

**10th Annual
POS Benchmarking Survey:**

Successful Retailers Get Creative

2009



10th Annual POS Benchmarking Survey: Successful Retailers Get Creative

LakeWest Group, LLC
<http://www.lakewest.com>

Executive Summary

Today's retail environment is more challenging now than ever before. With less spending dollars available, consumers are even more focused on researching the products, brands, and services available to them. This, in turn, leads to higher consumer demands and expectations from retailers.

So, how can successful retailers survive and, more importantly, thrive in this challenging environment?

The most successful retailers focus on the customer experience to continue to attract customers.

Some of the ways the Top 100 Retailers are thriving in this environment include focusing on:

- **Associates** – Enhancing the overall customer experience starts with the associates with nearly 90% of retailers providing training to their associates.
- **Products** – Nearly three-quarters of the retailers indicate that their customers find product assortment and in-stock position to be the most valuable parts of the shopping experience.
- **Technology** – Two-thirds of the retailers have changed or upgraded their technology within the past two years to enhance the levels of service in the store.
- **Creativity** – “Non-traditional” methods of marketing such as blogs and YouTube videos are being utilized by nearly half of the retailers to creatively target customers.

The key for each retailer's success is to ensure that they know who their customer is and then create a clear customer service strategy to align the associates, merchandise, processes, and technology to support the overall strategy. The best-in-class retailers find creative ways to ensure that their current customers remain loyal and continue shopping, even in these challenging economic times.

LakeWest Group surveyed the Top 100 Retailers as identified in the August 2008 issue of STORES magazine. Stores' Top 100 Retailers now includes retailers beyond specialty, such as grocery, restaurant, and non-store but we have continued to focus our analysis on specialty retailers. LakeWest Group received 26 responses between October 15 and December 15, 2008. Respondents were typically Chief Information Officers or Directors of Store Systems.

Established in 1990, LakeWest Group is the premier management consulting firm dedicated to the retail and consumer products industries. With deep retail business knowledge and cross-functional capabilities, the firm delivers superior design and implementation of strategy, technology, and process solutions to help its clients achieve their full business potential. Headquartered in Cleveland with offices in New York City and Boston, LakeWest Group serves all retail segments and channels.

A changing world, a changing retail environment

We have talked a great deal over the past decade about what the top retailers were doing to succeed as consumers became smarter and savvier shoppers due to the array of information and shopping venues available. Ten years ago, when LakeWest Group began surveying the top specialty retailers about their point-of-sale (POS) environment and future priorities, the discussion revolved around some of the new technology that was available as many retailers moved from utilizing cash registers to POS terminals with touchscreens, signature capture devices, and other peripherals. Retailers have expanded their channel offerings so that most of the top retailers we survey provide at least two different shopping channels for customers, and many of the retailers offer three or more channels.

There has also been a tremendous change in how consumers shop. Consumers have far more product information, brand offerings, and shopping venues available to them than at any time in our history. The Internet has provided consumers with the ability to research and shop anytime from nearly anywhere. The retail marketplace has changed considerably in the past ten years.

And now, in this challenging economic climate, the rules are changing yet again. Consumers are cutting back on spending and the retail market is plagued by bankruptcies and closings. Going into the 2008 holiday season more than half of the top retailers planned sales flat with none of the top retailers planning sales up more than 10% over the 2007 holiday season.

So the question becomes:

HOW DO TOP RETAILERS SURVIVE, AND EVEN THRIVE IN THESE DIFFICULT ECONOMIC TIMES?

Even though the market appears quite challenging, there is still a need for retail, and there are still retailer success stories. So, how can you make sure

that your company is a survivor and can be one of those success stories?

The answer lies in each retailer's customer service strategy and what makes each retailer unique in their offerings for the customer. In today's volatile economic and highly competitive environment, every retailer needs to provide their own unique customer value proposition. This unique customer value proposition can involve a number of different areas within a retailer's business, but they can typically be grouped into four general categories. The elements to provide this unique value proposition include:

Associates

- How does a retailer leverage its associates to support the customer service strategy
- What types of training are available to its associates
- How are retailers managing the necessary labor and resources

Products

- Who is the targeted customer and what products are provided to that customer
- What type of product reviews and product knowledge is available for customers and associates
- What pricing/promotions model is utilized
- How is the assortment of products planned
- What is the planned inventory position and availability

Technology

- How is technology utilized to support the customer service strategy
- What channels are utilized to reach targeted customers

Creativity

- What "non-traditional" tools on the Internet can be used to reach the customer and fulfill the customer service strategy
- How are in-store tools utilized to target customers and encourage purchases

For the 10th consecutive year, LakeWest Group has conducted its POS Benchmarking Survey of U.S. retailers, identified as the Top 100 Retailers by **STORES** magazine in August 2008. This paper summarizes the results of this survey and offers insight into what successful retailers are doing to differentiate themselves from the competition and keep consumers shopping at their stores and websites.

