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More than Point of Sale

Why Retailers Should Replace Old Point of Sale Systems Now

By Paul Streicher, President and Managing Director of Retail for SalePoint, Inc.

Paul Streicher has over 25 years of retail systems experience and has seen various economic cycles and the impact that these cycles have had on the investments made by retailers. This White Paper presents some key issues for retailers to consider in the present economic climate.

While there is much debate in the financial community as to whether or not the United States is coming out of the current recession, there is no doubt that the current recession and financial crisis were extremely severe. Consensus is that it is the worst recession since the Great Depression.

A large number of retailers have gone bankrupt. These names include such companies as Eddie Bauer, Crabtree & Evelyn, Goody's, Linens & Things, Shoe Pavilion, S& K Menswear, Mervyns, Ritz Camera, Gottschalks, Z Gallerie, and Filene's Basement to name just a few of the many that filed Chapter 11 or 7.

Consumers have been terrified by the media about the possible collapse of our financial institutions, credit has not been available, unemployment is at record high levels, and the new administration is creating further uncertainty with rapid and dramatic changes to attempt to stimulate the economy and advance certain social programs.

As retailers watch this scenario play out and attempt to determine what the new level of demand will be for their goods and services, they have implemented cost savings, closed stores, and significantly reduced capital spending. In general, new financial conservatism has been embraced by consumers and retailers alike as they proceed into what is hopefully an economic recovery.

The purpose of this paper is to discuss a specific issue. Should retailers continue to stretch their investment in older point of sale systems as a tactic to survive during this recession? The short answer is no. Not if they want to continue to be in business and meet the demands of the market and consumers. Let me tell you why.

Retailers Stretch Their POS Systems Investments

Typically retailers refresh (replace) their store systems every five or so years. This includes a hardware and software refresh. A few years ago, based on the beginning of this economic slowdown, retailers started keeping their systems longer and extending the replacement cycle. Some replacements occurred in the 2006 to 2007 time period. However, when the current dramatic recession occurred most retailers deferred any systems replacements.

They were able to do so due to the quality of the systems that they had previously implemented. IBM, for example, is the market leader in point of sale equipment with its SurePOS® point of sale hardware offerings. The IBM POS systems are "retail hardened" and built for long life. IBM has even patented "retail dirt" to be used in testing of the POS hardware to ensure it lasts in the store environment. Due to this quality, IBM POS last a long time and have a high resale value. Retailers are able to get extended life out of the units. Some retailers have utilized IBM POS systems for over 15 years.

The challenge of older IBM POS systems is that they often run the DOS operating system and are not powerful enough to run today's rich Point of Sale software applications. As a result capabilities to implement new features that help increase sales and improve customer service are not possible. So although the hardware has lasted a long time, the technology under the covers of the old POS systems is not current with the processors and memory needed to run more modern applications.

As long as these older systems meet the business requirements of the retailer, it appears that extending their life in the stores is a sound economic decision. However, there are hidden costs and other factors to consider.

Factors Preventing Continued Use of Old POS Systems

Retail systems providers have attempted to assist retailers who try to extend their systems but have often reached limits due to the technology or obsolete software applications that run on these older systems.

Some factors facing retailers that result in the necessity to replace the systems are:

- ✓ **Compliance Deadlines** – All merchants that accept credit cards must implement point of sale payment applications that are PA DSS validated to support the VISA mandate by July 2010. These older systems with software applications that are no longer supported (and therefore not PA DSS validated) in most cases cannot support this requirement. To achieve the deadline and avoid fines that will be imposed by failure to comply, retailers need to initiate the replacement of their old systems immediately.
- ✓ **Protection of Sensitive Customer Data** – news headlines have provided ample examples of the cost of breaches of sensitive credit card data of retail customers. The costs to the businesses have been in the millions of dollars in addition to significant damage to the retailer's reputation and customer loyalty. In conjunction with PCI DSS Compliance standards, newer systems are needed to adequately protect sensitive customer data.
- ✓ **Point of Sale is Mission Critical** – one retail systems professional recently said that retailers could operate their stores from a cigar box if necessary and therefore do not see the value in point of sale systems. Quite to the contrary, point of sale systems are mission critical elements of a retailer's business and should be viewed as necessary as store leases, fixtures, and merchandise to the success of the business. If the retailer attempts to justify the point of sale systems replacement solely by a return on investment (ROI) calculation, they are missing key strategic considerations that are important to the overall success of their retail business.

