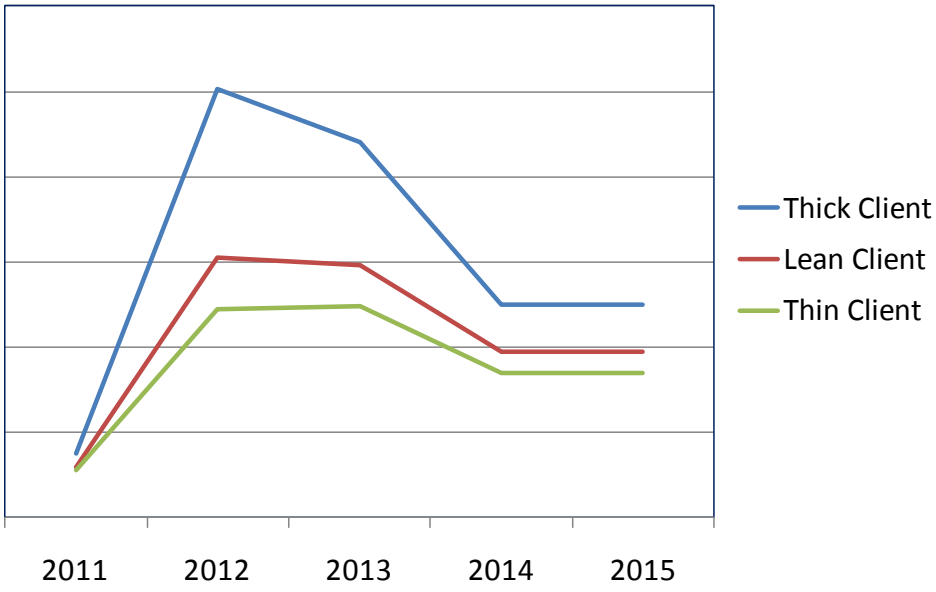
The next step for retailers is looking beyond PCI to the larger group of data elements known as PII (Personally Identifiable Information). PII, as used in information security, refers to information that can be used to uniquely identify, contact, or locate a single person such as Social Security numbers, date-of-birth, routing/transit numbers, and driver's license numbers. The information addressed by PCI DSS is a subset of the larger group of information known as PII. Analysis of this additional information is still an opportunity for nearly half of the retailers we surveyed who indicated that they do not currently perform any PII lifecycle analysis **(Exhibit 11)**.

Exhibit 11
PCI certification vs. PII lifecycle analysis



Opportunity: Virtualization of POS

Exhibit 12
Sample cost comparison



Centralized processing of POS applications is an interesting option for many retailers. The store-level environment becomes much simpler by consolidating servers, the operating system, and applications at the data center instead of at the individual store; usually utilizing a thin or lean client environment. Because of this centralization, there are fewer devices and licenses to deploy and maintain and application updates/upgrades can be performed and managed centrally and implemented more quickly. This enables a more agile environment to offer a richer shopping experience for the customer.

Retailers can move the dollars usually allocated to the POS environment and focus on more strategic POS initiatives to enhance and even personalize the customer experience and thus, beat the competition **(Exhibit 12)**.

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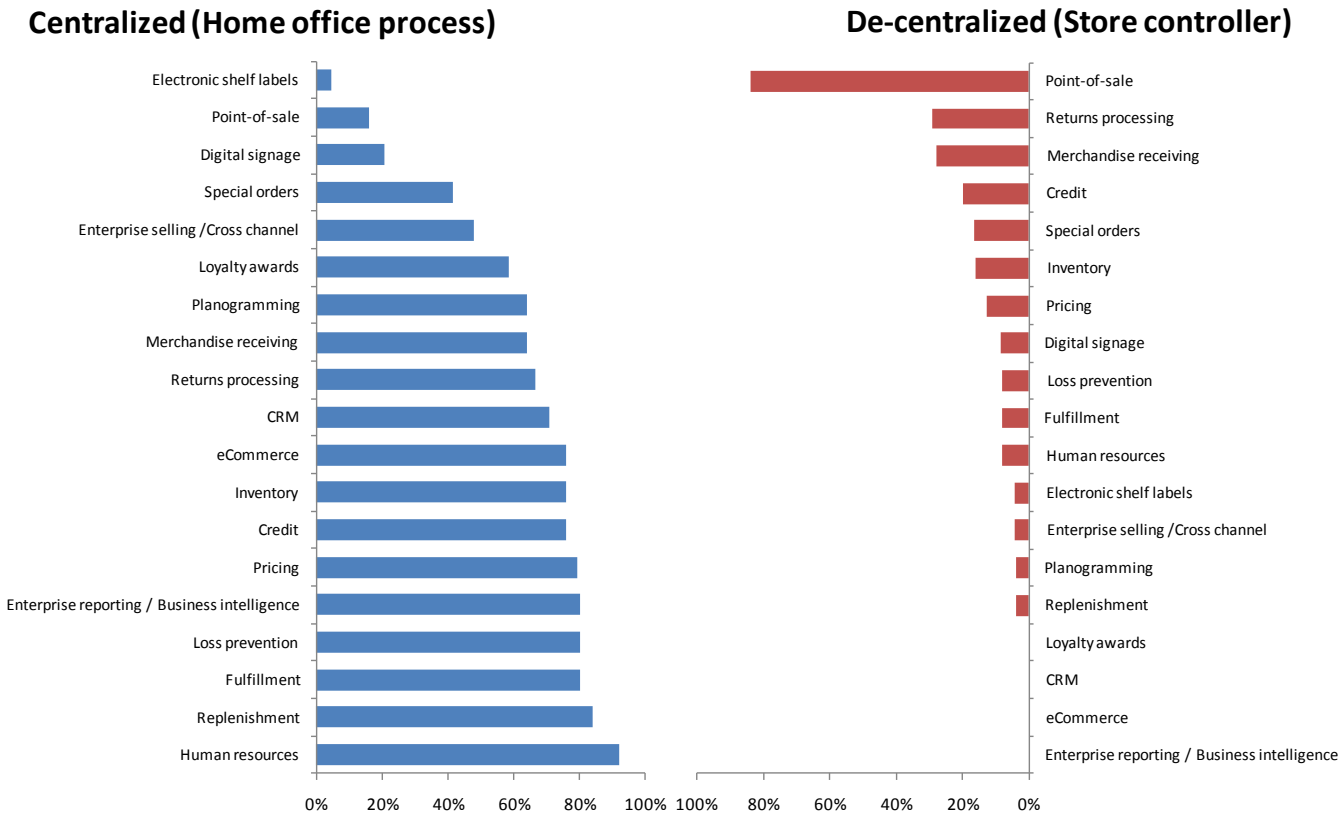
Centralization offers retailers the ability to deliver multi-channel store capabilities to increase revenue via guided selling for cross-and up-selling coupons and promotions in real-time.