Differentiation through associates

How do you, as a retailer, treat your customers? Are they the focal point of your strategy? Payroll is typically one of the largest expenses for a retailer – how are you leveraging your store associates? Most retailers talk about how important the customer is to them – but many do not follow through and ensure that their store associates support the company strategy and the customer.

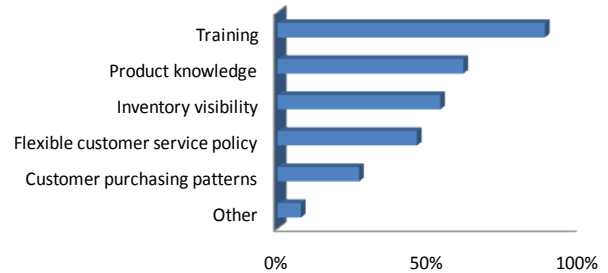
Customers complain that associates are not very knowledgeable about the products they sell and, even worse, they don't really seem to care about helping customers. The store associates that the customer interacts with are obviously a significant part of the shopping experience for the customer. A bad experience due to associate neglect or indifference can easily chase a customer down the street to the competition or to another retailer's website. Store associates play a large role in the retailer's differentiating equation, coupled with the service and assortment. Successful retailers realize this as they indicate that most of their customers value customer service as an important part of their shopping experience.

As we talked to the top retailers, it is apparent that they realize the importance of differentiating their business by ensuring that their associates are knowledgeable, helpful, and available.

So what are retailers doing to differentiate themselves in this difficult and crowded marketplace? Retailers are ensuring that their

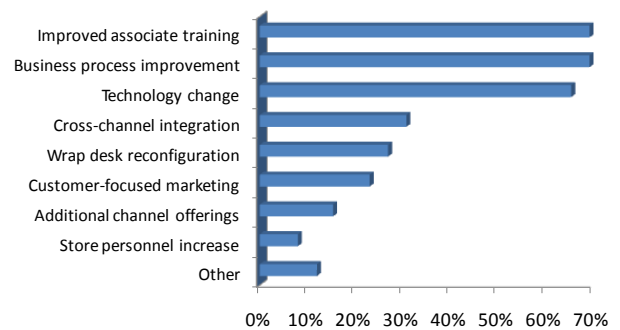
associates have the product knowledge and training needed to meet the customer's needs.

Exhibit 1.
Information provided to associates to enhance overall customer experience



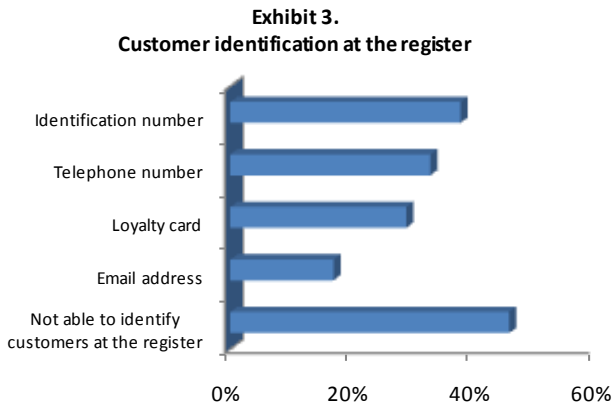
As we talked to the top retailers we found that best-in-class retailers strongly believe that providing training enhances the customer shopping experience. Of the top 100 retailers surveyed, nearly all of them provide training to associates to enhance the overall customer experience (Exhibit 1.) and nearly three-quarters of them have improved their associate training to enhance service levels in the store. (Exhibit 2.)

Exhibit 2.
Steps taken to enhance levels of service in stores

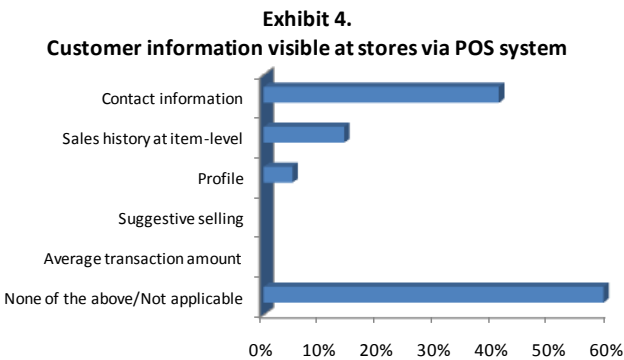


This trend surfaced a few years ago and continues to gain momentum as retailers realize that giving their associates additional training can help the retailer differentiate themselves from their competitors and win additional customers. The focus on training for the associate is critical in aligning the associate with the overall strategy. Leveraging store associates provides a retailer with the ability to ensure that the retailer's message is articulated clearly to the customer.

While leveraging store associates is critical, another equally important area is knowing who the customer is and why they shop. The top retailers are focusing on customer identification at the register. Similarly to last year's results, just over half of the retailers surveyed are able to identify customers at the register. (Exhibit 3.)



