

Migrating to Customer-Centric Point of Service

February 2008



Executive Summary

This report focuses on the Best-in-Class retail methodology of upgrading legacy Point of Sale (POS) or Point of Service (POS) to the next generation POS processes that can support seamless order management, loyalty and guided selling, and faster payment acceptance. These are imperative for creating customer service efficiencies in a hyper-competitive retail environment.

Best-in-Class Performance

Aberdeen used three key performance criteria to distinguish the Best-in-Class from all other companies. These Key Performance Indicators (KPIs) are metrics most frequently cited as indicators of balanced performance. Best-in-Class companies had performance characterized by the following:

- Eighty-four percent (84%) have 80% or more of their customers that meet customer satisfaction goals
- Average checkout time of 1.5 minutes
- Average improvement in transaction size by 19.5% compared to last year

Competitive Maturity Assessment

Survey results show that the firms enjoying Best-in-Class performance shared several common characteristics:

- Best-in-Class companies are 2.8-times more likely than Laggards to measure and manage customer satisfaction as a key metric of customer experience at POS
- Best-in-Class companies are 2.1-times more likely than Laggard retailers to process accurate product promotions at POS, leading to higher customer satisfaction
- Best-in-Class companies are 2.5-times more likely than Industry Average and 3.8-times more likely than Laggards to be currently using Service Oriented Architecture (SOA) for POS integration with other applications

Required Actions

In addition to the specific recommendations in Chapter Three of this report, to achieve Best-in-Class performance, companies must:

- Improve multi-channel integration at POS
- Restructure the POS architecture at stores
- Adopt a one-year to three-year POS upgrade roadmap

Research Benchmark

Aberdeen's Research Benchmarks provide an in-depth and comprehensive look into process, procedure, methodologies, and technologies with best practice identification and actionable recommendations

"The need for faster transactions is the unique pressure that our stores are facing currently. Processes that support increased throughput and secure transactions are one of the POS improvements that our organization is looking to upgrade to in the near future."

~ Ole Anderson, Director of IT, London Drugs

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Chapter One: Benchmarking the Best-in-Class

Business Context

Retailers have implemented Point of Sale (POS) systems to increase store productivity, gather more information, and reduce cost of operations. However, due to the continued expansion in the cross-channel selling environment, POS technology has to move beyond the traditional objectives of store productivity and cost of operations. POS has to transform towards providing customer satisfaction and revenue growth in the stores.

Aberdeen's global survey of 175 retail companies in January 2008 has revealed that at least 60% of retailers have POS systems that are older than five years. Out of the 60%, 35% of retailers currently use POS systems that are older than 10 years. This has created a large gap in the retailer's objective of delivering improved customer satisfaction at POS. The reason for this gap is the outdated POS process resulting from a lack of standards-based migration in software, hardware, and peripherals towards next generation POS systems. This report focuses on the Best-in-Class retail methodology of upgrading legacy POS to the next generation POS processes that can support seamless order management, loyalty and guided selling, and faster payment acceptance - which is imperative for creating customer service efficiencies in a hyper-competitive retail environment.

Retailers Struggling with Quick and Easy Checkout

The use of legacy POS system at retail checkout can be a frustrating experience for customers as order management, loyalty programs, and payment acceptance processes are fraught with delays (Figure 1).

Figure 1: POS Pressures at the Store-front Derail Customer Focus



Source: Aberdeen Group, February 2008

Key procedures fulfilled at the POS include scanning of products, applying loyalty credits, and promotional offers such as coupons and payment processing. Aberdeen's November 2007 report, [The Roadmap to Successful Contactless Payment Implementation](#), showed that the average time taken to complete a transaction from scanning and bagging to payment by Best-in-

Fast Facts

- ✓ 60% of retailers have POS systems that are older than five years. Of that 60%, 35% of retailers currently use POS systems that are older than ten years.
- ✓ 47% of the retailers surveyed identified complex and time-consuming POS checkout procedures as the major pressure impacting customer POS experience.

"Checkout efficiency is at the core of our POS process improvement as customers find checkout to be time-consuming and complicated."

~ Director of Store Systems,
Consumer Electronics Retailer
(Americas)

Class companies is one to three minutes. However, complex and time-consuming transactions are resulting in longer than average wait times for customers as a result of longer payment processing times, poorly designed POS interfaces, and legacy system malfunctions. These delays cause customer dissatisfaction.

Our data shows that 47% of the retailers surveyed have identified complex and time-consuming POS checkout procedures as the major pressure impacting customer POS experience. These results defy a classic myth that exists among retailers that lack of consistent store execution of POS processes is the reason for dissatisfaction of customers at POS. On the contrary, the major reason for customer dissonance at the POS is an outdated POS infrastructure that lacks timely replacement or upgrade of POS software, peripheral, and hardware technology as well as related customer service processes (Table I).