Retailers are already experimenting with centralization. When we asked the retailers what processes they are running centrally through the home office more than 75% already run loss prevention, pricing, inventory, replenishment, and fulfillment. There are even 16% who have realized the benefit of running their POS through the home office (**Exhibit 13)**.

Exhibit 13
Virtualization of POS



But there are opportunities for further centralization of processes. Networks are more reliable and more resilient than ever before and allow for a completely different type of store environment.

Opportunity: Improve auxiliary tool functionality

Retailers are looking at auxiliary tools to enhance functionality within the store, both for the customer through special orders and self-service price checks, and also for the store employees through store portals and real-time analytics. What is interesting is that many retailers seem to struggle with these implementations and if they do manage to implement these auxiliary tools they are unhappy with how they seem to be operating.

Implemented and used correctly, tools such as special ordering and self-service price checks can greatly enhance the customer's shopping experience. Allowing a customer to special order merchandise across channels keeps the customer happy without the need for more physical inventory. Offering the customer the ability to check prices on their own through a self-service price check gives the customer some control of their shopping experience without the need to search for a sales associate to assist them. On the store side, a store portal and real-time analytics offer the store associates tools to better serve the customer by implementing same day promotion changes or re-highlighting key selling merchandise **(Exhibit 14)**.

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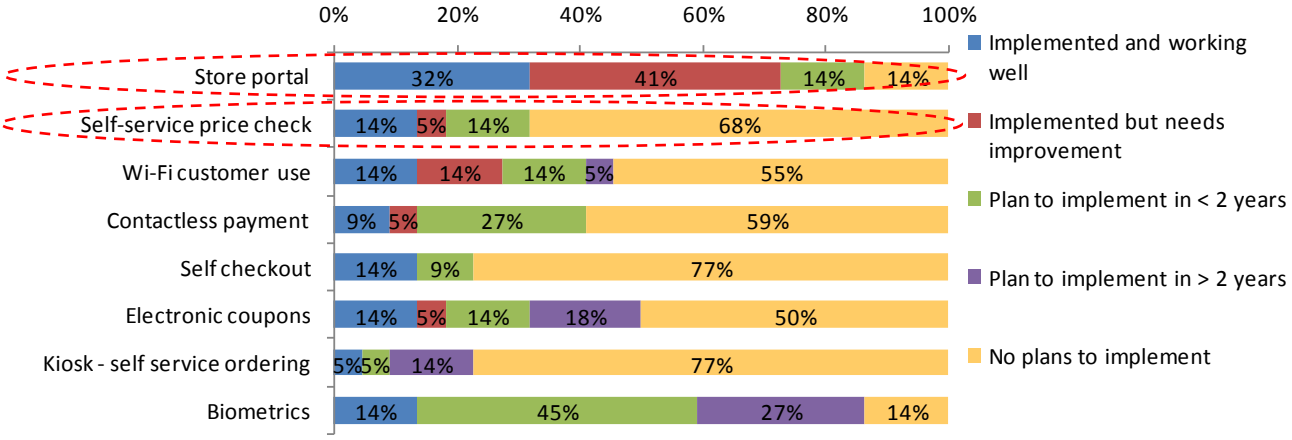
Exhibit 14
Auxiliary tools



CRM

Not surprisingly, customers want good customer service. But the definition of good customer service differs depending on the customer, the product, and even the type of store, and for a retailer it can be a moving target. The key for retailers is to try and understand their customers and their customers' expectations, needs, and wants. Customer relationship management (CRM) applications integrated into the POS are essential to collect this type of data.

Customers are bombarded every day with an increasing amount of electronic communication, whether it is email, text, or social media. This makes the challenge of effectively communicating with the customer that much more difficult. Without the right data and tools, retailers are ill-equipped to overcome this challenge. If communication is not timely and meaningful to your customer's needs, it is sure to be lost as just further noise in a growing Inbox. To add to this complexity, retailers must consider how they meet their customer's expectations not just in the store, but online, and with mobile as well. CRM can help retailers enhance that relationship with the customer by providing the tools to help deliver a meaningful and gratifying experience for the customer across all points of interaction.

We are seeing retailers generally using their CRM applications as a foundation for a loyalty program, and to collect customer information, but many retailers still struggle to clarify the purpose of their CRM programs and need to focus on utilizing customer information to support the overall customer value proposition. Retailers still need to take customer relationship management to the next level, beyond just simple loyalty programs, and move into more personalization as well as building better assortments and improving sales and margins.

Trend: In-store loyalty functionality

Started years ago by airlines, loyalty programs offer retailers a way to segment customers and provide personalized promotions and incentives, while also gathering critical purchasing information to customize promotions and product assortments. For this reason, and recognizing the contribution that the best customers make to a retailers' bottom line, many retailers have implemented loyalty programs. Of the retailers surveyed, nearly half currently offer their customers a loyalty program.

