



Aberdeen *Group*

Achieving Business Benefits from Point-of-Sale Systems

*Independent Retailers Move Beyond
Ringling Up Sales to Gaining Value*

June 2004



Executive Summary

Key Takeaways

- Consumers choose small retailers over ubiquitous giant competitors because they appreciate personalized service and attention to detail.
- A point-of-sale management system allows the small retailer to improve inventory, customer service, and cash management.
- Ultimately, information gathered through point-of-sale systems allows the retailer to become even more customer-centric, providing statistical data for better informed buying and promotion decisions.

This report analyzes the benefits gained by small retailers that choose computerized point-of-sale (POS) and inventory management systems versus traditional electronic cash register (ECR) systems. Aberdeen defines “independent retailers” as companies that own 10 or fewer brick-and-mortar stores and whose total sales are less than \$50 million per year. Discussions with retailers and their systems providers helped Aberdeen determine business drivers, strategies employed to manage business challenges, and tactics and technologies enabling these retailers to execute those strategies effectively and efficiently.

Key Business Value Findings

The primary reasons cited by small retailers for using POS systems versus less expensive ECRs were inventory, customer service, and cash management. These business functions are most critical for three types of retailers: (1) those carrying large quantities of the same item and ordering similar or seasonal merchandise from a relatively consistent supplier base, (2) “high-touch” retailers that maintain close relationships with their customers, and (3) business owners who employ seasonal or part-time help to run their retail stores.

It is important to understand that the term point of sale in this context refers to more than just ringing up sales. It embraces the entire set of applications used for merchandise, cashier, cash, and customer relationship management.

Business value can be achieved by capturing or calculating a few critical pieces of information: what is selling, how much is selling, when to buy additional merchandise, and who is the most likely customer for that merchandise.

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Implications and Analysis

Allowing their POS systems to keep track of inventory-, customer-, and cashier-related information frees small business owners to focus on their key differentiator in the post-Wal-Mart world: personalized service and attention to customers' needs.

In the 21st century, maintaining personalized service and attention to customers' needs extends beyond the four walls of a retailer's store. Over the past five years, the Internet has emerged as the consumer's first source of product discovery. Thus, a potential customer's first impression of a retailer may well be in a virtual world. Whether retailers choose to sell their wares through their own online storefronts or take advantage of one of the large shopping engines, like eBay or Yahoo, a database of product information and pricing that can be shared between stores and Internet systems is critical for ensuring a positive, consistent first impression.

Recommendations for Action

- Independent retailers that do not have a POS system now should carefully consider the benefits of having one.
- Look for solutions from established providers that know your retail segment well.
- When possible, capture customers' preferences and buying patterns.

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Chapter One: Issues at Hand

Key Takeaways

- Consumers prefer small retailers over ubiquitous giant competitors because they appreciate personalized service and attention to detail.
- A point-of-sale system allows the small retailer to improve inventory, customer service, and cash management.
- Ultimately, information gathered through point-of-sale systems allows the retailer to become even more customer-centric, providing statistical data for better informed buying and promotion decisions.

Many years after their demise was predicted, independent retailers continue to be the destination of choice for more than 25% of consumers. Family businesses, often passed down from generation to generation, continue to offer customer service and attention to detail that retail giants have long since abandoned in their quests to expand their selling square footage and appease Wall Street analysts.

The new generation of independent retailers combine the intuitive understanding of their customers with hard data provided by computerized inventory management and control systems.

Having long since abandoned handwritten receipts for electronic cash registers (ECRs), the independent retailer now turns to electronic point-of-sale (POS) systems to help gather the data needed for more educated buying and efficient use of cash.

Effective POS systems provide more functionality than just customer checkout. They support merchandise planning, ordering, and analysis; allow export of information to standard desktop software tools; and for those who need it, provide a quick, convenient way to access customers' buying patterns.

In addition, POS systems give a level of comfort and security to store owners, helping them confirm that seasonal or part-time sales help is ringing up sales accurately and not pocketing any of the cash receipts.

Finally, effective POS systems are easy to learn and contain functions tailored to the retailer's subsegment.

The educated independent retailer, aware of the dramatic price plunge in personal computers and software, expects this functionality to be delivered at a reasonable price point.

The new generation of independent retailers combine intuitive knowledge of their customers with hard data provided by computerized inventory management and control systems, generically called "point-of-sale" systems.



Chapter Two: Key Business Value Findings

Key Takeaways

- A POS system improves buying decisions and use of cash.
- Comparing what was sold with cash received will help identify dishonest employees.
- Retailers can never know too much about their customers.

