Plugged in POS

If point-of-sale systems are crucial to keeping shopkeepers' tills ringing, integration with the back office is the answer to tracking retail's new currency, information...

BY ANTHONY DOESBURG

Retailers' IT focus is shifting from front-of-house cash-collection to integrated systems with stock management and accounting capabilities, says New Zealand Retailers Association chief executive John Albertson.

"Point of sale systems used to be standalone and front-end only but we are seeing far more integration across the whole business because of demand for information and the ability that gives people to make better decisions."

The change is being driven by competitive pressure on retailers, Albertson says, and technology development. The upshot for shopkeepers is that their job description is no longer what it used to be.

"You need broader knowledge of a lot more things than perhaps you would have in the past.

"The old days of buying and selling have become more complex because you're trying to match what customers want with what's available, figure out how to sell at a competitive price and still make a quid at the other end."

Profit remains the goal but the currency has changed, Albertson says.

"Our belief is that information is the new currency. Information is what retailers badly need to supplement what has traditionally been a high degree of gut feeling, of acting on intuition."

Helping hand

The first port of call for advice about how to get their hands on the new currency is likely to be the retailer's accountant, who will explain that front- and back-office integration can help with everything from reducing inventory to giving slow-moving stock a hurry-up.

When POS, inventory management and financial systems are linked, each sale subtracts the relevant stock items from the retailer's inventory, triggering other activities, such as reordering, as required.

"The major chains have been committed to system integration for some time because their issue is making sure they have the right stock at the right place," Albertson says.

"But even for the small retailer it has become more important because the volume of stock held and the cash it ties up has become a critical component of running the business."

A further bottom-line benefit is being able to identify where shrinkage — or stock loss — is occurring. But that is the low-hanging fruit of integration.

There are other gains to be made by subjecting sales information to close scrutiny. For supermarkets and other purveyors of high-volume fast-moving consumer goods, the wealth of data they are collecting has led to the rise of the business analyst.

"For the national chains, the business analyst is becoming a critical role," Albertson says.

Armed with real-time information, timely decisions can be made about discounting of slow-moving goods, for example, as a means of clearing shop shelves for product lines in greater demand.

"Managing down to that level becomes more and more important. If you've bought 14 new lines to go into the new season and 10 of them aren't working, if you get rid of those 10 right away, even if you do it at cost, you have the rest of the season to reinvest in the stuff that is working for you.

"As a general principle one should always price to the market. The norm in years gone by has been that you almost priced to a formula — you took your buy price and put a percentage on and sold.

"But now there's a lot more pricing to the market — what will the market stand, and if I have to discount, will I still be making a margin.

"So the number of decisions being made are rather greater than they used to be and the only way to make good decisions is to have good data."

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All together now

If retail integration is well executed, it has the potential to deliver functionality that is greater than the sum of the parts. But with many disparate systems involved, there's also a risk that component incompatibility delivers less than the promise.

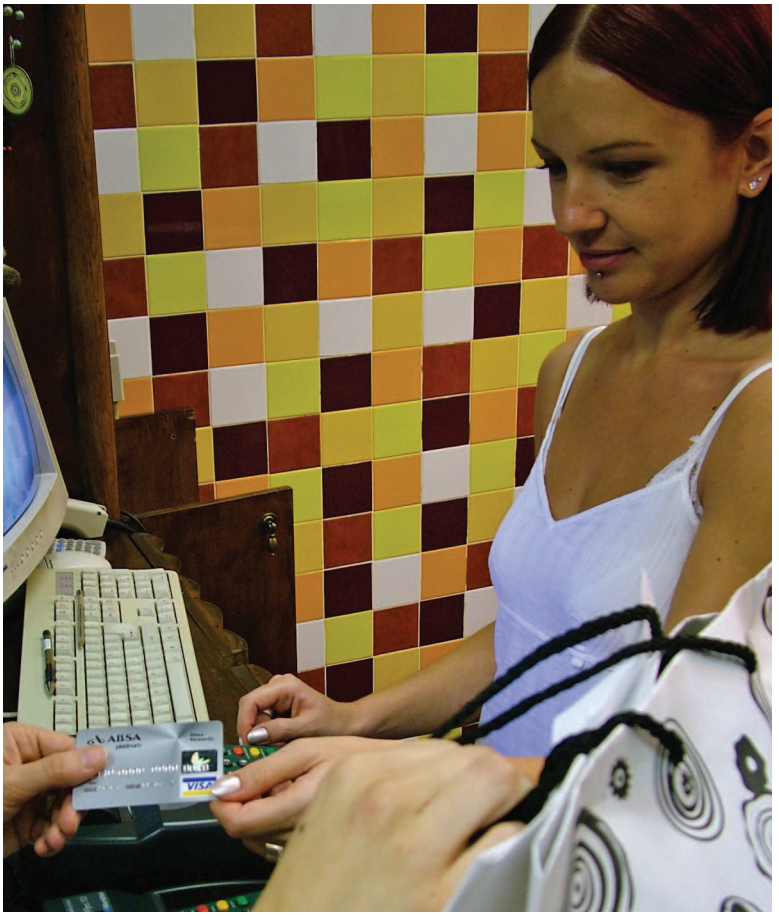
To compound matters, says Jeff Fletcher, operations director at Acumen Consulting in Auckland, there are numerous vendors vying for retailers' attention.