Table I: Impact of Lack of Updates to POS Customer Process Management Technology

POS Function Classification	Major Types of POS Procedural Problems	Where Outdated Technology is to Blame
Order Management	<ul style="list-style-type: none"> ▪ Scanning inaccuracy ▪ Price inaccuracy ▪ Promotion offer inaccuracy ▪ Errors in populating orders ▪ Error in order submission 	<ul style="list-style-type: none"> ▪ Lack of software updates that cause scan exceptions and delays in price and promotion updates ▪ Frequent touch-screen failure or outage ▪ Screen, receipt printer, and keyboard malfunction ▪ Lack of 2-D scanning capabilities
Payment Processing	<ul style="list-style-type: none"> ▪ Payment non-acceptance or delays ▪ Payment authorization failure issues ▪ Identity verification failure issues 	<ul style="list-style-type: none"> ▪ Lack of payment software upgrades and updates ▪ Magnetic card reader and check scanner malfunction ▪ Lack of pin entry device for self-service ▪ Lack of 2-D scanning capabilities for signature capture and returns verification ▪ Poor network management leading to high downtime
Loyalty Programs and Guided Selling	<ul style="list-style-type: none"> ▪ Rewards non-acceptance ▪ Lack of promotion execution ▪ Absence of up-selling and cross-selling procedures 	<ul style="list-style-type: none"> ▪ Magnetic card reader and handheld scanner malfunction ▪ Lack of software upgrade that provide promotion updates and guided selling screen prompts for cashiers

Source: Aberdeen Group, February 2008

The Maturity Class Framework

In order to evaluate the Best-in-Class retail strategy of implementing customer-centric POS improvements, Aberdeen used three key performance criteria to distinguish the Best-in-Class from Industry Average and Laggard organizations:

- Percentage of customers that meet customer satisfaction goals
- Average checkout time
- Improvement in transaction size compared to last year

These Key Performance Indicators (KPIs) directly address the top pressure retailers are attempting to alleviate through customer-centric POS implementation: the lack of customer convenience at POS. These KPIs were chosen because they are standard customer-centric measurements retailers can easily use to evaluate their POS system. Survey respondents were segmented using a weighted average that was defined and calculated based on the defined KPIs. Best-in-Class companies were identified as the top 20% of performers, Industry Average companies were identified as the middle 50%, and Laggard companies were identified as the bottom 30% of performers. It is important to note that these results are calculated in aggregate. The KPIs below can differ in the individual sub-segments of retail such as specialty or supermarkets. Table 2 provides a clear breakdown of how Best-in-Class companies performed in comparison to Industry Average and Laggard companies based on the defined KPIs.

Table 2: Top Performers Earn Best-in-Class Status

Definition of Maturity Class	Mean Class Performance
Best-in-Class: Top 20% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 84% have 80% or more customers that meet customer satisfaction goals ▪ Average checkout time of 1.5 minutes ▪ Average improvement in transaction size by 19.5% over last year
Industry Average: Middle 50% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 26% have 80% or more customers that meet customer satisfaction goals ▪ Average checkout time of 3.6 minutes ▪ Average improvement in transaction size by 9.8% over last year
Laggard: Bottom 30% of aggregate performance scorers	<ul style="list-style-type: none"> ▪ 13% have 80% or more customers that meet customer satisfaction goals ▪ Average checkout time of 6.2 minutes ▪ Average improvement in transaction size by 5.5% over last year

Source: Aberdeen Group, February 2008

The Best-in-Class PACE Model

Table 3 provides a summation of how Best-in-Class companies are differentiating themselves in terms of their current customer-centric POS implementation and planned improvements to achieve corporate customer satisfaction and revenue growth goals. These differentiations and improvements require a combination of strategic actions, organizational capabilities, and enabling technologies that can be summarized as follows:

- As a response to the pressure of complex POS procedures, Best-in-Class are responding by integrating their POS with cross-channel service functions for a unified customer experience and easier payment at POS.
- The Best-in-Class have implemented enhanced POS capabilities, standards, and technology for integrating POS with other customer-oriented retail applications to ensure an enterprise-wide focus on improved customer satisfaction and revenue growth.

Table 3: The Best-in-Class PACE Framework

Pressures	Actions	Capabilities	Enablers
<ul style="list-style-type: none"> ▪ Complex and time-consuming POS procedures 	<ul style="list-style-type: none"> ▪ Integrate POS with multi-channel functions (cross-channel purchase, return, exchange, and inventory look-up) ▪ Implement improved payment functions (easier, more secure, and faster) at POS 	<ul style="list-style-type: none"> ▪ Ability to access websites, catalog, and fulfill web orders at POS ▪ Utilize SOA architecture to improve POS integration with other retail applications ▪ Established POS security standards for transactions ▪ Ability to process accurate product promotions through POS ▪ Ability to analyze POS data in real time (or near to real time) to plan targeted customer promotions ▪ Measure POS experience using customer satisfaction metrics 	<ul style="list-style-type: none"> ▪ Touch-screen POS system integrated with multi-channel (order placement, return, exchange, and inventory) software ▪ POS system integrated with CRM software ▪ POS software for loyalty programs ▪ POS software for payment processing ▪ POS software for gift card processing ▪ Universal pin entry device for self-service payment processing ▪ Laser barcode scanners ▪ 2-D barcode scanning ▪ Mobile POS systems ▪ PCI compliance ▪ Centralized POS data collection and management