A POS System Improves Buying Decisions and Use of Cash

Independent retailers' survival depends on knowing the tastes of their customers. As a result, successful independent retailers have a fairly good idea of *what* to buy, but typically have a very difficult time deciding *how much* of any one item they should order at any given time. Classic independent retailer buying problems include buying way too much and recycling the same product year after year in hopes that it will finally sell; buying too little and losing sales because an item is out of stock at the wrong time; and buying too much at one time, tying up valuable capital and requiring extra storage space.

Analyzing past seasons' sales of the same or similar merchandise can reveal buying patterns that are not intuitively obvious. Armed with this information, the retailer can improve merchandise turn while avoiding costly stockout problems.

Taking the same sales information, but sorting it in different ways, can also reveal a retailer's best selling and most profitable merchandise *vendors*. This information is invaluable in negotiations for future buys and potentially improved prices. It can also help retailers decide whether to eliminate vendors whose product mix may be interesting, but nonessential to their business health.

Of course, all this information could be entered into a spreadsheet manually, but most independent retailers do not have the luxury of the time or employees to manage all the extra work. *This is the crux of POS benefits — freeing independent retailers' time for more planning and analysis so that they can better compete with retail giants.*

Introducing the DSET

A DSET framework is a structured method used by Aberdeen Group to represent the drivers, strategies, enablers, and technologies prevalent in a particular industry for the adoption of a technology or solution. In this case, the DSET shows how retailers can take critical business issues (drivers) and make them actionable through business and technology changes (Table 1).

Listed below are Aberdeen's definitions for drivers, strategies, enablers, and technologies as Aberdeen applied them in the DSET frameworks:



- **Drivers** — External forces that impact an organization’s market position, competitiveness, or business operations (e.g., economic, political, regulatory, technological, changing customer preferences, competitive).
- **Strategies** — The approaches that an organization takes in response to industry drivers. Strategies align the corporate business model to leverage industry opportunities (e.g., product/service strategy, target markets, financial strategy, go-to-market, and sales strategy).
- **Enablers** — The business process competencies required to execute corporate strategy (e.g., skilled people, brand, market positioning, viable products/services, ecosystem partners, financing).
- **Technologies** — The key functionality of technology solutions required to support the organizations enabling business practices (e.g., development platform, applications, network connectivity, user interface, training and support, partner interfaces, data cleansing, and management).

Table 1: The DSET Framework for the Independent Retailer

Priorities	Prioritized Drivers	Prioritized Strategies	Prioritized Enablers	Prioritized Technologies
1	Surrounded by retail giants with better cost structures	Personalized offerings	Clear understanding of core customers	Customer and sales data capture programs
2	Shrinking % profit margins	Category or customer specialization	Redefine product mix	Merchandise management tools
3	Demanding end-consumers	Focus on customer service	Target key employees for rewards and retention	Cash and workforce management tools
4	Increased non-merchandise costs	Join consortia to aggregate buying power	Visibility to industry groups and committees	Procurement applications
5	Difficulty obtaining merchandise from vendors	Prioritize small vendors with unique product niche	Vendor performance analysis	Order and sales management applications
6	Availability of the Internet to customers	Visibility on the Internet	Virtual storefronts	Transferable item master files

Source: Aberdeen Group, June 2004

Simply put, the independent small retailer struggles for survival in a hypercompetitive world of giants. The Internet has educated consumers, while department stores and mass



merchants have heightened price sensitivity with endless rounds of markdowns and promotions. Rents are rising as chain specialty stores fight to take over space in the most desirable locations. Merchandise suppliers tend to place the independent retailer at the bottom of their fulfillment priority lists and reserve preferred pricing and delivery windows for their larger business customers.

Most survival strategies focus on customer service. Customer service can be as simple on the low end as selling inexpensive products at a storefront in an otherwise undesirable area or as complex as knowing the favorite designer label of a customer at the high end of the retail spectrum.

Other competitive strategies include joining consortia with other independent business owners. These consortia contract for services like credit card processing or group health insurance. Consortia create mass and receive more competitive pricing from merchandise and non-merchandise vendors than any one individual retailer might receive.

Technologies available through POS applications enable independent retailers to improve their customer service by keeping track of customer purchase information, become more efficient at ordering merchandise, and facilitate communication with their merchandise vendors.

Comparing What Was Sold with Cash Received Will Help Identify Dishonest Employees

The origin and purpose of the nine-cent price ending are a little known piece of retail history. Although it is widely assumed that the purpose was psychological, encouraging the customer to think he or she was getting a good deal, the actual reasoning was quite different. In fact, it was one of the earliest forms of loss prevention. With the advent of the cash register, store owners had an opportunity to keep a rudimentary count of cash receipts. Setting prices ending in an odd number of cents increased the need for employees to open the till when collecting money for a sale. The sale would be rung, the till would open, the sale would be recorded, and the employee would “make change.” This process seems rudimentary by today’s standards, but was reasonably effective in its time.