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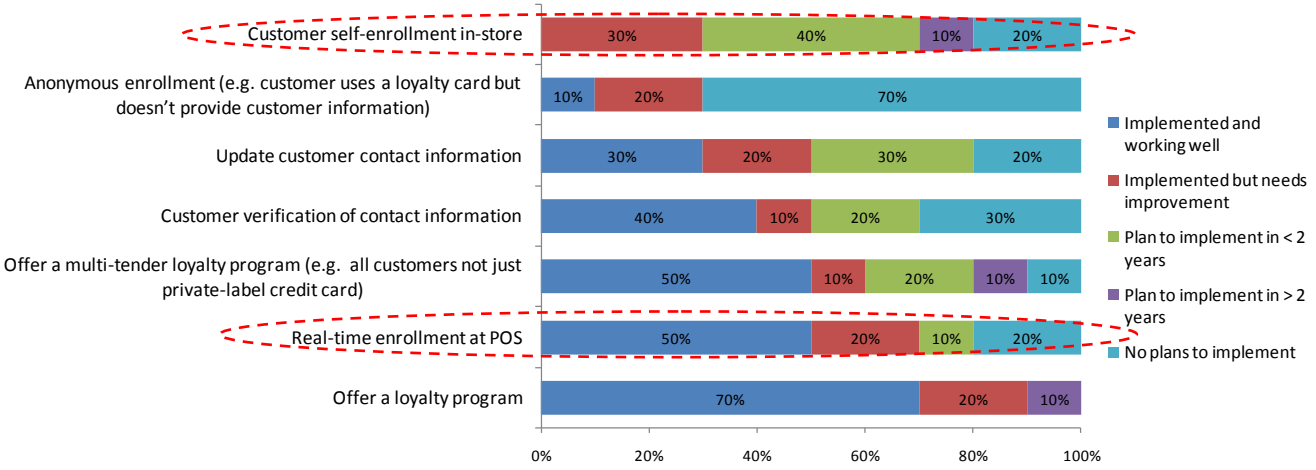
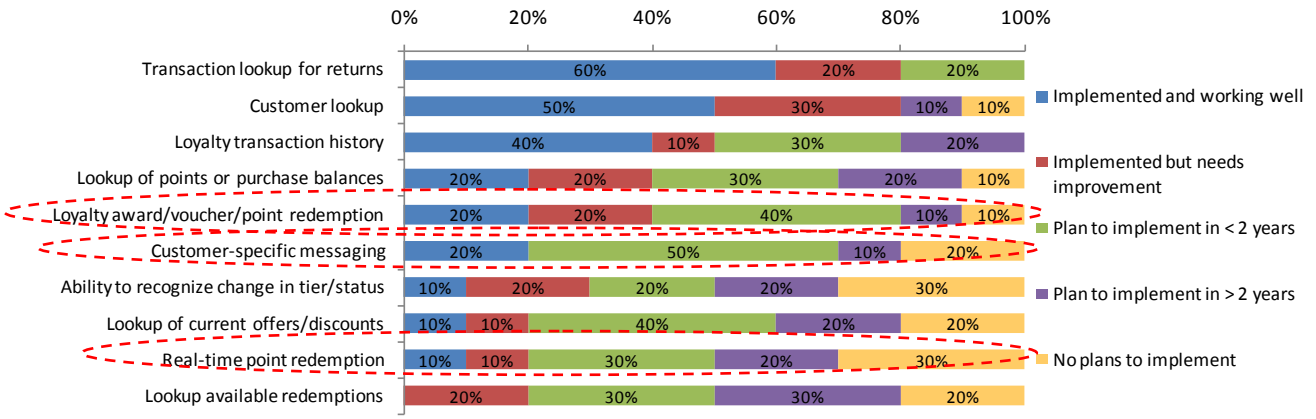
Using technology as a way to streamline loyalty programs, 70% offer real-time enrollment at the POS to immediately capture customer information. By replacing older methods where customers had to manually fill out a form which was then set aside for later data entry, retailers can reduce or even eliminate any data reliability issues while also taking advantage of a customer's interest in joining the loyalty program. Another way to streamline the loyalty program enrollment process is by allowing the customer to self-enroll in the store through a kiosk, portal, or possibly mobile application. Half of the retailers surveyed plan to implement some type of customer self-enrollment in the next four years (**Exhibit 15)**. After all, what better way to make sure that a customer's information is accurate than to have them enter the data themselves!

Exhibit 15
Implementation status of loyalty program enrollment features



Once enrolled in a loyalty program, customers expect store associates to use this information to enhance and personalize the customer's shopping experience. Interestingly, we are seeing retailers beginning to enhance loyalty program functionality within the store. In the past retailers offered the ability to look up transactions but little else. Now, retailers are moving forward and expanding their loyalty programs in-store functionality to include customer-specific messaging which half the retailers plan to implement within two years, and loyalty award/point redemption which 40% plan to implement in less than two years. Again this year we are seeing significant interest in adding real-time point redemption functionality, with 30% of retailers planning to implement in the next two years. No surprise, these are important drivers and considerations as retailers looks to enhance or replace existing POS and CRM applications, making seamless real-time integration more important than ever **(Exhibit 16)**.

Exhibit 16
Implementation status of loyalty program store information features



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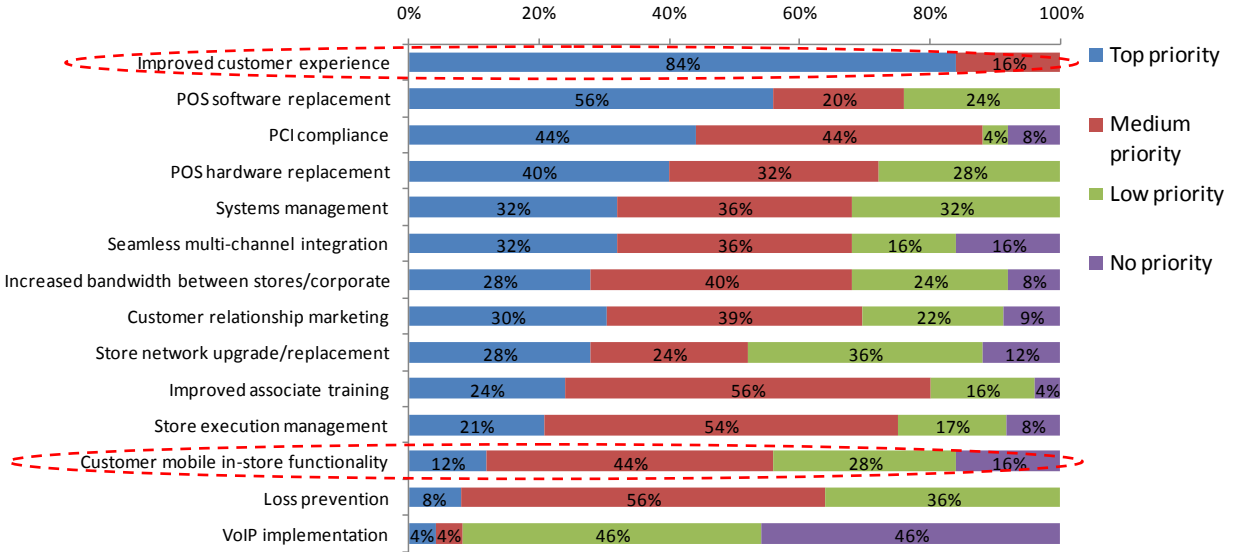
Trend: Focus on customer experience