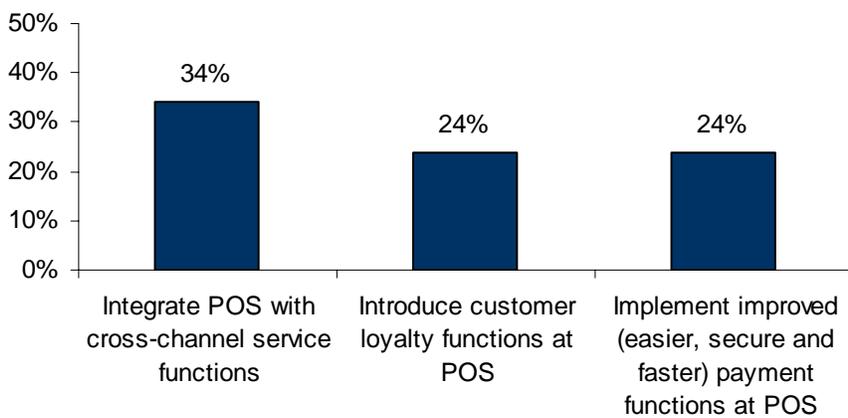
Source: Aberdeen Group, February 2008

Best-in-Class Strategies

Best-in-Class retailers have found some ways to overcome the pressure of increased POS complexities surrounding customer dissonance at checkout (Figure 2). The foremost strategy adopted by more than a third (34%) of Best-in-Class retailers for improving the POS experience of customers is to integrate POS procedures with cross-channel customer service and other extended functions across the entire chain of stores. This provides cross-channel fulfillment and additional services to customers such as unified

purchase, return, exchange, and inventory look-up for customers that shop on the web, catalog, and make in-store purchases in retail segments such as specialty, general merchandise and apparel. This strategy has enabled Best-in-Class companies to convert POS towards a single hub, one destination for multiple services - a unified POS or extended POS. From an execution standpoint, in specialty retail, services related to the unified POS are led by the "service desk" while the other registers support the service desk with quick customer checkout. This ensures that while cross-channel orders, additional services, and customer inquiries are handled at one central destination, regular customer throughput is carried out at other POS registers in the store. The other strategies that a quarter of the Best-in-Class have adopted is improving the payment and loyalty functions to improve customer focus. For instance, in retail segments such as convenience, grocery and petroleum stores where cross-channel services are not as prevalent as specialty, retailers have implemented multiple levels of services for customers such as self-checkout, loyalty programs through perks, coupons, and branded credit cards, and faster payment initiatives such as mobile POS.

Figure 2: Best-in-Class Retailers Developing a Multi-Pronged POS Approach



"We are always looking to do away with the complexities surrounding our POS system. Flexibility in upgrading our POS system towards different forms of payment, promotional programs, and security data are the strategic initiatives that we have planned in the coming months."

~ Director of IS Support, US-Based Specialty Retailer

Source: Aberdeen Group, February 2008

From a payment standpoint, Best-in-Class retailers are gradually expanding the acceptance of new forms of payment such as gift cards, contactless payments, and adopting faster payment processing standards through the adoption of payment software upgrades, network enhancements and pin entry peripherals. In the event that Best-in-Class enterprises are unable to increase the number of checkout lanes due to rigid store formats, they are providing convenient tools to their stores for accepting payments using mobile POS handheld devices on the shop floor, not just the POS register. As a result, the Best-in-Class are taking the POS deeper into the shop floor without making changes to the store format.

A third strategy that has a role in improving POS pressures for Best-in-Class retailers is the expansion of loyalty functions. The use of rewards, branded credit cards, gift cards, and associated incentives at POS has been effectively utilized by the Best-in-Class to create a micro community that is loyal, extremely satisfied, and acts as an advocate for the brand to other members of the community. Enhanced POS software features with CRM functionality allow Best-in-Class retailers to easily create and access loyalty records of customers at the POS for executing promotional programs.

Aberdeen Insights — Strategy

Survey data shows that transaction security and PCI compliance are key pressures impacting the POS improvement decisions of retailers. The overriding challenge for the retail industry is to ensure a secure and safe shopping environment through the short-term and long-term compliance of PCI guidelines that ensure secure use, dissemination, and storage of customer credit card and demographic data. PCI compliance is as important as the other customer satisfaction triggers for the store front-end such as quick and easy checkout. The only difference between the two triggers is that while easy check-out is a front-end quality control factor, transaction security is a back-end quality control driver. Both impact customer satisfaction in varying degrees depending on the shopping values of the customer and POS policies of the retailer.

In the next chapter, we will see what the top performers are doing to achieve these gains.

Chapter Two: Benchmarking Requirements for Success

The selection of a POS system, or improvements to an existing legacy POS system, and its integration with other customer process management systems plays a crucial role in the ability to deliver customer satisfaction and revenue growth in retail stores.

Case Study — Staples Inc.

Staples, a major office supplies specialty retailer, has almost 2,000 stores globally and 2007 revenue of \$18.1 billion. Staples operates in 21 countries throughout North and South America, Europe, and Asia. Stores are located on the outskirts of shopping centers and in busy high-street locations.

In 2006, Staples undertook a review of its legacy EPoS software in Europe, and identified that it no longer met the requirements of its business and would not support ambitious targets of 20% year-over-year growth. The new system needed to be robust and flexible and provide Staples with the necessary functionality to manage its global stores estate. Specific requirements for the system were that it could handle multiple currencies and be adapted to take account of differing VAT levels and regulations, as well as the different payment methods available in each of the country markets in which the retailer operates. The system had to be flexible to enable configuration to the languages spoken in the retailer's stores worldwide.

According to Catherine Brewaeys, the Vice President of Business Process Re-engineering, Staples Europe, "When searching for a new EPoS system, we wanted a solution that would provide a flexible platform to support the development of the Staples business."

This solution provided a flexible architecture that has since been tailored to meet the business requirements and offers built-in flexibility allowing for adjustments to be made to the system to optimize revenue opportunities through in-store promotions and CRM. These POS solution upgrades also ensured speedier transaction times that have increased the time available for store staff to interact with customers by 25%.