While more than one-third of the survey respondents do have customer contact information available at the POS, we still see that most retailers do not offer their associates any visibility at the POS to help personalize the shopping experience. This is a significant opportunity for specialty retailers to understand their customer and it is currently being missed by many retailers. Again, this number has remained relatively constant over the past few years. So, while retailers continue to emphasize the importance of knowing their customer, we still see few retailers who have actually adopted this strategy. (Exhibit 4.)



Retailers who are able to identify customers at the register can utilize this information to personalize promotions and enhance the customer shopping

experience. Personalizing promotions for the customer is not just a simple reduction in price; it can also represent suggestive selling based on past purchases or advertising for a new line that may be complimentary to the current purchase.

Of the retailers surveyed, nearly half can personalize a promotion based on the customer's history of purchase but only a few can offer personalized promotions based on real-time purchases. This has increased from last year's survey as retailers realize the significance for personalizing the customer's shopping experience.

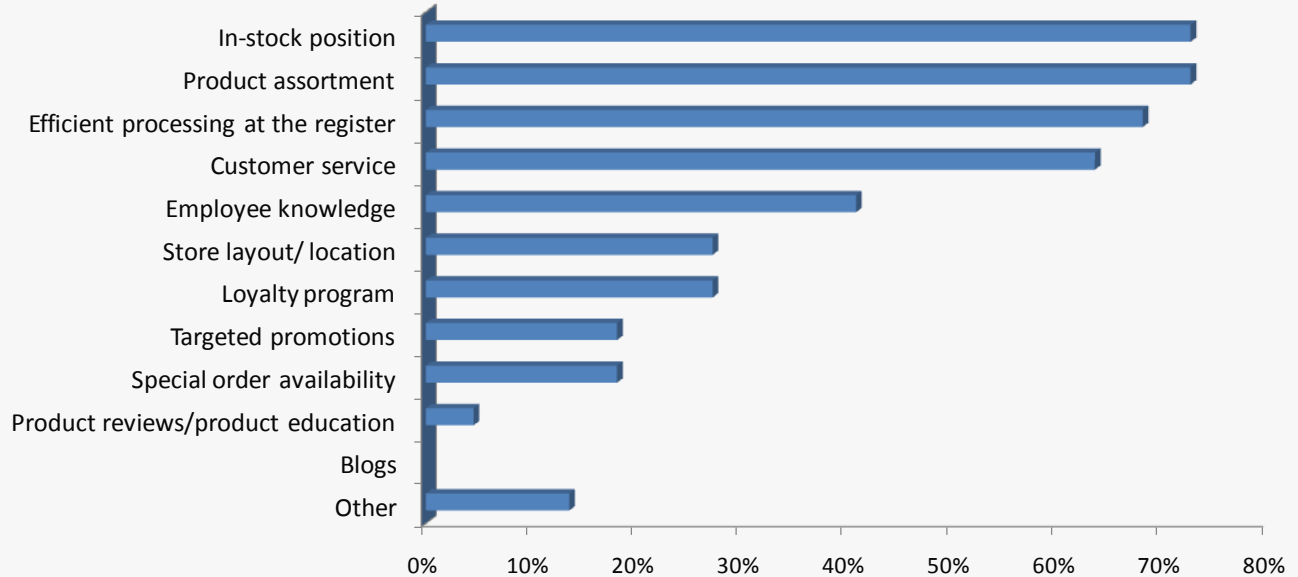
This continues to be an area of opportunity for retailers. Lacking this ability can translate to a decrease in margin and just as importantly, the loss of customer loyalty. We expect that more retailers will add to their ability to personalize customer offerings as they continue to search for ways to stand out versus the competition, and keep customers happy.

We are starting to see retailers personalize promotions in a number of different ways. Some utilize loyalty programs to communicate to the customer that they can receive a "free gift" by accumulating a certain number of points through dollars spent or some version of this. The "free gift" may be a product sample of current merchandise or promoting a new product line, dollars off a current product, or a discount off a future purchase. Or, in the case of grocery stores, we have seen an increase in the use of gasoline gift cards utilized as personalized promotions.

Differentiation through products

A critical piece of product differentiation is understanding who the customer is to identify the correct product mix and pricing strategy. Who is your targeted customer? Is your company's strategy to offer a broad assortment of merchandise or a narrow, focused assortment? What is the customer service strategy to support your customer? The answers to these questions are what top retailers

Exhibit 5.
Customers indicate the key factors valuable to the shopping experience



utilize to develop their customer value proposition and differentiate themselves from the competition.

It is critical that a retailer capture the sale at the moment the customer decides to purchase the item. If the sale is not captured immediately, there is a strong likelihood that the retailer will end up losing the sale. Since the customer has so many choices today, it is imperative to immediately meet the customer’s needs. Product assortment is critical to the customer as they determine where to shop. In addition to the product assortment, ensuring that the product is actually in-stock is essential so the customer can purchase the item. Of the retailers surveyed, more than three-quarters of retailers indicate that customers find their in-stock position and product assortment valuable to them in their shopping experience. (Exhibit 5.)