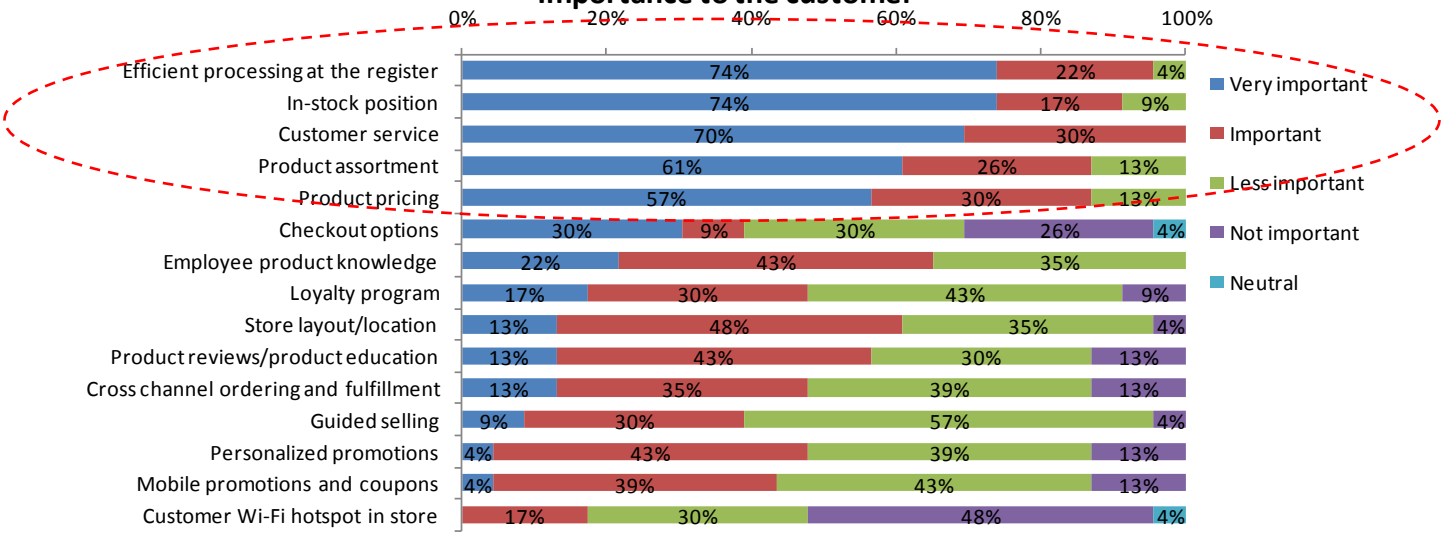
When we asked retailers what their top priorities are at the store-level for the next two years, the overwhelming response was to offer an improved customer experience, with nearly 85% indicating that as a top priority and the remaining retailers indicating it as a medium priority. Interestingly, this is up from last year when 63% said it was a top priority and 33% said it was a medium priority. Retailers understand that to stand out from the competition and retain and attract new customers, it will be the customer experience that primarily will dictate their success **(Exhibit 17)**.

Exhibit 17
Store-level priorities



So when we are discussing the customer experience it is important to understand what is important to the customer. At the very basic level, the customer wants to be able to find the item they want in the store at a reasonable price, find an associate if they need one, and then get through the checkout quickly and easily. Once those needs are met, which some retailers still struggle with, then the retailer can work on delivering a personalized and differentiating customer experience **(Exhibit 18)**.

Exhibit 18
Importance to the customer



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Retailers understand how CRM and loyalty programs can be leveraged to encourage more frequent shopping trips and larger purchases, and are focusing on creating a more personalized customer shopping experience. Leading retailers are leveraging loyalty programs to deliver personalized promotions, products, and services in new and different ways to deliver a unique experience that further drives customer loyalty. With an increased emphasis on leveraging loyalty programs, 50% of retailers we surveyed are now offering a multi-tender loyalty program. We expect to see this trend grow as more retailers expand their loyalty programs beyond private-label credit cards to any form of payment.

The growth of the mobile channel, as demonstrated by the plethora of mobile application for customers, is another way retailers are working on expanding and redefining the customer experience. An important consideration going forward will be how to best combine in-store and CRM technology with mobile to deliver a blend of in-store experience with online type functionality. Retailers that deliver well on this blend will stand out and help in their success of delivering an engaging and "sticky" experience that will increase customer loyalty and spend.

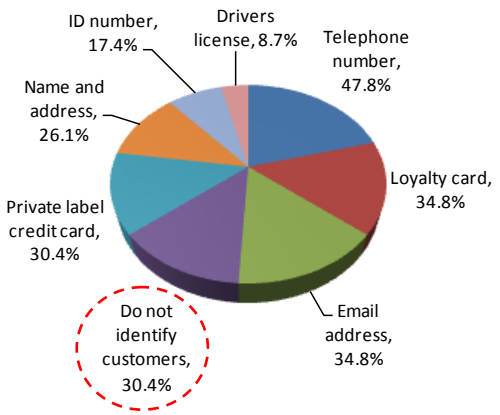
The ability to offer sales associates information about the customer at the checkout is important to help tailor that experience and meet customer service expectations. More than half the retailers offer their associates the ability to see customer contact information and the ability to pull up transactions for returns. Making this easy and efficient is essential to be an effective tool.

Another way to customize the shopping experience is through customer care services that relate to the business, such as white glove delivery or in-home consultations for a furniture store, or personal shoppers at a high-end specialty apparel store. While these services don't translate across the board to every retailer, there are opportunities to look for these types of services to offer customers to help personalize the customer experience.

Opportunity: Identify customer earlier in process

While retailers have been focusing on identifying their customers at the checkout, which 70% can do, it is a bit surprising to see how many retailers have no capability in place to identify their customers **(Exhibit 19)**. While knowing who is leaving the store is interesting, less than 20% of the retailers in our survey can identify or access customer information in the store before the checkout transaction begins.