Fast Facts

- √ On average, Best-in-Class companies are at least two-times more likely than all others to have cutting-edge customer-centric capabilities and enabling technologies that aid a consistent approach towards fulfilling customer needs at POS
- √ Best-in-Class companies are 2.8-times more likely than Laggards to measure and manage customer satisfaction as a key metric of customer experience at POS

Competitive Assessment

Aberdeen Group analyzed the aggregated metrics of surveyed companies to determine whether their performance ranked as Best-in-Class, Industry Average, or Laggard. In addition to having common performance levels, each class also shared characteristics in five key categories: (1) **process** (the approaches they take to execute their daily POS operations); (2) **organization** (corporate focus and collaboration among stakeholders); (3) **knowledge management** (contextualizing data and exposing it to key stakeholders); (4) **technology** (the selection of appropriate POS tools and effective deployment of those POS tools); and (5) **performance management** (the ability of the organization to measure their results to improve their business). These characteristics (identified in Table 4) serve as

a guideline for best practices, and correlate directly with Best-in-Class performance across the key metrics.

Table 4: The Competitive Framework

	Best-in-Class	Average	Laggards
Process	Ability to access websites, catalog, and fulfill web generated orders at POS		
	32%	14%	9%
	Ability to process accurate product promotions through POS (price integrity and coupon usage)		
	63%	55%	30%
Organization	Ability to provide stores with help desk phone support personnel		
	61%	47%	34%
Knowledge	Ability to analyze POS data close to real-time to plan targeted promotions for POS execution		
	41%	27%	11%
Technology	Customer-centric hardware, software, and peripheral POS technologies currently in use:		
	<ul style="list-style-type: none"> ▪ 44% touch-screen POS with multi-channel service functions ▪ 42% POS software for loyalty programs ▪ 80% POS software for gift card processing ▪ 30% POS system with CRM software ▪ 60% universal pin entry device for payment acceptance ▪ 25% Mobile POS handheld ▪ 35% SOA for POS application integration 	<ul style="list-style-type: none"> ▪ 28% touch-screen POS with multi-channel service functions ▪ 30% POS software for loyalty programs ▪ 59% POS software for gift card processing ▪ 25% POS system with CRM software ▪ 21% universal pin entry device for payment acceptance ▪ 13% Mobile POS handheld ▪ 14% SOA for POS application integration 	<ul style="list-style-type: none"> ▪ 14% touch-screen POS with multi-channel service functions ▪ 12% POS software for loyalty programs ▪ 36% POS software for gift card processing ▪ 12% POS system with CRM software ▪ 11% universal pin entry device for payment acceptance ▪ 12% Mobile POS handheld ▪ 9% SOA for POS application integration
Performance	POS performance management parameters used		
	42% report and manage customer POS experience using customer satisfaction at POS	22% report and manage customer POS experience using customer satisfaction at POS	15% report and manage customer POS experience using customer satisfaction at POS

Source: Aberdeen Group, February 2008

Capabilities and Enablers

Based on the findings of the Competitive Framework and interviews with end-users, Aberdeen's analysis of the Best-in-Class reveals that the overall focus on improving customer process management at POS is a key driver that differentiates them from Industry Average and Laggard companies. This enables Best-in-Class retailers to demonstrate continued improvement in customer satisfaction and, as a result, revenue growth. On average, Best-in-Class companies are at least two-times more likely than all others to have cutting-edge customer-centric capabilities and enabling technologies that aid in a consistent approach towards fulfilling customer needs at POS from an order management, loyalty programs and guided selling, and payment acceptance standpoint. The sections to follow describe the differentiation of Best-in-Class versus Industry Average and Laggard companies in continually improving POS process, organization, knowledge management, and performance management capabilities, as well as POS technology.

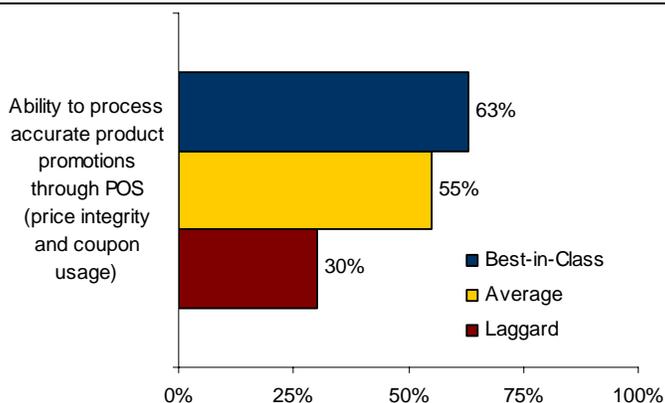
Process

Coupons, discounts, rebates, and other promotional offers are critical components for enticing customers to shop in stores, as shown in Aberdeen's February 2007 report, *The Changing Dynamics of Retail Promotions*. However, one of the contributory factors for customer dissonance at POS is related to non-acceptance of promotions at POS or delayed processing due to lack of pricing updates to the store server from headquarters. Best-in-Class retailers are 2.1-times more likely than Laggard retailers to process accurate product promotions at POS, leading to higher customer satisfaction. Best-in-Class retailers plan their weekly price and promotion updates in a timely manner. They execute price updates on a daily basis at the branch server-based or web-based systems. As a result, these pricing updates assist in accurate scans of products that have instant discounts, rebates, and other price breaks. Compared to all others, the Best-in-Class have established a detailed POS promotion process for retail headquarters and store teams that ensures consistent price integrity and promotion processing for customers.