"It's a bit of a pig's breakfast out there with lots of vendors doing lots of things," says Fletcher. What a retailer won't find is a tidy off-the-shelf product that does everything.

"They tend to be partial solutions that fill in a bit of the picture, which is why so much integration is going on."

An integrated retail system generally has three components: a POS front-end, an inventory or stock management system in the middle and a back-office accounting system.

Also in the mix will be an electronic payment gateway, which could be integral with the POS system, perhaps an interface with an online shop and, for large outfits, an optional data warehouse »



for sophisticated analysis of sales and supply records. Depending on scale, a retailer might also have links with supply chain partners.

"Of the triumvirate of back office, stock and POS, you get some independent POS systems, some independent stock/retail management systems and some independent accounting systems. You then have some that cover two areas.

"So there can be overlap. But I'm yet to see a truly convincing decent-priced system that covers the whole range of capabilities."

Fletcher, an accountant, says Acumen comes at the puzzle from the ERP system end.

"You can use an ERP at the point of sale but it won't have a touch screen or out-of-the-box integration with Eftpos ... it's a bit like putting a skirt on some mutton and calling it lamb.

"It's not what I would call a proper POS system, although for some businesses it's perfectly fine. Others, though, have different requirements."

At a minimum, Fletcher believes, a POS system should have a touch screen, Eftpos integration and online-offline functionality.

Retail management systems, for their part, typically act as a central repository for everything related to stock and merchandising.

And a back-office system, such as Microsoft Dynamics NAV, which Acumen sells, handles all accounting functions, including fixed-asset and cash management.

If well put together, they should deliver the retail holy grail: figures for sales, stock on hand and the bottom line that tally at each tier — a single version of the truth, in other words.

According to Fletcher, that involves integrating transactional data at source with the accounting system, eliminating manual processes. Failure to get it right leads to poor cash reconciliation, the consequence of which is late and weak financial reporting.

"In my experience most people don't get it quite right and they fudge it with a bit of creative accounting. But if you do a proper integration you don't have those issues."

Have data, use it

The one thing worse than not having access to an integrated system's wealth of data is not putting it to use.

"That's where retailing has to head," says Albertson. "If you have information available, you have to be using it."

Owen McCall, CIO for more than seven years at leading New Zealand retailer The Warehouse, couldn't agree more. At The Warehouse, which began supplying sales data in real-time to its head office a number of years ago, the information serves two purposes.

"For us it was about supporting on-the-floor staff in answering the question 'have we got stock'. If the answer comes back that the item is in stock, they can go with the customer to find it. That's the main benefit.

"The other is driving supply chain decisions. Fireworks is the best example of that, where we're moving stock hourly, in some cases, because of restrictions in how the product is handled."

The Warehouse's system architecture wouldn't be untypical of many New Zealand retailers, says McCall, who left the general merchandiser in April this year to start a consulting business.

The POS tills in each of the chain's 88 stores are standalone, so a failure in one won't stop the rest from functioning.

"In my view there is only one mission-critical retail system," McCall says, "and that is your point of sale system, which gives you the ability to transact sales and collect money. We spent a lot of time thinking about how to keep that up and running.

"The others, although it's inconvenient if they're down for a while, it's not truly crippling."

Each morning Warehouse head office pricing data is pushed to the stores' back office systems, which transmit it to the tills.

During trading hours, sales data makes its way from the tills to the store back office, from where it is uploaded in real-time to head office. There, it is distributed to a variety of systems, but two main ones.

"One is the Tui inventory management system, from where it goes to the general ledger, and the other is the data warehouse,

to support daily sales reports," McCall says.

Until a couple of years ago, sales data was only uploaded at the end of the trading day.

"When we were relying on the overnight data feed, it was very easy for a team member to say we were out of stock if numbers were low, rather than risk the item not being available."