To ensure that the sale is captured even if the product is not currently in-stock, retailers are realizing the importance of ensuring visibility to inventory across channels. More than half the retailers surveyed offer their associates visibility to inventory across channels to ensure that the associate can meet the customers’ needs. (See Exhibit 1.)

Product knowledge also becomes critical since consumers now have a plethora of information available to them. Consumers do their research before they purchase via product information from the manufacturer, the stores’ website, consumer reviews, blogs, and product reviewers such as CNET and Consumer Reports. To ensure that associates are as knowledgeable as the customer that walks in the door, retailers need to ensure that they are providing their associates the necessary product knowledge to meet the customer’s needs. As we saw in Exhibit 1, nearly two-thirds of this year’s retailers offer product knowledge to their associates to enhance the overall customer experience.

Price remains an important consideration for customers, especially as they try to stretch their dollar further. The customer is typically looking for “fair pricing” based on the services and value received. But with so many shopping options offering similar “everyday low pricing” it becomes more critical for retailers to move beyond their everyday pricing policies. The ability for retailers to differentiate themselves through personalized services, such as offering personalized promotions to entice shoppers to shop at a store, continues to gain momentum. In addition, retailers must ensure they have the necessary tools to make the best pricing and markdown decisions.

The shopping experience is crucial to the customer. This again ties back to the retailer's customer value proposition. Is the strategy to provide your customers with products that are never out-of-stock? Or is it to ensure that the customer interacts further with your associates to give the associate the ability to offer more product knowledge to your customer?

Differentiation via technology

Technology provides the foundation for a retailer to enable strategic initiatives. Over the years, we have seen many retailers fail with new technology as they forget to ensure that the technology is aligned with the overall strategy. Technology can and should be a tool for retailers to utilize to differentiate themselves from the competition. The key point that top retailers keep in mind is that technology is only as good as the business processes that support the technology.

POS Systems

The checkout experience continues to be a focus as retailers look to upgrade or replace POS software and hardware. Top retailers realize the importance of the checkout experience and continue to make "increasing customer speed through the checkout" a top priority.

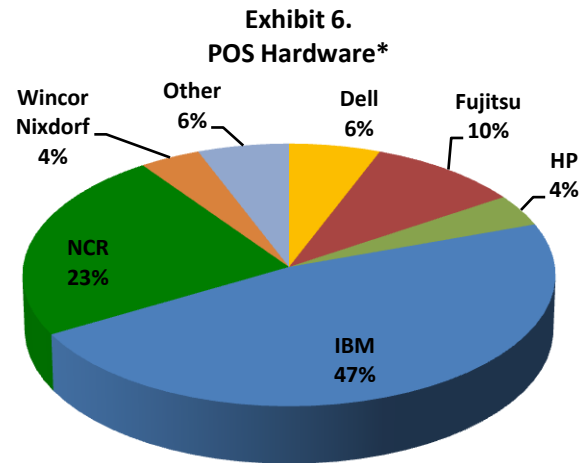
As this POS Benchmarking Survey has indicated for a decade, we continue to see significant interest in the upgrade or replacement of POS systems. Unfortunately, there are still a number of systems in the industry, even among the top retailers, that are more than ten years old and unable to support new and advanced functionality or the additional applications that are necessary at the checkout to ensure a smooth checkout experience for the customer. Retailers have also realized that older POS applications may have reached their maximum capacity, providing the retailer with low functionality and high maintenance costs.

POS Hardware

The top retailers surveyed this year are utilizing POS hardware with an average age of 4.75 years. This

number is lower than last year's 5.8 years, indicating that some retailers have implemented new hardware in the past year. The remaining useful life indicated is 4.16 years which has remained relatively constant from last year's 4.2 years of useful life.

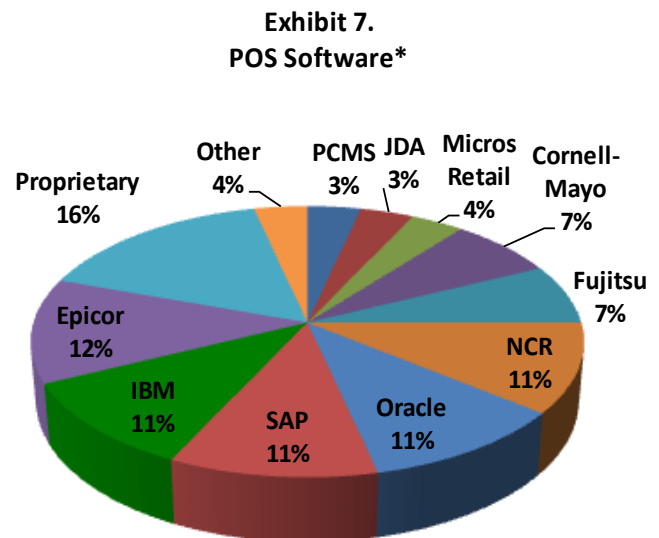
The POS hardware market continues to be dominated by the market leader, IBM, with the rest of the players remaining fairly constant from last year. (Exhibit 6.)