Exhibit 19
Customer identification at the POS



We believe there is an opportunity for retailers to identify customers earlier in the process. By doing so, targeted customized promotions and information can be made available to the customer to guide them in the shopping process. Imagine that you are able to identify the customer when they walk into the store via a signal from their smartphone, offering the customer real-time coupons or promotions, or suggesting items based on previous purchases, customer preferences or inventory overstocks. In addition to providing the incentive to purchase additional items, such a capability enhances both customer loyalty as well as the retailer's the bottom line.

Supporting these capabilities will require advanced capabilities such as real time analytics. These analytics have long been a staple within the e-commerce channel. With additional information and capabilities, retailers now could have the same opportunity in the store. The convergence of high speed networks, customer relationship management and the business intelligence suites many retailers have already invested in all could play a significant role in this vision.

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Mobile Solutions

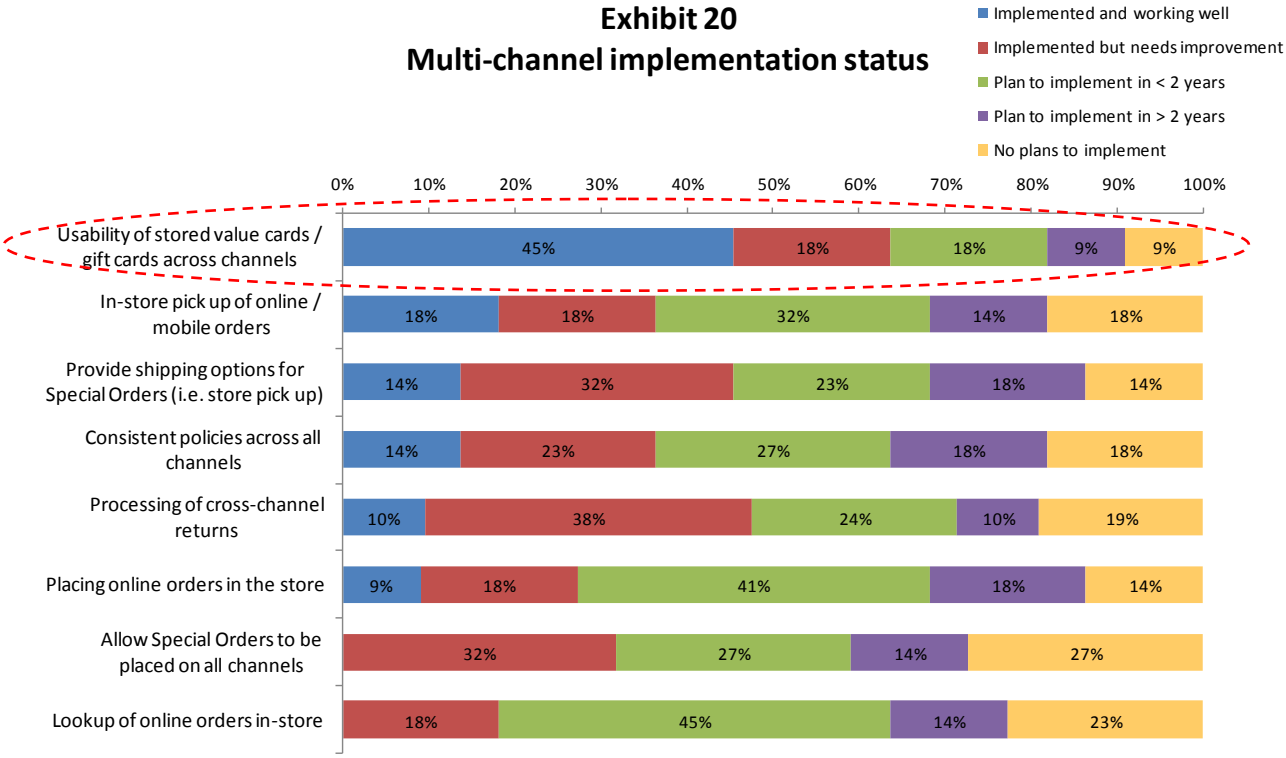
Mobile commerce (excluding travel) was expected to total nearly $3.5B by the end of 2010 in the U.S., according to ABI Research. This number will continue to explode as more customers choose mobile as their channel of choice. In Japan which is further along the acceptance curve than the U.S., mobile commerce accounts for nearly 20% of all e-commerce sales. Mobile commerce is gaining ground and it continues to generate a lot of buzz as retailers talk about it and cautiously try to utilize this new channel to gain and keep customers.

Trend: Expanding channels

The number of omni-channel customers, those who consistently use a mix of retailing channels to make a purchase, is expanding exponentially, and these customers are critical to a retailer's success. According to "The Cross-Channel Wake-up Call: Benchmark 2010," a study from Miami-based Retail Systems Research, cross-channel shoppers are estimated to be 39% more profitable than single-channel customers.

In our survey, most of the retailers currently offer two or more shopping channels to their customers. Generally, retailers are connecting with their customers in brick-and-mortar stores, online, and in some cases through catalogs. While many have made progress, offering services across channels remains a struggle **(Exhibit 20)**.

Exhibit 20
Multi-channel implementation status



Stored value card/gift card use across channels is the most prevalent and according to about half the retailers it seems to be working well. Other areas where there is room for improvement is with cross channel special orders.

It is interesting to note that more retailers offer kiosks than mobile solutions, although kiosks are more established with gift registries. But, many retailers are still trying to grasp how to utilize mobile solutions to enhance their business. More than half the retailers surveyed indicate that "Customer mobile in-store functionality" is a medium/top priority in the next two years **(See Exhibit 17 above)**.