- ✓ **Hidden cost of hardware failures and maintenance costs** – although there are high quality systems in the stores, as these systems are utilized for excessively long periods of time, the failure rate increases over time. Receipt printers, for example, are one of the hardest worked components of the system and are subject to failure. IBM has great Mean Time Between Failures (MTBF) statistics. However, the hardware does not last forever. Component failure results in lost time in the stores and interruption of customer service. In addition, the annual maintenance cost of older hardware is expensive. At times the warranty of new systems can make a good contribution to the purchase price through the savings achieved on annual hardware maintenance expenses.
- ✓ **Limitation of old hardware and software** – In addition to speeds and capabilities of the newer hardware, the capability of the newer systems to run today's generation of point of sale software applications cannot be overstated in its value to contribute to the success of the retailer. Beyond the mandates of PCI Compliance that are forcing a change, the retailer can benefit from a whole host of new features and applications. For example, specialty retailers carefully hone their business concepts to present their brands, stores, etc. in a concise way to attract their customers. They want to provide the best customer experience, build loyalty, and ensure repeat business. POS systems can be a barrier to the programs that the retailer wants to implement to insure the best experience for their customers or an asset. Older systems unfortunately cannot match new systems in this area.
- ✓ **Customer expectations** – consumers during this recession are extremely value conscious. They expect to be presented with value, to be serviced quickly and reliably, and for the retailer to have state of the art systems to support them. Retailers fight hard in a very competitive market to capture their share of the consumer's limited dollar. Consumers know what good point of sale systems can provide from their experience shopping in a variety of stores. If a retailer does not have a current system, it can impact the consumer and result in lost business. All the hard work, marketing, merchandising, and store sales personnel efforts come down to the point where the consumer faces the point of sale system to complete the transaction. This is the make or break point for customer satisfaction.

What is a retailer to do?

Due to the recession, retailers have better options than ever before in replacing their point of sale systems. Although retailers do not realize it, now is the best time to replace their systems.

Some key reasons that this is true are:

1) **Manufacturers and software companies are hungry for business** – the recession has affected the demand for new point of sale systems so manufacturers and software companies are eager for new business and willing to make deals. There has been consolidation in the retail systems software space over the last few years. However, the market remains highly competitive with many companies such as SalePoint that specialize in certain market segments, provide value based solutions, and earn great customer satisfaction ratings. These companies will assist the retailer in reviewing options and obtaining the best deal possible.
2) **New features and functionality can increase revenues** – Centralized returns, customer loyalty, centralized customer marketing, gift card programs, fast centralized credit authorization and other features found in today's software can result in reduced costs and increased revenues for the retailer.
3) **Enhanced integration can improve overall business –** in the past point of sale applications running in the stores were information silos of limited data that was batched overnight to corporate retail systems. Now with high speed internet connections to the stores, point of sale applications provide an integrated system for the retailer that allows them to perform real time functions to support their sales and operations.
4) **Adjust to the new level of consumer demand –** inventory management has always been a key driver of point of sale transaction tracking. Now more than ever, having rapid and reliable data on inventory movement in the stores is critical to adjusting to a consumer demand that has changed during the recession from the demand that the retailer had experienced before. Quick and responsive systems are keys to not having inventory tied up that is not moving

and must be marked down. Multi-Channel retailing and integration of e-Commerce and brick and mortar stores can be handled by the newer systems.

5) **Finally, retailers have a variety of choices –** SalePoint is a Premier IBM Business Partner that offers several retail point of sale solutions. We offer a "value" solution and have a long history of delivering this value to our customers. We use our experience in the market to bring retailers competitive options on hardware, software, leasing, and other options to deliver retailers a complete solution including IBM POS hardware that fit their financial needs and support key business strategies. Our pricing and services fees are lower than the larger players that have been combined during the industry consolidation of the past few years. Retailers are often surprised that they can in fact afford to upgrade their store systems and achieve a new level of business success when they work with us.

Summary

Retailers who have extended older point of sale systems well beyond their normal use will be forced by compliance deadlines and for business survival to replace these old systems. There are compelling justifications for such replacement and a variety of affordable options available to retailers. Retailers should engage companies such as SalePoint to formulate options for system replacements quickly since the PCI DSS deadline of July 2010 is fast approaching.

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