*POS Hardware includes specialty, department, apparel, and big-box retailers and excludes grocery, restaurant, and convenience retailers

POS Software

On the software side, this year's survey indicates the average age of POS software is down slightly from



*POS Software includes specialty, department, apparel, and big-box retailers and excludes grocery, restaurant, and convenience retailers

last year's 7.5 years to 7.11 years this year. The remaining useful life has risen slightly with 3.82 years this year compared to 3.4 years last year. It appears that this year a few retailers have managed to implement new software to bring down the average age and increase the remaining useful life.

While the POS hardware market has been consistently dominated by the two major players of IBM and NCR over the last decade, the software market remains segmented with a number of players owning smaller pieces of the market. (Figure 7.)

IBM has a strong presence on the software side, as do SAP, Oracle, and NCR with 11% shares each. Epicor, with its acquisition of NSB Retail Systems in 2008 has jumped into the top spot with a 12% share of the market. Interestingly, the share of the market that is inhabited by proprietary or homegrown systems has remained significant in this market.

The POS software marketplace will continue to alter over the next few years with more potential mergers, acquisitions, and consolidations and we will likely see fewer players in this market in the future, although we believe that the market will likely support a variety of software vendors as different

retailers have varying technology, size, volume, and functionality requirements.

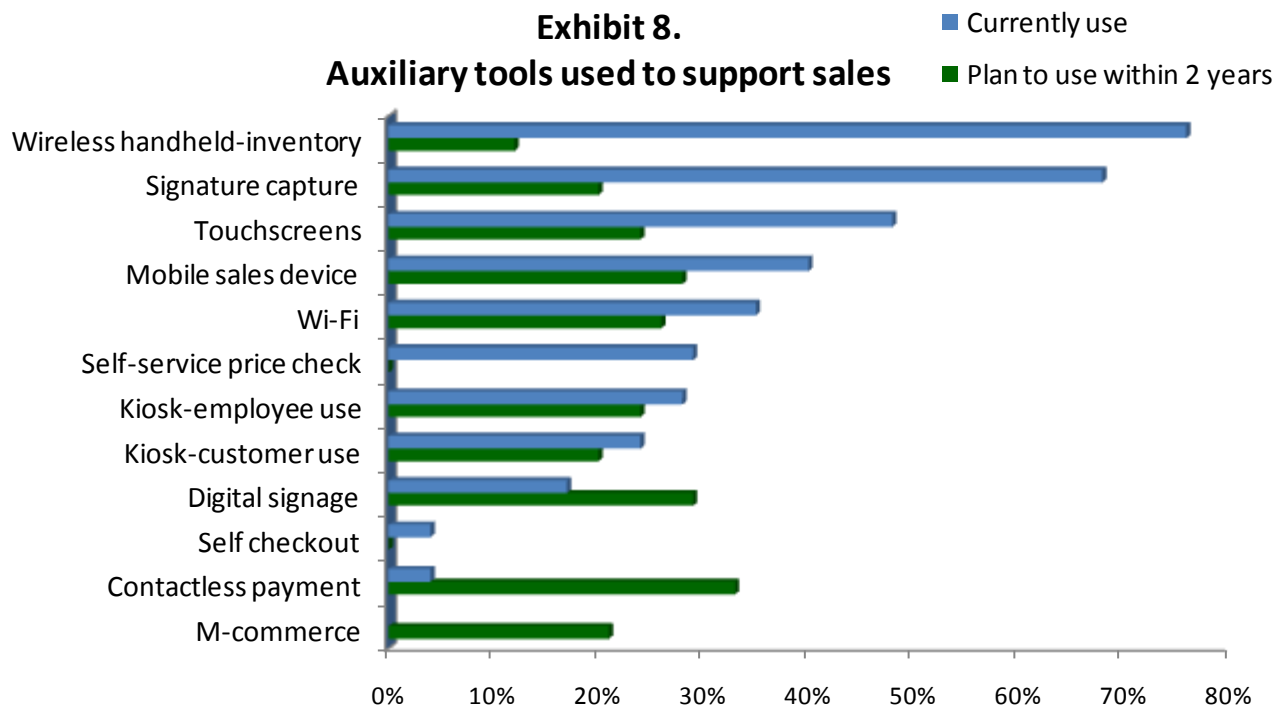
Auxiliary Technology Tools

An interesting trend we are now seeing in the retail marketplace is the prevalence of retailers changing and upgrading their store technology, not only POS as we have discussed, but many of the additional applications available such as centralized returns, CRM, and store executions management. Of the retailers surveyed, nearly two-thirds indicate that they have changed technology to enhance service levels in the store. (See Exhibit 2.)