"Wal-Mart has undertaken a substantial program to upgrade the POS systems in 2008. This retailer aims to move from being a store-centric POS system to a customer-centric POS system. We are trying to develop software upgrades for Wal-Mart to introduce multi-channel access all over the store at different register hubs through the endless aisles concept. Seamless integration with credit card processing and a web-based POS methodology are the areas we are trying to improve for Wal-Mart on an immediate basis."

~ External Consultant to Wal-Mart for POS Systems

Figure 3: Best-in-Class Retailers Focus on POS Execution of Promotions



Source: Aberdeen Group, February 2008

Organization

Our data shows that Best-in-Class companies are structuring the POS organization in such a way that round-the-clock troubleshooting support for POS is available to store associates and managers. Best-in-Class companies are 1.3-times more likely than the Industry Average and 1.7-times more likely than Laggard companies to possess a dedicated team of off-site (non-in-store) personnel that are assigned to provide POS support to stores through the information system support department at retail headquarters or through an outsourced third-party vendor. This capability ensures that the Best-in-Class are more responsive towards repairing POS problems arising out of downtime at remote store locations.

From a customer standpoint, downtime at POS causes extensive order processing complexities such as delays in product scanning, coupon acceptance, reward card scanning, and payment acceptance. While maintaining a critical level of store support at all times can be expensive, it ensures that customer service and POS uptime standards remain at an acceptable level at all times.

Knowledge Management

While there are several knowledge management practices prevalent in retail, there are three major kinds of POS knowledge management practices that have been widely adopted by Best-in-Class retailers:

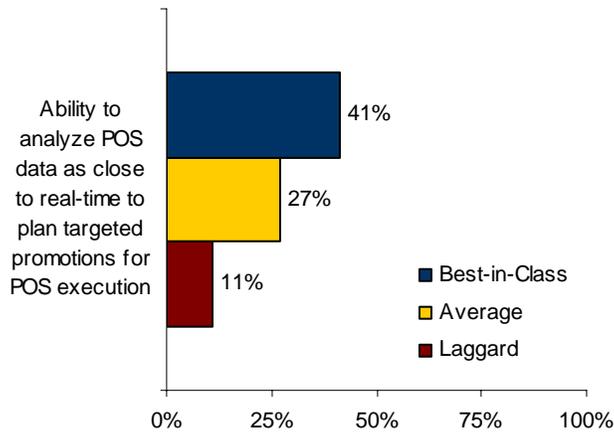
- The first practice relates to the POS transaction data gathering, aggregation, and sales analysis as close to real-time. This information is used to create an internal knowledge center for sales, marketing, and merchandising teams who plan the inventory, product promotions, product placement and selling programs for stores (Figure 4).
- The second practice refers to the collection of personal demographic information of customers that is used for cross-channel loyalty, customer offer management, and direct mail programs.
- The third knowledge management practice involves the gathering of customer ratings data on in-store shopping experience. This information is derived through POS customer surveys that print at the front or back of POS sales receipts and mystery shoppers who are hired to go stores for measuring service levels.

Our results show that Best-in-Class organizations are on average two-times more likely than Laggards to adopt a comprehensive POS knowledge management culture. This approach has a positive impact on their effectiveness to manage customer experience in stores and execute more revenue-oriented growth plans.

"Store support for POS system uptime is critical for customer readiness in our stores. Depending on the nature of problems, we have established three levels of IS support on the phone, on-site, and depot repairs. We ensure consistent customer service and more than 90% uptime in a majority of our stores by following a diligent process of reviewing support call logs."

~ Director of Store Systems,
US-Based Specialty and Apparel
Retailer

Figure 4: Best-in-Class Use of Data for Customer-centric POS Promotions



Source: Aberdeen Group, February 2008

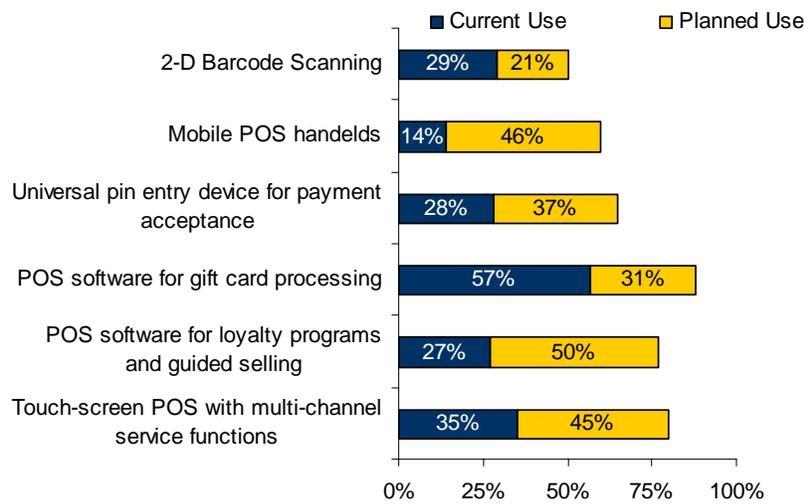
Technology

Capabilities and technology go hand-in-hand in building a customer-centric POS environment. Our results show that any upgrade plan for POS systems has to include a combination of software, hardware, and peripherals. Figure 5 shows that the planned use of POS technology is shifting towards customer-centricity and convenient POS experience. In the area of order management, software with multi-channel feature functions and 2-D barcode scanning technology can make populating and processing of orders, returns, and exchange more simplified.

From a payment standpoint, more mobile POS and universal Pin-Entry Devices (PED) are likely to find their way into retail stores to broaden the payment form factors and customer checkout choices. While mobile POS should enable faster checkout, universal PEDs can facilitate wider, safer, and easier payment options for customers.