The upgrade to a real-time sales data feed also sped the preparation of sales reports.

"By integrating right through, we got a company-wide daily reporting by the time people start work in the morning.

"For highly seasonal products such as fireworks, real-time inventory gave buyers and supply chain partners excellent information about when they needed to replenish stock."

Outside of that, not a lot of real-time decisions were being made, McCall says. The Warehouse wasn't doing intra-day pricing, for instance.

"That's not because technically it couldn't be done, because from a systems point of view it could be. The reason was that physically changing prices in 88 stores in a robust manner for an hour so is an incredibly cumbersome and expensive exercise.

"On a daily basis, however, the buyers look through the sell-throughs to understand what that means in terms of positioning stock and understanding what promotions they need to run or not run as the case may be."

Stock replenishment was largely automated, relying on daily system "sweeps" to check on availability of fast-moving products, and weekly checks for slower-selling goods.

"That's a relatively simple process of comparing stock on hand with stock maximums," McCall says.

If certain thresholds were met, orders to restock stores would then be automatically placed either with The Warehouse's distribution centres or external suppliers.

You, too, could have one

The Warehouse system's origins go back to the mid-1990s and, although refinement is always possible, it does a good job, believes McCall.

Most of the components were custom-built, but today a retailer could buy the equivalent off-the-shelf. For a retailer of The Warehouse's size, he says that comes down to a head-office choice between Oracle Retail and SAP.

At the mid-size POS and store system level, McCall says there are several good options, including Triquestra and Advance Retail.

"There is quite a good ecosystem."

His impression is that Australian retailers have a similar range of options to choose from.

"I don't think the Australian scene is much different — not at the major end of town, anyway."

If there's a difference between the retail shopper's experience here and across the ditch, he puts it down to size.

"I think you get a wider variety of experiences in Australia than in New Zealand and I would attribute most of that to market size. Because Australia is bigger, retailers can afford to have a wider selection of viable formats.

"From a systems perspective, at the corporate end of town I »

would say we're probably slightly ahead of Australia, but I think a lot of that has to do with implementation cycle times."

It stands to reason that a billion-dollar New Zealand retailer, which would be big by local standards, would make quicker work of rolling out SAP, say, than a multibillion-dollar Australian chain such as Coles.

"Bigger businesses just take longer. But I don't think there's a lot in it, really."

Paul Bickerstaff, sales and marketing director at Commerce Vision in Brisbane, says selling online is an increasing preoccupation of Australian retailers.

"One customer said to us recently this is no longer something we can ignore," Bickerstaff says.

Just to what extent online retail is catching on can be seen by a recent change of heart by Harvey Norman chairman Gerry Harvey.

"It's now got to the point where he's even saying he has to get on board.

"What we say to our bricks and mortar customers is that they really need to be thinking about a multi-channel strategy."

Many have already gone beyond thinking about it: Commerce Vision's Customer Self Service product handles about 150,000 monthly online orders worth tens of millions of dollars for 75 customers.

Online into the future

What is the future of retail systems? To a great extent, online stores — and the million or more Kiwi shoppers flocking to them — are already answering that question.

As in Australia, Albertson says there is a growing expectation that retailers will have an online presence, if not for making sales, at least to enable window shopping.

"If a shopper is looking at any significant purchase then it's quite commonplace to go online, look at who's got what, what the differences are between the brands and retailers, and they've almost made their decision before leaving home.

"In that regard it's critical that whatever presence online a retailer has is integrated across the business."

That has implications for pricing. When Albertson was in the market for a car a couple of years ago, he found a vehicle he had seen at a sales yard available on the dealer's website for $1000 less.

"When I went back to conclude the deal I suggested the online price was the one I would like to pay and he had no alternative but to agree."

The new sales and marketing medium requires a retailer to keep online and shop-floor pricing in sync, unless a discount is being offered through one or other channel.

"So the more you can automate that the better."

In the online world the shopping basket and payment gateway take the place of the POS and Eftpos functionality of the bricks and mortar retailer, McCall says. The complication is the need to maintain consistent pricing, particularly when offering bundled deals, such as a discount on the second of a couple of items bought.

Failure to get it right can undermine customer trust.

"At an industry-wide level the approach to this is around having a robust master data management system that can feed all channels. Architecturally, that's the right way to go.

"The problem with master data management system projects is that they're complex and expensive and there is no direct payback that you can see from it."

Combining that with electronic shelf pricing could be the key to convincing retailers it's an investment worth making.

"Some of the new supermarkets have electronic shelf pricing and online pricing and you change the amount in the master file and everything changes automatically.

"That level of integration is going to be important going forward," Albertson says.