The top retailers utilize more than just advanced POS systems to expedite the checkout process. Some best-in-class retailers utilize methods of supplementing their POS systems by implementing mobile sales devices or self checkouts to handle additional lines of customers. (Exhibit 8.)

More than one-third of the top retailers surveyed currently use **mobile sales devices**, such as wireless handhelds, at some point in the sales transaction, with another third planning to use these devices to supplement regular POS checkout lanes within two years. While a few retailers find self checkout lanes

Exhibit 8. Auxiliary tools used to support sales



to be an essential tool to expedite the checkout process, it is generally only utilized in specific retail segments such as grocery or DIY stores. Less than 5% of the top retailers indicate that they currently use **self checkout** applications and most do not have any plans to implement self checkout lanes in the future.

More retailers are focusing on different technologies to expedite the checkout process such as signature capture, touchscreens, and contactless payments. We have seen a significant increase in the use of **signature capture devices**, from 50% last year to nearly 70% this year, as many retailers who indicated that they would be implementing signature capture devices in the next two years have followed through on these implementations. Top retailers utilize signature capture devices to speed the checkout process and enhance the security of the customer transaction, in addition to utilizing it as a means to advertise their brand and merchandise to the customer.

Nearly half of the top retailers utilize **touchscreens** providing cashiers with a more intuitive tool for checking out customers. Another quarter of the retailers surveyed plan to implement touchscreens with two years.

Contactless payment continues to be a topic of discussion in the industry although less than 5% of the survey respondents currently offer contactless payment options at the checkout, while more than one-third plan to offer customers this option within two years. Security remains a concern for consumers who are unclear how the technology will benefit them. Retailers, on the other hand, see the benefits through transactions that can be processed up to 50% faster. Generally, contactless payment has found a following with gas stations, fast food restaurants, and convenience stores but we expect to see further expansion of contactless payment acceptance over the next two years.

Digital signage can also enhance the shopping experience by offering customers additional information or suggesting add-on purchases to complement the products they are already

purchasing. Nearly one-fifth of the top retailers are currently experimenting with **digital signage** in their stores to identify the best use for this technology and another 30% plan to implement digital signage in their stores in the next 2 years. Digital signage continues to expand as many retailers are experimenting with more interactive digital signage displays and combination kiosk/digital signage offerings.

One-quarter of the top 100 retailers currently use **kiosks to enhance the customer experience** by offering detailed product information, providing special order capabilities, and creating targeted promotions, while another 20% are planning to implement kiosks in the next two years. This figure has declined slightly from last year's results, most likely because many retailers have reduced expenses over the last few months.

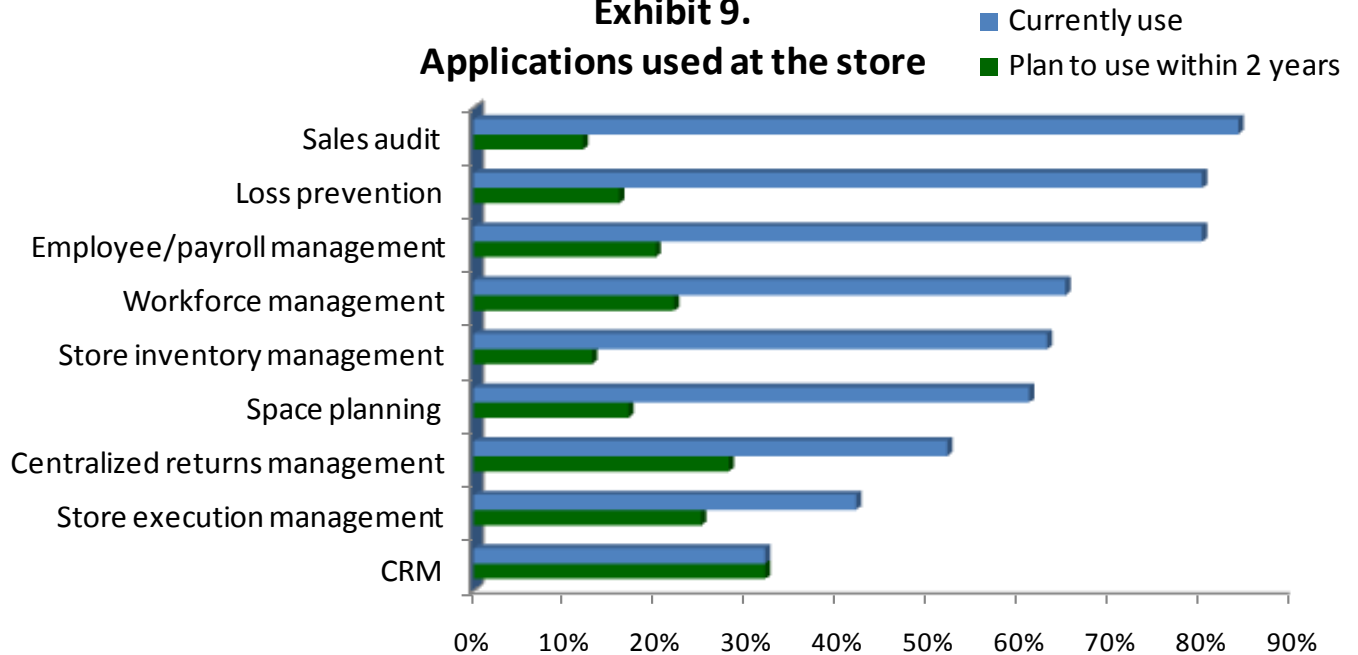
On the employee side, nearly one-third of the retailers surveyed are utilizing **kiosks to support employee relationships** by enhancing the hiring process, providing benefits information, and offering training opportunities.

