



European Retail
Executive Agenda 2008

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High performance. Delivered.

Separating
Point-of-Sale
Hype from Reality

• Consulting • Technology • Outsourcing



Fully understanding the critical challenges faced by industry executives seeking to achieve high performance is the starting point to everything that we do at Accenture.

It is integral to our vision of bringing innovation to the way the world works and lives. It is fundamental to our aspiration of becoming the trusted advisor to our clients as they navigate their way through unrelenting industry pressures and upheavals. And it is the basis for how we begin to deliver high performance to our clients.

In the first half of 2007, our European retail practice led an ambitious research initiative designed to help retail industry executives make better informed decisions concerning their point-of-sale (POS) software and hardware systems. Retail executives have often asked us,

"There is no shortage of software and hardware vendors trying to sell me the next big thing in POS, but how can I easily separate the reality from the hype?"

In order to answer this critical question, our research team interviewed and surveyed over 50 leading European retail industry executives to fully understand how actual companies are thinking about their POS technologies and POS related investment decisions.

In this report, we provide a summary of our key findings. We present insights into actual POS spending, trends and behaviours, and we offer an informed assessment of future technologies and their relevance to retail executives today. Our hope is that our research can help retail executives objectively benchmark their POS decisions against those of their peers, and ultimately, help executives distinguish POS hype from POS reality.



The Store of the Future?

Imagine walking into your favourite department store to buy a new pair of jeans. As soon as you enter, you push a few buttons on your mobile phone. This activates the embedded RFID loyalty code sequence for the specific store. Almost immediately, the nearest kiosk sends you a short multimedia and text message, "Welcome back, Mr. Sanchez ... we have a special 25% discount on Levi's 501 jeans today, and we have just your size in blue, white and black. Please press #5 if you would like to try them on."

Delighted, you proceed. Two minutes later, you reach the jeans section of the store to find a store assistant with the three pairs of jeans all laid out on a counter. "Hello, Mr. Sanchez," the assistant greets, "I hope you find these to your liking."

You do, and as soon as you put them in your shopping cart, an optical sensor sums up the items within a millisecond. The screen on top of the cart now reads, "The current amount in your basket is 145 euros. Should we debit your account now?" Normally, you would look around the store awhile longer. Today, however, you are pressed for time. So you consent.

You wave the back of your phone over the shopping cart handle. You then hear the now familiar beeping sound emanating from the shopping cart screen asking for your thumbprint. You press your thumb down on the screen, and with that, you are finished.

You walk out of the store with a smile. You know that your receipt has already been emailed to you, and your shopping trip has been a success.

The Reality of Actual Retail Business Operations

Unfortunately, most executives would agree that the preceding scenario remains very far removed from messy reality of actual retail business operations. Despite much hype in the media and at industry events surrounding such visions of the future, the overwhelming majority of the European retail executives interviewed for this research stated that technologies like RFID or biometrics were still very low (or not at all present) on their list of current POS related priorities.

How high are these new POS related technologies on your list of priorities for the medium term? (1 low - 10 high)



Only one emerging POS related technology--namely mobile POS--was rated as potentially significant by European retail executives. As one retail IT director stated, "It is really difficult to make a business case for most of these technologies, especially with the margin pressures that we face. Mobile POS, however, can have an immediate and tangible bottom line impact if it can prevent customers from abandoning their purchases due to long queues."

Similarly, another executive concurred, "All of these technologies would be great, but their current price points render them useless to our organisation for the time being. If we were to implement even a small portion of these whiz bang technologies today, we would go bankrupt within a week."

The Total Cost of Ownership (TCO) and Compliance Imperatives

This difficulty of justifying a positive ROI on their POS technology investments was a common refrain from European retail executives interviewed for this research. As a retail CIO pointed out, "Our CFO sets our IT budget based on a fixed percentage of revenue, so there is not much room for any discretionary spend."