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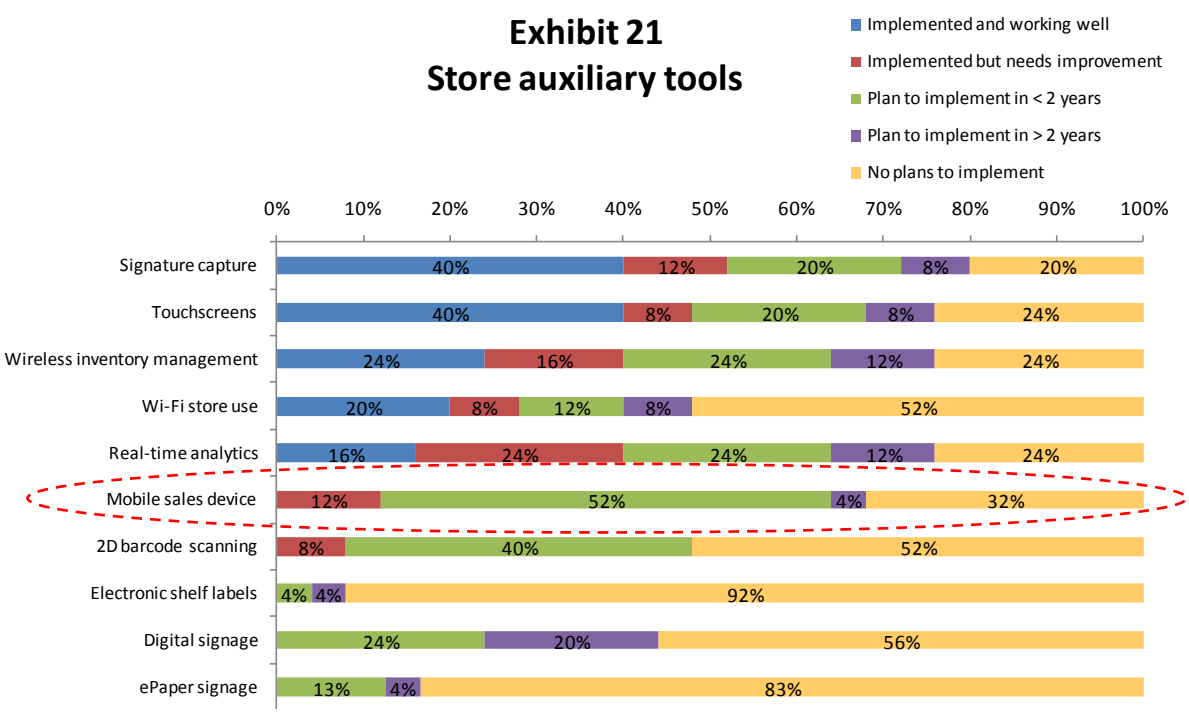
Opportunity: Enhance mobile offerings

According to October 2010 data from mobile and social marketing consultancy Brand Anywhere and Luth Research, fewer than 5% of retailers offer or support a mobile site for their customers. Similarly, in our survey we found that less than 15% of the retailers have implemented mobile solutions. However, more than half the retailers plan to implement mobile solutions within the next two years **(Exhibit 21)**.



It seems the definition of a retail mobile presence continued to evolve over the past year. While the simplest examples involve modification of an existing website to operate cross browser, the best mobile websites involve thinking about an entirely new way to interact with customers. Apple's paperless, mobile checkout is highly regarded and many believe it to be the epitome of mobile in-store services. While many admire the simplicity, translating these services to other retail models seems elusive. Retailers want to offer the Apple experience to their customers but struggle to tailor it to their own customer. Despite the challenges, there are a number of excellent examples of retailers working on enhanced mobile offerings:

- Urban Outfitters recently implemented Starmount's mobile selling solution running on Apple iPod Touch in select stores to help differentiate the in-store experience for their customers by offering a richer customer interaction, more thorough service, and customized cross-and up-sell of products.

- Old Navy is testing out a mobile checkout system called ZipCheck at limited stores to allow shoppers to checkout their merchandise from their iPod Touch. The software is similar to the EasyPay system currently used in Apple stores and allows associates to perform cash and credit card transactions directly from the iPod Touch.

- JCPenney recently launched a mobile commerce platform and mobile application for iPhone and Android customers. Users can type JCP.com into their browsers and the Usablenet platform detects the device and redirects them to a mobile-friendly site. The site allows shoppers to browse ads, bookmark products, create an electronic shopping list, receive mobile coupons, and make purchases.

- Magic Beans, a chain of baby stores in Boston, recently launched a cellphone application that customers can utilize to scan the barcode of an item, enter their credit card information, and actually check themselves out on their phone.

- Walgreens launched an iPhone application in 2009 with Prescription Text Alerts which notify customers when prescriptions are ready. Customers can also use the application to browse products and check in-store availability,

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plus they can access prescription information. Walgreens also utilized Facebook to promote a recent mobile coupon offering for customers.

- Moosejaw Mountaineering continues to blur the line between channels with their new mobile site accessible from any smartphone which allows customers to browse their catalog, compare prices, find out whether an item is in-stock, and read other customer reviews and photographs. Customers can actually stand in the store and try-on and touch products while also viewing product reviews from customers who have experience with the product.

Building on these examples, nearly half of the retailers in our survey have implemented, or plan to implement 2D barcode scanning. This emerging standard can be combined with mobile solutions for personalized promotions and the ability to push customized promotions and/or information to the customer before they reach the POS. Our survey also indicated an interest in implementing smartphone applications and smartphone scanning of 2D barcode scanning within the next two years. Researching these results more closely, we found that Target, Walmart, Brookstone, and Best Buy offer smartphone applications allowing customers to shop products, purchase items, locate stores, and provide local advertisements.

There are also many smartphone applications (apps) - not associated with a specific retailer available that are personal shopping tools, helping customers become more price savvy. Retailers will be challenged to make deliberate decisions as to how they want to present their pricing strategy across channels, or how they want to implement their price matching policies. Imagine the situation where a customer in your store scans the barcode on an item on your shelf using an app with barcode recognition. The app searches for the best deal locally and online, and immediately presents this information to the customer while standing in your aisle. At that point the customer in your store may leave to go elsewhere to purchase or even choose to immediately be redirected to another retailer's web site to make the purchase from your competitor from their smartphone before leaving your store!

In the near term, most mobile phones are used not for purchasing, but as a shopping aid – to research products, find deals, and locate stores. The power of mobile solutions may not be able to be translated in direct sales but instead, by its critical role in influencing multichannel transactions.

Between the growing acceptance of smartphones and consumers' need for instant access to information, mobile is becoming a force to be reckoned with in the industry. Consumers utilize their phones to find product reviews, compare prices, and purchase from wherever they may be. All of these indicate that retailers are thinking about mobile solutions and planning for the implementation but it is surprising how many still haven't taken any steps to embrace this newest channel. There are numerous opportunities for retailers to expand their business through the mobile channel.

We assume that although mobile generates a big buzz, retailers may be having trouble proving a return-on-investment (ROI) on mobile solutions. In addition, budgetary constraints across the board can make mobile tough to justify.