Cash control is still relevant. Even in today’s credit and debit card world, more than 40% of retail transactions are still tendered in cash. Employees have become more sophisticated, and having temporary help with a pocket full of pennies is the least of a retailer’s problems. Although ECR systems will yield basic information on tender received by employees, POS systems allow export and reporting of this information, highlighting suspect transactions and employee trends.

Retailers Can Never Know Too Much About Their Customers

For most consumers, the lure of the neighborhood store is the personal touch of actually knowing the name of the proprietor; consumers consider them as part of their community. In his book, *Hug Your Customers*, successful independent retailer Jack Mitchell tells how he built an enormous following in two stores by knowing the names and tastes of his local clients. He argues that a “hug” can be as simple as greeting customers by name, giving them a call when a favorite designer brings out new styles, or just wishing them a happy birthday. It can be as complicated as putting together an outfit for a last-minute business trip or designing and installing the ultimate set of stereo components for a client’s new house. Although it is possible for retailers to keep the background information



that they will need for this kind of service in a “little black book,” it is much easier to have it available on the computer, with automated alerts letting them know when significant events occur in their customers’ lives.

The truth is that long before Wal-Mart’s revenue began to exceed the gross national product of most countries, Sam Walton advocated a similar personal touch. Wal-Mart hired local retirees as greeters who helped people find their way around the store. Walton knew the importance of the personal touch. The same was true of Home Depot. In the years before the advent of self-checkout and computer-based kitchen design, Home Depot was well known for hiring former contractors who actually knew the business and the products that they sold. These companies have abandoned personalized customer service. And although they have huge databases to help them understand consumer preferences, they will never again have the advantage of personal experience and attention to detail that the independent retailer maintains.

An effective POS system will provide a customer database that will take the place of the little black book. Of course, nothing comes without effort. Up-front work is still required to put information into the database, and training employees in using the computer and updating the database will take time. The best time and place to enter this information will differ for each type of retailer.



Chapter Three: Recommendations for Action

Key Takeaways

- Independent retailers that do not have a POS system now should carefully consider the benefits of having one.
- Look for solutions from established providers that know your retail segment well.
- When possible, capture customers' preferences and buying patterns.

Independent Retailers That Do Not Have an Intelligent POS System Now Should Carefully Consider the Benefits of Having One

POS hardware and software prices continue to fall, even as their features and functions continue to improve. What was unaffordable just five years ago has become reasonable and easy to justify for retailers that carry the same items for a long period of time, buy from a consistent vendor base, or hire seasonal or part-time help who run the store in the owners' absence. Prices for POS systems are close to the price of the better ECRs, but POS systems provide more functions for the money. Look past existing features to additional options that you may want to have in the future. Just as consumers can install new programs and games on their home computers, you will be able to take advantage of newer and better features on a "real" POS system. With an ECR, what you see is what you are going to get.

If your business depends on knowing your customers and tracking their purchasing history, you will find POS a big time-saver. Trading a day of employee training for the information that you will get on their customers and product movement will be well worth the cost.

Look for Solutions from Established Providers and Know Your Retail Segment Well

Every independent retailer knows that there are subtle differences between retail businesses. Understanding how to sell shoes does not guarantee success in selling party supplies or hardware. In the same way, POS systems need to be nuanced to the particular retail segment being served. Systems for shoe retailers must accommodate size, width and color, whereas systems for hardware stores may need to price by the linear foot or provide job-estimating capabilities.

It is important to buy your POS system from an established provider. Although it may be tempting to have a friend or family member write a system just for you, it will not be a good idea for the long term. You do not want to get stuck with a system that has no support because the person who wrote it moved to the other side of the country. Once you start using your system, you will find that you will not want to be without it.



When Possible, Capture Customer Preferences and Buying Patterns

This report has sought to identify the benefits that can be accrued by the independent retailer in moving to a computer-based POS system. It is important for Aberdeen to end where it began. Consumers continue to shop at the independent retailer because the personal experience is important to them. In an impersonal world, the personal touch is worth more to most consumers than spending an extra nickel or a dime on a purchase. In other words, no computer system should be an end in itself. Rather, it should act as another pair of hands assisting independent retailers in seizing their innate competitive differentiator — understanding their customers. The customer database will form the backbone of a customer-centric retail enterprise.

Common sense is critical in determining when to gather customer information. If the customer is in a hurry, requiring information like name, address, or phone number at check-out can be inconvenient, irritating, and ultimately counterproductive. Try to gather personal information at more appropriate times, as the consumer arrives or while he or she is shopping, rather than on the way out the door. Time is a precious commodity, and no customer's time should be wasted.

The combination of purchase history and customer demographics is powerful; it can make the difference between roaring success and bare survival. Wise retailers will do their best to ensure that they have this information at their fingertips.