Support Applications

Successful retailers are using additional applications to support and enhance their overall strategy, including customer relationship management (CRM), workforce management (WFM), and store execution management. (Exhibit 9.)

Nearly one-third of the top retailers currently use a **CRM** application to enhance the relationship with the customer. While that is still a low percentage of the top retailers, there are also another third who realize that this is an area for development and have implementation plans in the next two years. We are seeing retailers generally using their CRM applications as a foundation for a loyalty program, and to collect customer information, but many retailers still need to clarify the purpose of their CRM programs and focus on utilizing customer information to support the overall customer value proposition. After all, how can you focus on your customer without knowing who the customer is and what that customer purchases?

Exhibit 9.
Applications used at the store



Retailers still need to take customer relationship management to the next level, beyond a simple loyalty program, and move into building better assortments and improving sales and margins. For several years, there has been significant discussion around using CRM to better understand:

- **Who the customer is**
- **What products that customer buys**
- **What future product purchases may be**

For the majority of retailers, this is an opportunity that still needs to be exploited.

Another more basic need for retailers is to manage labor resources more effectively. Retailers constantly try to minimize expenses while also trying to maximize sales. One way to be more effective is to utilize an advanced workforce management application. WFM applications have evolved into more than a simple payroll management and time and attendance application. In the marketplace today there are applications to assist in the hiring process, forecasting labor, creating efficient and effective labor schedules, and managing the execution of tasks at the store. All of these tools help to ensure that retailers have the best help

available in the stores to enhance the customer experience.

Of the top retailers surveyed, more than three-quarters currently use an **employee/payroll management** application to more efficiently manage and pay their employees. What is even more interesting is that this year we have seen a jump in the number of retailers who have implemented WFM applications so that now more than two-thirds of the top retailers are utilizing **WFM tools**.

We have also seen an increase in the use of **store execution management** as nearly half of retailers currently utilize this tool and another quarter of the top retailers plan to utilize it within 2 years to help manage and schedule the tasks that are necessary to efficiently run the store and assist customers. This demonstrates the growing trend towards more effective allocation of labor and resources.

These tools allow a retailer to allocate and prioritize tasks within a store. It is important for the retailer to address whether the store tasks provide overall business value. While these tools also provide the retailer with the ability to plan a task based on the expected return, very few retailers strategically align tasks to the overall customer service strategy.

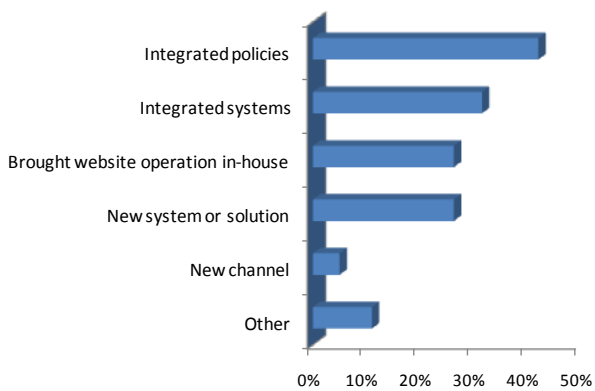
Channel Integration

Channel integration remains an important topic among retailers and has gained momentum again as seamless multi-channel integration continues to be a top priority for retailers. So what is multi-channel integration? In its simplest form, it is the ability to build a consistent brand across channels, where real-time information by channel is available and policies are consistent across the channels. Most retailers are focusing on one or two aspects of multi-channel integration. This integration process is slow for retailers due to the overall complexity of the issue.

The ability to buy online and pick-up in the store continues to grow as an option and more customers are expecting this service. Retailers find that by offering this service they gain online orders that may have been lost because of a customer's immediate need for the product, plus the retailer gets the customer into the store where additional purchases are more likely.