Opportunity: Improve networks

Today, due to massive investments in infrastructure, we now have robust network infrastructures available (i.e. MPLS (Multiprotocol Label Switching)) that are far faster and more reliable and resilient than anything we have seen in the past. We now have available networks with redundant backup using broadband, and EV-DO (Evolution-Data Optimized) utilizing 3G or 4G wireless networks that auto detect MPLS failures and can switch to back-up mode automatically without interruption and provide 99.999% up time. This reliability is higher than the electric grid (which is 99.9% per Galvin Electricity Initiative) and allows us the ability to change our whole thought process on POS.

Retailers are beginning to embrace advanced technology such as DSL, MPLS, and T1 lines for their primary network although dial-up still tends to be the back-up network choice for many retailers. This is likely due to old architecture that was just left in place as the back-up for the network. And while dial-up is slow and antiquated it is still better than those retailers who do not seem to have a back-up network in place at all. EV-DO is being used by a few retailers as part of their primary or back-up network; we expect to see this increase in the next few years as 4G speeds will change the game once again.

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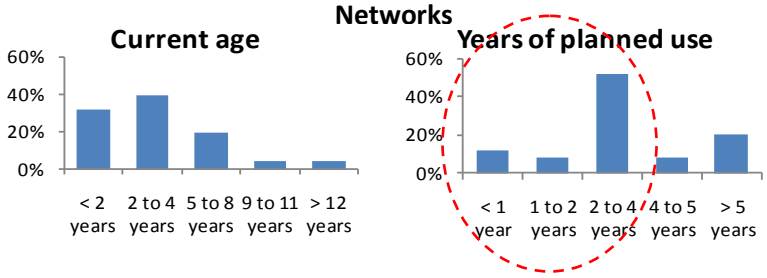
Nearly 75% of retailer's current networks are 4 years old or less but more than half don't plan to replace their networks for more than 2 years. Since network contracts are usually short-term/high-turn contracts with a usual length of 3-5 years we see major opportunities for retailers to improve their networks. Any retailer with a network that is older than 3-5 years should be looking to new technology since it continues to rapidly change, and with increased bandwidth comes lower cost **(Exhibit 22)**.

Exhibit 22
Networks



A key benefit to improved network architecture is the ability to utilize VoIP (Voice over Internet Protocol) as an option instead of POTS telephone lines to every store location. Currently 22% of the retailers utilize their network for VoIP while another 50% plan to implement in 2 years or less. There are opportunities for major cost savings by bundling store services (Data, Voice, Wi-Fi, Video, Fax and PBX) into one integrated package. By switching to VoIP and Private Branch Exchange (PBX) there is an opportunity to centralize call routing and to establish low cost call centers where all calls are answered quickly, professionally and consistently. Many retailers don't know their call volumes, dropped or unanswered calls. Imagine all calls being answered by a real person within three rings, customers being surprised and delighted to get a knowledgeable associate to answer their questions. Imagine knowing what your real potential could be because today these calls are a black hole of customer frustration. Imagining completing the sale over the phone with customer pick-up at store or simply shipped to their home.

The reality is that the more mobile computing we do the more important the network becomes. We can access content and product from vendors, we can utilize host-based analytics along with geo-location capabilities to price and promote product in real-time to our best customers and allow them to use social networking to solicit feedback from their friends. We can have customers check themselves out and pay using their mobile devices.

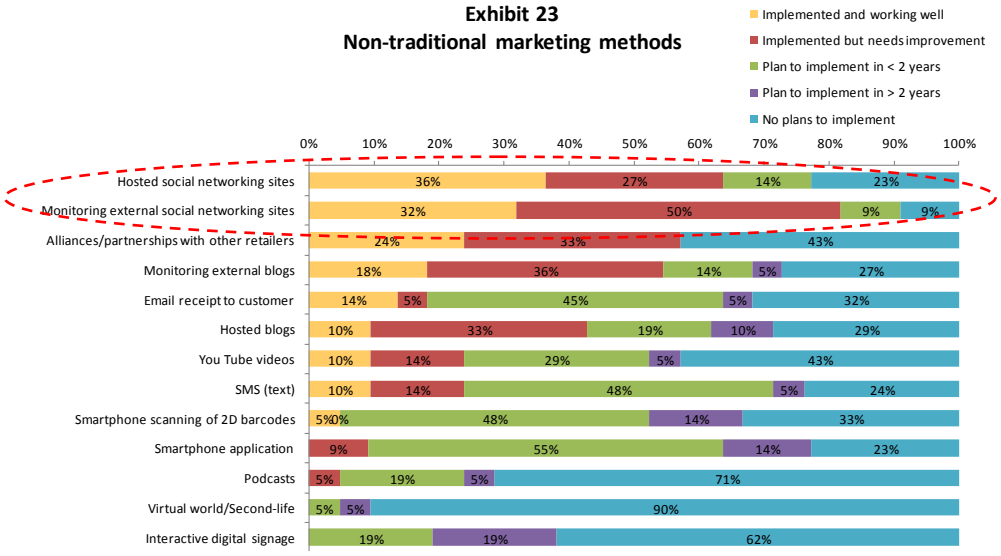
Traditional POS will be forever changed by this new network paradigm.

Additional Trends to Watch

Trend: Non-traditional marketing methods

Non-traditional marketing continues to increase and expand as retailers have identified social networking as a cost-effective and successful marketing tool and continue to embrace it. Social networking sites provide messaging to promote new products, list in-store events, and provide personalized customer offers. And with Facebook now surpassing Google as the most visited website on the planet, social networking will continue to expand and pervade our world. The retailers we surveyed support this trend with 63% hosting social networking sites and 82% monitoring external social networking sites, although many are not satisfied with the current situation.

Exhibit 23
Non-traditional marketing methods



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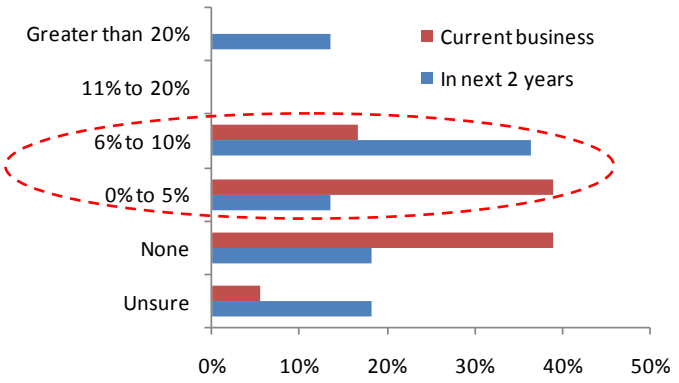
This trend is obviously taking hold across many different categories but there do seem to be some challenges as retailers identify the best options for their particular customer and business and then identify the best ways to utilize social networking as a marketing tool **(Exhibit 23)**.