Author Profile

**Paula Rosenblum,
Director of Retail Research
Aberdeen Group, Inc.**

As director of Aberdeen Group's Retail Research practice, Paula Rosenblum focuses on the critical issues facing today's retail executives. Her research demonstrates how retailers can satisfy their shareholders by promising sustainable growth; delight consumers by providing product selection, convenience, and reasonable pricing; and motivate employers by setting clear expectations and defining manageable tasks. Rosenblum's research gives retailers the strategies to optimize their enterprises, empowering the customer through the art of merchandise selection and marrying world-class technology with logistics management.

Over the next 12 months Rosenblum will release four studies that address the specific issues facing retailers in today's market. These studies can be characterized by one overarching theme: *Next Generation Retail — The Post-Wal-Mart World*.

The four topics Rosenblum will examine are (1) *The Proactive Merchant*, in which retailers use science to supplement intuitive processes, taking the grunt work out of running the enterprise; (2) *Practical Collaboration*, which spotlights the need for improved synchronization and collaboration between supplier and retailer; (3) *Next-Generation Strategic Sourcing*, which stresses the need for retailers to develop sourcing processes that focus on improving time-to-market while keeping the flexibility to shift with rapidly changing consumer demand; and (4) *The Empowered Store*, a concept that can realign retail to meet consumers' needs and dramatically change the fundamental criteria for sustainable competitive advantage and business success.

Prior to joining Aberdeen, Rosenblum was a retail research director at AMR Research, where she was a trusted advisor to Fortune 500 clients on the development of their business strategies. Her research ranged from the challenges of long-range strategic planning to short-term tactical execution. Previous to that position, Rosenblum was a retail technology executive. She was chief information officer at iParty and Domain Home Fashions and was director of retail systems at Morse Shoe Inc. and Hit or Miss.

Rosenblum holds an M.B.A. in Management of High Technology from Northeastern University and was nominated for the Beta Gamma Sigma Honor Society. She also holds a Bachelor of Arts from the State University of New York.



About Aberdeen Group

Aberdeen Group

Aberdeen Group's Market-to-Order Research Practice

Aberdeen's Market-to-Order research focuses on how the Global 5000 can utilize technology strategically to enhance customer satisfaction and loyalty and accelerate revenue growth. Aberdeen helps companies facing such challenges as:

- Creating demand and market awareness
- Increasing sales efficiency
- Managing channels to penetrate the market
- Streamlining orders to deliver on time as promised
- Consumer retailing in the post-Wal-Mart era

Technology can have extraordinarily positive effects on customer relationships and growth, but only when put in the context of the needs of the customer. This technology must be driven by the requirements of the functions that directly touch the customer — specifically sales, marketing, and customer service. When the needs of these customer-facing functions are met and when they are integrated throughout the corporate value chain, the impact on the organization's growth curve can be truly dramatic.

Aberdeen believes that technology can not only facilitate but also help drive revenue growth — but that this takes place only when technology is leveraged strategically and applied to *specific* business problems. To be successful, sell-side investments and initiatives must be reframed in terms of their impact on customer acquisition, retention, and expansion targets; these investments and initiatives also must be aimed toward the goal of expanding customer market- and mindshare.

Our History of Integrity:

Aberdeen was founded in 1988 to conduct fact-based, unbiased research that delivers tangible value to executives trying to advance their businesses with technology-enabled solutions.

Aberdeen's integrity has always been and always will be beyond reproach. We provide independent research and analysis of the dynamics underlying specific technology-enabled business strategies, market trends, and technology solutions. While some reports or portions of reports may be underwritten by corporate sponsors, Aberdeen's research findings are never influenced by any of these sponsors.

Aberdeen Group, Inc.

This research study is the result of research performed by Aberdeen Group.

Founded in 1988, Aberdeen Group is the trusted advisor to the Global 5000 for value chain strategies and technology advice. Through its continued benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help G5000 executives assess their value chain performance, develop improvement strategies, and select value chain solution partners.

Aberdeen delivers unbiased primary research that helps enterprises derive tangible business value from technology-enabled solutions. Through continuous benchmarking and analysis of value chain practices, Aberdeen offers a unique mix of research, tools, and services to help G5000 executives accomplish the following:

- **IMPROVE** the financial and competitive position of their business now
- **PRIORITIZE** operational improvement areas to drive immediate, tangible value to their business
- **LEVERAGE** information technology for tangible business value.

Aberdeen also offers selected solution providers fact-based tools and services to empower and equip them to accomplish the following:

- **CREATE DEMAND**, by reaching the right level of executives in companies where their solutions can deliver differentiated results
- **ACCELERATE SALES**, by accessing executive decision-makers who need a solution and arming the sales team with fact-based differentiation around business impact
- **EXPAND CUSTOMERS**, by fortifying their value proposition with independent fact-based research and demonstrating installed base proof points

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