The third major cog within POS customer process management is comprised of customer loyalty programs such as rewards and targeted promotions, gift cards, and guided selling, which are also expected to see an uptake in planned use amongst retailers. It is important to note that while improvement in order management and payment technology will likely have the greatest impact on customer satisfaction, loyalty-related initiatives hold the maximum potential to directly impact future revenue growth in stores.

Figure 5: POS Enabling Technology Landscape



Source: Aberdeen Group, February 2008

The Importance of POS Integration

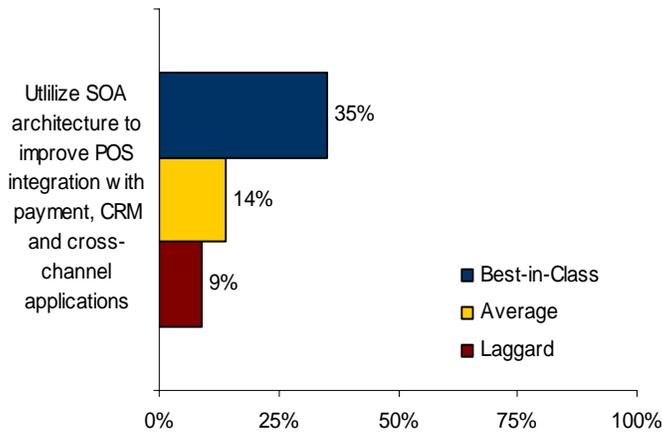
A standards-based integration approach for legacy POS provides rapid and smooth migration towards customer-friendly POS upgrades. Currently, 44% of retailers have indicated that the top operational pressure related to POS is the integration with other systems. SOA has the ability to structure the data integration issues facing retailers in a multi-channel environment that has numerous functional applications working simultaneously in the stores.

Retailers can use SOA for integrating POS with other customer process management applications such as multi-channel order management, loyalty, pricing, inventory, and payments. Seamless POS data integration with other applications is critical for developing a unified customer service framework that integrates all touch points of service applications in stores. Accurate and consistent data allows all retail departments to better anticipate and respond to customer needs.

Best-in-Class companies face the integration pressure the least as they have gradually begun adopting SOA and other standards-based approaches for POS application integration (Figure 6). They have started to move towards the creation of a unified customer process management strategy that eliminates data uptime issues and processing delays in purchase, exchange, returns, or information search in stores.

It is also important to note that SOA is one of the standards-based XML protocol approaches for integration of POS with other retail applications. There are other standards-based integration approaches for specific retail segments. For instance, in the convenience store and petroleum store segments, retailers are using the petroleum convenience alliance for technology standards protocol (PCATS).

Figure 6: SOA Addresses POS Integration for Best-in-Class



Source: Aberdeen Group, February 2008

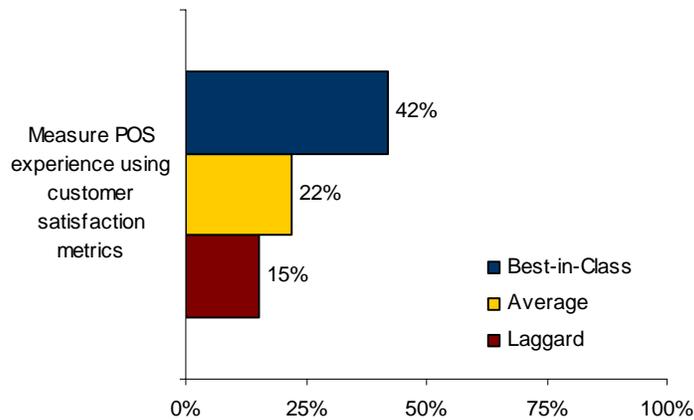
The use of SOA and other standards-based integration approaches such as PCATS has assisted these companies to create a simplified point-of-service architecture for the stores to ensure that the data for customer-front-end and back-end applications seamlessly interact with each other. Best-in-Class companies are 2.5-times more likely than Industry Average companies and 3.8-times more likely than Laggards to be currently using SOA for POS integration with other applications.

Performance Management

In managing expectations between actual and desired results at POS, retailers have historically struggled between POS performance expectations at the home office and the actual improvement in the stores. However, Best-in-Class companies are 1.8-times more likely than Industry Average and 2.8-times more likely than Laggards to measure and manage customer satisfaction as a key metric of customer experience at POS (Figure 7). Performance improvement is measured frequently, as customer satisfaction surveys at POS are released every month.

These surveys are seen as a truer reflection of customer service at POS when compared to mystery shops, as they are related to the feedback of several customers who are randomly selected to take the survey on any given day of the customer survey cycle. Our results show that Best-in-Class are measuring, reporting, and setting customer satisfaction goals to include at least 80% of their customers. These goals are establishing the benchmarks of performance for best, marginal, and worst performing stores in the chain every week. Variances in the goals are based on the average customer satisfaction goal attainment by the district, region, or division within which the stores operate.

Figure 7: Best-in-Class Take the Path Towards Managing Performance



Source: Aberdeen Group, February 2008

Aberdeen Insights — Technology

POS technology transition requires a thorough due diligence to retrofit advanced capabilities to stores. Customer benefits aside, any major POS transition can be a complex, capital-intensive, and a time-consuming task for retailers. New POS implementations or improvements require a carefully prioritized capital outlay as part of the annual store IT budget, a shift in the corporate culture of the retailer towards customer-oriented operations, and changes to the store front and back-end business processes (data integration and network management) that are intrinsically tied to the POS system for effective operations. Best-in-Class retailers are implementing customer-centric POS improvements as part of the migration planning process in their stores that can take anywhere from one to four years if it is a large retailer with several hundred stores. The transition from legacy POS technology towards the next generation customer-friendly POS systems is by no means easy, but it is a necessity that a retailer must consider in order to offer a convenient, safe, and inviting shopping environment for customers.