How much does your organisation spend on POS related hardware, software and services? (percent of store revenues)



Similarly, another retail IT executive stated, "We don't get any points for being an early adopter. We get points for making sure that our systems bring cash into the business day in and day out. It's very difficult to get funding for anything beyond that." In such a restrictive budgetary environment, the only remaining justifications for any above average spend on POS systems tend to focus on either regulatory compliance (e.g. chip and pin, PCI/DSS) or the need to manage the spiralling total cost of operations (TCO) for existing systems.

50.000

40.000

30.000

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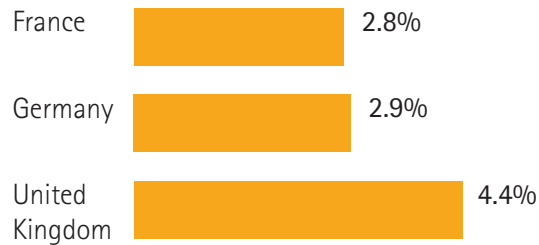


Anticipated Growth in POS Related Spending

Anticipated growth in POS related spending differed significantly by European country. UK retail executives, on the one hand, anticipated their POS spending to

grow at 4.4% per annum over the next five years. Retail executives in France and Germany, on the other, anticipated a much lower growth rate of 2.8–2.9%.

How much will your POS related spend grow over the next 5 years? (anticipated compound annual growth rate by country)



In each country, retailers with between 500 million and 2 billion euros in annual sales expected the fastest growth in POS spending,

with such UK retailers anticipating 5.3% annual growth across the next five years.

	United Kingdom	France	Germany
Retailers with over 4 billion euros in annual sales	3.9%	2.2%	2.8%
Retailers with between 2 and 4 billion euros in annual sales	4.9%	3.3%	2.6%
Retailers with between 500 million euros and 2 billion euros in annual sales	5.3%	4.2%	3.2%
Retailers with less than 500 million euros in annual sales	4.7%	4.1%	2.6%

Reactions to a Rapidly Evolving Retail POS Landscape

Many retail executives agreed that the past 2-3 years have been marked by considerable turmoil in the retail POS hardware and software landscape.

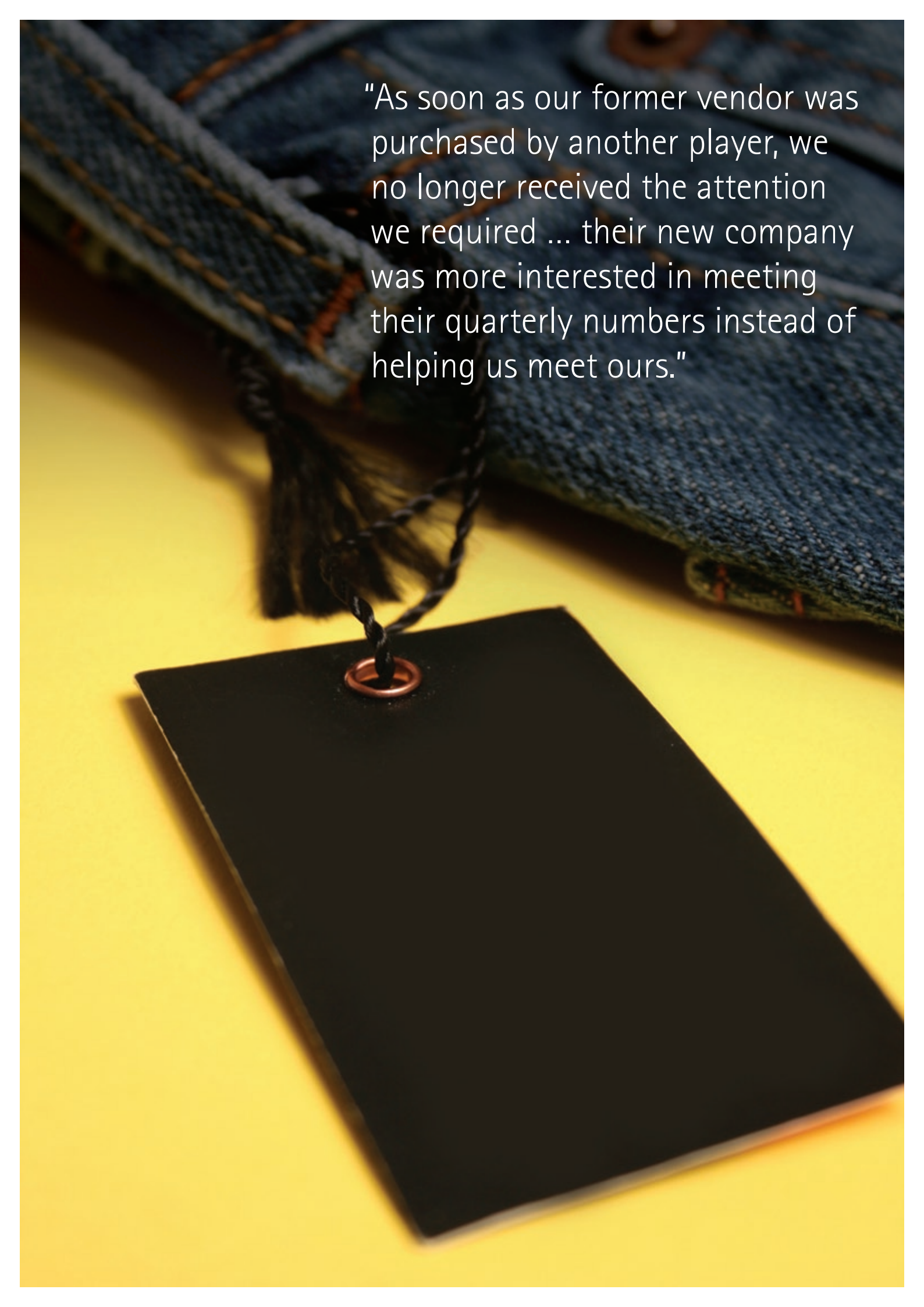
Significant consolidation of smaller players by mid-tier vendors such as Retalix and Torex, as well as the entry into the sector by such players as Oracle and SAP, have altered the commercial dynamic of the vendor-buyer relationship.