Trend: Enterprise selling

Enterprise selling refers to matching customer needs and wants against the current inventory regardless of location. Enabling this are cross/up-sell protocols offering real-time inventory visibility across both internal selling channels as well as through vendor partners. The ability to utilize technology to see across channels and sources plus the ability to offer the customer a larger product assortment than is available in the store is a crucial piece in offering good customer service while keeping the level of store associates the same and better managing the inventory. It also ensures that you meet the customer's needs so they continue to shop with you. Generally retailers who have implemented enterprise selling expect a 5-10% increase in sales and also have a strategic advantage over the competition.

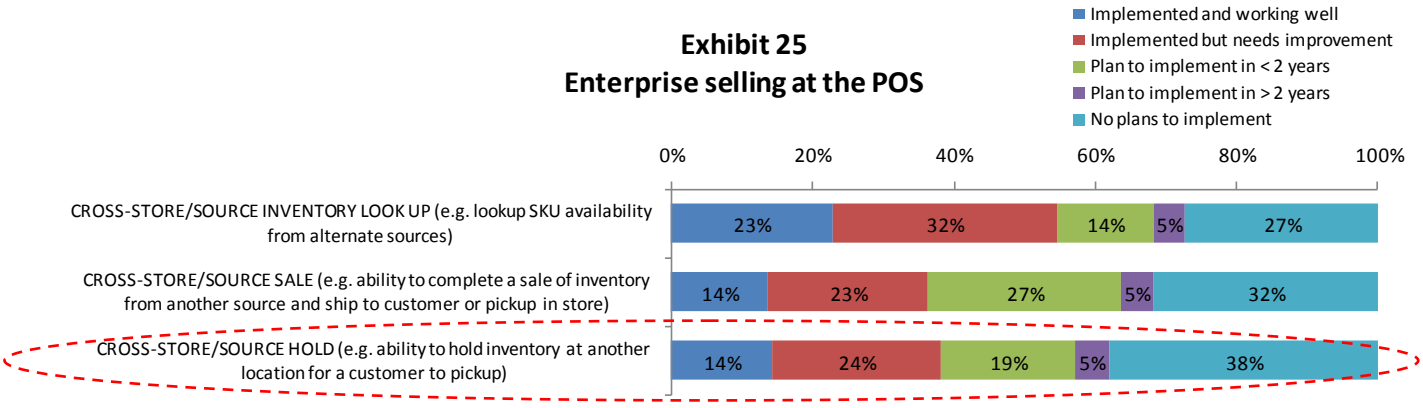
Exhibit 24
Enterprise selling as a percentage of business



Currently more than 60% of the retailers are utilizing enterprise selling to comprise at least some of their business. This is significantly higher than the 35% of the retailers who indicated enterprise selling use last year. It seems as though retailers followed through with their plans as 60% of them said last year that they would be implementing enterprise selling in the next two years **(Exhibit 24)**.

Cross-store/source inventory look-up seems to be the most successful enterprise selling service with more than half the retailers utilizing it, although less than half of those who utilize it feel that it is working well **(Exhibit 25)**.

Exhibit 25
Enterprise selling at the POS



It will be interesting to see how enterprise selling grows in the next few years, some of the retailers surveyed even project that enterprise selling could account for as much as 20% of their business in the next few years.

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Conclusion

"The pessimist sees difficulty in every opportunity. The optimist sees the opportunity in every difficulty." - Winston Churchill, British Prime Minister

This was how we closed last year's 11th Annual POS Benchmarking Survey, which reflected a hint of optimism in troubled economic times. In preparing this year's survey, we noticed an opportunity presenting itself in the form of a mobilized, connected consumer who expects to interact with retailers over a network. Apple, Old Navy and Magic Bean are three examples of companies recognizing that shift and modifying how they interact with customers during the check out process. If this is a trend in Retail POS, it will have far reaching implications in how the upcoming generation of POS equipment will look, the cost of that equipment, and the underlying networks that support it.

Time will tell if this trend continues, but we do believe the economics of lean or thin POS coupled with a pervasive need to increase bandwidth and reliability in the networks that support retail will continue to move POS towards virtualization.

Mobilizing POS was how we chose to describe it, and we welcome your comments and feedback!

On behalf of Boston Retail Partners and our survey sponsors, thank you for taking the time to participate in our 12th Annual POS Survey.

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About Boston Retail Partners

For more information or assistance on any of the topics covered in this survey, please contact:

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The results reported in the 12th Annual POS Benchmarking Survey from Boston Retail Partners validates the trends that Retalix is experiencing in the retail industry. More than ever, retailers are investing in solutions that enable them to differentiate themselves by offering their customers a more enhanced and personalized shopping experience. Retalix is uniquely positioned to meet these customer demands by efficiently and seamlessly combining major customer-centric retail functions – customer touch points, store management, demand-driven merchandising, targeted promotions and loyalty – into a unified solution, while enabling better customer service, quicker time to market, and reducing total cost of ownership.

Retalix is a leading provider and innovator of software and professional services to retailers worldwide. Retalix solutions serve the demand-driven needs of grocery chains, independent grocers, and convenience and fuel retailers. The Company's offerings are centered around three main pillars: its deep retail industry expertise, its demand-driven product portfolio, and its results-oriented professional services.

Retalix offers a portfolio of robust software applications that automate and synchronize essential retail and supply-chain operations, encompassing stores, headquarters, and warehouses. The Company helps its customers solve business problems and maximize results quickly and effectively. Retalix's retail solutions are designed to be modular, are extremely reliable, and integrate with multiple store formats and hardware systems. The company complements its product portfolio with its unique global services offering, proven to provide its customers with better ROI and more business value around the company's products.

Retalix's deep footprint is evident at over 40,000 retail sites and 300,000 checkout lanes around the world. The company was recently recognized as one of the "Software Leaderboard Top 20" software providers by RIS News, and was named as one of the top 5 "Leaders in Grocery" by the publication. More information on Retalix's full suite of software solutions is available at www.retalix.com.

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