Chapter Three: Required Actions

Whether a company is trying to move its POS performance from Laggard to Industry Average, or Industry Average to Best-in-Class, the following actions will help spur the necessary performance improvements:

Laggard Steps to Success

- **Restructure the POS architecture at your stores.** Laggard companies must consider restructuring the in-store POS architecture if they intend on competing in a competitive retail market. Our results indicate that these companies are at the lower end of the retail market when it comes to performance in customer satisfaction, POS checkout time, or improvement in transaction size. Laggards must start with a gap analysis of current store processes that relate to the execution of payments, guided selling, and order management POS to determine if restructuring front-end processes can reduce the complexity at POS. The next step is outlining a restructuring strategy that must involve a cost-benefit analysis of software, hardware, and peripheral upgrade requirements that can improve POS performance. The most vital ingredients for criteria selection are a specified ROI roadmap, open standards for scalability, and support.
- **Integrate POS with other customer process management applications.** Planning the next phase in the architecture upgrade plan is integration. Our data indicates that 50% of Laggards operate in a silo and do not integrate CRM, inventory, cross-channel, and other enterprise applications with their POS. Data integration through a centralized data management strategy that includes SOA elements is critical for accessing cross-channel information, inventory, and loyalty information at POS. In terms of operations, POS integration lays the foundation for sales analysis, promotion planning, workforce management, and overall revenue management.
- **Establish a knowledge and performance management culture for POS systems.** The final phase of re-structuring POS in stores is creating the ability for a headquarters team to gather, create, and distribute POS performance reports and benchmarking customer experience performance by store. By establishing POS performance tracking by store, retailers can manage the improvement process better and keep results in line with the company's corporate customer satisfaction and revenue growth objectives. Laggards should start by establishing POS performance metrics such as customer satisfaction, checkout time, and transaction size improvement. These metrics are measurable and attainable. Data should be gathered, analyzed and reported on these metrics on a weekly basis. As a Laggard company if your stores are

Fast Facts

- √ Our data indicates that 50% of Laggards operate in a silo and do not integrate CRM, inventory, cross-channel, and other enterprise applications with their POS system.
- √ Currently, 33% of Industry Average companies are managing customer POS experience using customer satisfaction metrics. Worse still, 27% of Industry Average companies are analyzing POS data for planning promotions that are executed at POS.

underperforming on the desired results, a set of front-end process improvement and risk management functions should be laid out for store execution. Monthly reviews on the performance plan can put the store back on track with the company goals.

Industry Average Steps to Success

- **Develop knowledge and performance management processes further through cross-functional collaboration for meeting POS performance objectives.** One of the ways that Industry Average companies can attain Best-in-Class status is by focusing on more effective knowledge and performance management related to POS systems. Currently, 33% of Industry Average companies are managing the customer POS experience using customer satisfaction metrics. Worse still, 27% of Industry Average companies are analyzing POS data for planning promotions that are executed at POS. These two results indicate that a knowledge and performance management culture has not developed in these companies. Industry Average companies must create cross-functional collaboration between IT, marketing, and store operations to improve focus on POS knowledge sharing and setting the path to POS experience improvement. Both steps will improve customer focus and revenue growth.
- **Consider SOA for POS integration with other customer process management applications.** Currently, 19% of Industry Average companies have adopted SOA elements to integrate the POS architecture with customer process applications such as CRM, multi-channel information and order management, and payment. SOA would enable a more seamless flow of data integration processes which will allow companies to deliver faster transaction time, build faster response time towards promotions that are executed at POS, and reduce IT costs due to open standards which can be upgraded in the near future.

"Reduction in the administrative or the redundant operational functions, system responsiveness or uptime during the software upgrades, and speed of checkout are some of the metrics that we use to manage performance of POS systems."

~ Director of Store Systems,
Consumer Electronics
Retailer

Best-in-Class Steps to Success

- **Adopt a one-year to three-year POS upgrade roadmap.** The challenge of upgrades at POS is best addressed by Best-in-Class, as they lead the Industry Average and Laggard companies in adopting a standards-based POS migration policy that provides these companies with a model of performance in retro-fit upgrades in the legacy systems throughout their chains of stores. Typically, a Best-in-Class retailer should consider a one-year to three-year plan for retro-fitting software, hardware, and peripherals that have the potential to improve customer experience and increase revenue. In evaluating any software or hardware upgrade, one of the criteria should be the flexible architecture of the solution for future upgrades.

- **Improve multi-channel integration at POS.** The ability to access websites, catalogs, and fulfill web generated orders at POS is a capability being used by only 32% of Best-in-Class retailers. This is a key integration capability for a customer-centric POS system in a retail environment that is rapidly expanding towards cross-channel selling. Aberdeen data has found that 70% of retailers consider a multi-channel customer to be more valuable and profitable as they tend to spend more if they are shopping in different channels.