"As soon as our former vendor was purchased by another player, we no longer received the attention we required," one executive complained. "Their new company was more interested in meeting

their quarterly numbers instead of helping us meet ours, and they even started discontinuing support for some of our most important POS systems."

Such experiences have led many European retail executives to become much more diligent in assessing the long term strategic and operational impact of their POS vendor decisions: "Each part of my retail POS system is mission critical, so the promise of future support and a well articulated upgrade path are absolutely essential considerations. I need to know that the vendor will be around in 3 years and will remain committed to serving me."

Executives at larger retailers, in particular, have expressed a greater desire to move away from cobbling together software from different vendors and migrate toward adopting an integrated suite based approach--that is to say, retail POS software fully integrated with ERP and other back office systems: "I sleep much better at night knowing that [my vendor] is a large and successful global company. Theirs may not be the cheapest product, but I know that they are focused 100% on making sure that all these disparate pieces work together smoothly."



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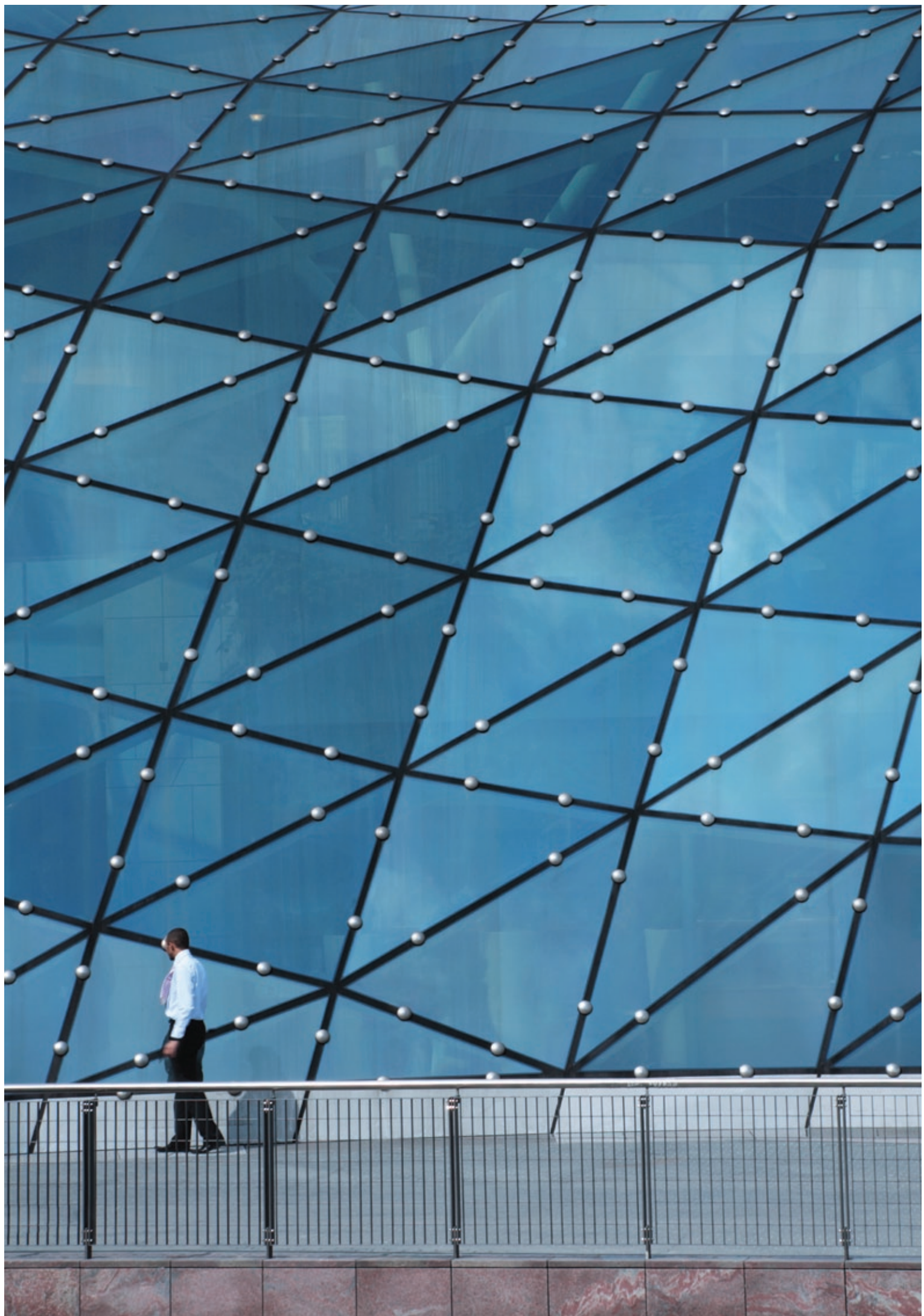
Conclusion

The last major upgrade cycle for POS systems in Europe occurred around 1999, as retailers scrambled to fix Y2K related issues and replace outdated software and hardware at the same time. As these systems have aged over the past 7-8 years, retail executives find themselves in the midst of another major upgrade cycle.

Today, however, European retail executives are taking a cautionary stance toward their POS software and hardware investments. While there is no shortage of vendor hype around new POS related retail technologies, most European retailers currently feel that the price points for such innovations do not yet support a strong investment case. With perhaps the sole exception of mobile POS, most of the emerging technologies such as biometrics and RFID are subject to a "wait and see" approach by

retailers, with very few willing to become the first adopter for a potentially unproven technology.

The scrutiny on total cost of ownership is stronger than ever before, and retail executives are closely monitoring the risks and the long term financial and operational health of their vendors before committing to major purchases. Indeed, retail executives in Europe are wisely focusing on the business case for POS related investments, relying on rigorous, fact-based analyses, as opposed to media and/or vendor hype. One UK based retail executive summed up the consensus view well when he mentioned, "We care about having something that just works and that improves our business operations from day one. In the cutthroat environment in which we operate, we simply have no other choice."



Methodology

The findings in this study are based largely on an extensive survey of over 50 senior retail industry executives and analysts in Europe, carried out by an Accenture research team. These surveys were supplemented by more in-depth qualitative interviews as well as wide-ranging secondary research.

Project Team

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