Aberdeen Insights — Summary

Among the three major sub-segments of supermarkets, specialty and general merchandise and apparel, it is the specialty sub-segment that is faced with the highest current penetration of legacy POS systems. Creation of a standards-based legacy POS migration policy is a major challenge as resources, executive support, and cross-functional coordination are the major roadblocks in decision making towards upgraded customer-centric POS software, hardware, and peripherals. Companies require a firm one-year to three-year rapid and coherent POS migration policy that is based on three core tenants: an enterprise roadmap for POS migration, standards-based integration of POS with other applications, and a set of customer and revenue centric knowledge and performance management objectives that are geared towards customer satisfaction. The migration of order management, loyalty and guided selling, and payments to the next generation of convenient customer interface should be integral components of this process.

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Appendix A: Research Methodology

Between December and January 2008, Aberdeen examined the use, the experiences, and the intentions of more than 175 enterprises using POS systems in a diverse set of retail enterprises.

Aberdeen supplemented this online survey effort with interviews with select survey respondents, gathering additional information on POS upgrade and migration strategies, experiences, and results.

Responding enterprises included the following:

- *Job title / function:* The research sample included respondents with the following job titles: Information Technology (49%); Sales and Marketing (20%); Store Operations manager (9%); Finance (4%); Loss Prevention (4%); Customer Service and Others (14%).
- *Industry:* The research sample included respondents exclusively from retail industries. Supermarket and Grocery (20%); Specialty (20%); General Merchandise and Apparel (24%); Department, Convenience, Petro and Drug stores (10%); Consumer Electronics (4%); Furniture and Hardware (4%); Fast Food, Hospitality, and QSRs (4%); and Others (14%).
- *Geography:* The majority of respondents (61%) were from the Americas. Remaining respondents were from the Asia-Pacific region (17%) and Europe (22%).
- *Company size:* Twenty-four percent (24%) of respondents were from large enterprises (annual revenues above US \$1 billion); 39% were from midsize enterprises (annual revenues between \$50 million and \$1 billion); and 37% of respondents were from small businesses (annual revenues of \$50 million or less).
- *Headcount:* Thirty-one percent (31%) of respondents were from small enterprises (headcount between 1 and 99 employees); 24% were from midsize enterprises (headcount between 100 and 999 employees); and 45% of respondents were from large businesses (headcount greater than 1,000 employees).

Solution providers recognized as sponsors were solicited after the fact and had no substantive influence on the direction of this report. Their sponsorship has made it possible for Aberdeen Group to make these findings available to readers at no charge.

Study Focus

Responding retail executives completed an online survey that included questions designed to determine the following:

- √ The degree to which POS technology and processes are deployed in their retail operations and the change implications of the technology
- √ The structure and effectiveness of existing POS implementations
- √ Current and planned use of POS upgrades to aid a standardized POS migration policy
- √ The knowledge and performance management benefits, if any, that have been derived from POS initiatives

The study aimed to identify emerging best practices for POS usage and improvements in retail, and to provide a framework by which readers could assess their own management capabilities.

Table 5: The PACE Framework Key

Overview
<p>Aberdeen applies a methodology to benchmark research that evaluates the business pressures, actions, capabilities, and enablers (PACE) that indicate corporate behavior in specific business processes. These terms are defined as follows:</p> <p>Pressures — external forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political and regulatory, technology, changing customer preferences, competitive)</p> <p>Actions — the strategic approaches that an organization takes in response to industry pressures (e.g., align the corporate business model to leverage industry opportunities, such as product / service strategy, target markets, financial strategy, go-to-market, and sales strategy)</p> <p>Capabilities — the business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products / services, ecosystem partners, financing)</p> <p>Enablers — the key functionality of technology solutions required to support the organization’s enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management)</p>

Source: Aberdeen Group, February 2008

Table 6: The Competitive Framework Key

Overview	
<p>The Aberdeen Competitive Framework defines enterprises as falling into one of the following three levels of practices and performance:</p> <p>Best-in-Class (20%) — Practices that are the best currently being employed and are significantly superior to the Industry Average, and result in the top industry performance.</p> <p>Industry Average (50%) — Practices that represent the average or norm, and result in average industry performance.</p> <p>Laggards (30%) — Practices that are significantly behind the average of the industry, and result in below average performance.</p>	<p>In the following categories:</p> <p>Process — What is the scope of process standardization? What is the efficiency and effectiveness of this process?</p> <p>Organization — How is your company currently organized to manage and optimize this particular process?</p> <p>Knowledge — What visibility do you have into key data and intelligence required to manage this process?</p> <p>Technology — What level of automation have you used to support this process? How is this automation integrated and aligned?</p> <p>Performance — What do you measure? How frequently? What’s your actual performance?</p>

Source: Aberdeen Group, February 2008

Table 7: The Relationship Between PACE and the Competitive Framework

PACE and the Competitive Framework – How They Interact
<p>Aberdeen research indicates that companies that identify the most influential pressures and take the most transformational and effective actions are most likely to achieve superior performance. The level of competitive performance that a company achieves is strongly determined by the PACE choices that they make and how well they execute those decisions.</p>

Source: Aberdeen Group, February 2008

Appendix B: Related Aberdeen Research

Related Aberdeen research that forms a companion or reference to this report includes:

- [*Customer Service and Store Performance Management*](#); September 2005
- [*The New Retail Differentiator*](#); April 2006
- [*The Case for the “Smart Phone” on the Retail Floor*](#); August 2006
- [*The 21st Century Retailer*](#); January 2007
- [*Retail Contactless Payment Systems*](#); January 2007
- [*The Changing Dynamics of Retail Promotions*](#); February 2007
- [*The Roadmap to Successful Contactless Payment implementation*](#); November 2007

Information on these and any other Aberdeen publications can be found at www.aberdeen.com.

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