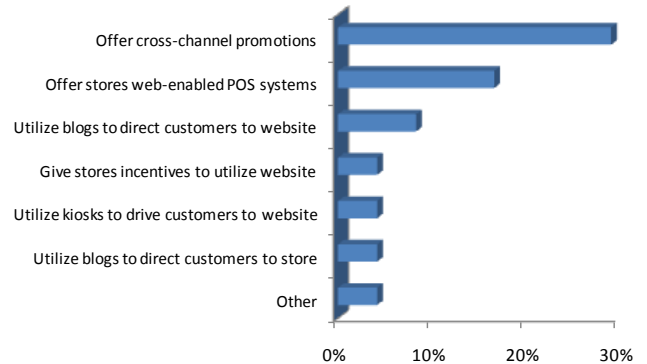
While channel integration continues to increase there is still much opportunity for improvement. Nearly half of the retailers surveyed are taking further steps to integrate their policies – such as returns, pricing, and promotion – and ensure that the customer has access to the same offerings across the channels. Many of the top retailers have taken steps to enhance multi-channel integration through technology enhancements such as new systems or by integrating current systems. (Exhibit 10.)

Exhibit 10.
Steps taken to enhance multi-channel integration



Outside of technology, retailers are utilizing different types of tools to drive customers across channels, such as cross-channel promotions. By offering promotions on the website to entice customers to visit the store, or by utilizing kiosks to get customers to visit the retailer's website, customers are encouraged to cross channels to purchase products. As retailers know, multi-channel customers are often worth significantly more to the retailer so there is a real incentive to this kind of promotion. Of the retailers surveyed more than one-quarter offer cross-channel promotions to drive purchases across channels. (Exhibit 11.)

Exhibit 11.
Tools used to drive purchases across channels



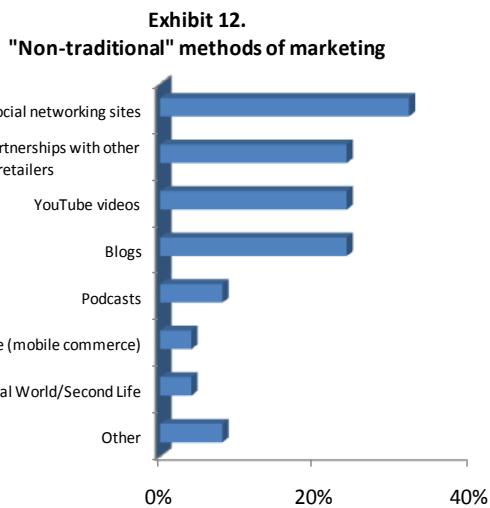
Mobile-commerce, or m-commerce, which is the ability to shop via mobile phones, continues to attract attention and gain press coverage as an emerging channel. While m-commerce continues to be slow to catch on in the United States, Europe and Asia are generally further along the adoption curve. Of the top retailers surveyed, nearly one-quarter plan to implement m-commerce in the next two years. We expect to see much expansion in this area in the next few years as some of the top retailers offer their customers the ability to shop via their mobile phone.

Differentiation via creativity

In these challenging times, it becomes much more difficult to not only gain new customers, but also to maintain current business. Consumers continue to cut back on spending as their paychecks grow

smaller and many products continue to become more expensive. Getting consumers to purchase at your store or on the website becomes more challenging and requires more creative efforts. The good news is that we are seeing more and more successful retailers looking at creative ways to maintain current customers and win new customers.

Social networking sites are now a regular part of our vernacular. Sites such as YouTube, Facebook, and MySpace are constantly in the news and a part of many people's daily lives. Retailers are beginning to utilize the power of social networking sites, blogs, and even YouTube videos to reach out to their customers. While last year only a few retailers were utilizing these types of non-traditional methods of marketing, this year a quarter of the retailers utilize these to target customers. (Exhibit 12.)



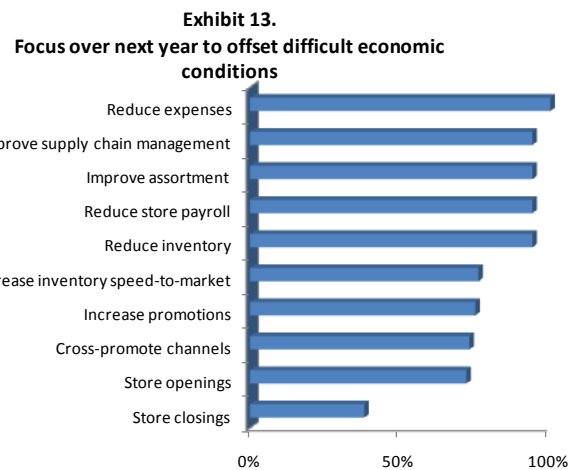
These tools give retailers the ability to connect with their customer and build loyalty that may have been lacking in recent years.

Based on the retailer's product offerings and customer, these tools may allow a retailer to grow and build their customer base. Many retailers are just starting to experiment with social networking sites. But here is the key – if the customer spends an hour or two a day utilizing these networks, shouldn't you be utilizing this channel to promote your brand and products to your customer? These sites allow the retailer to interact with the customer and help create that unique shopping experience.

Short-term concerns

To address the current and future environment, retailers need to look at both quick fixes to address the short-term and ensure the business survives, and then they also need to address the long-term effects that the current environment may have on future spending and the economy.

Retailers are looking at short-term projects to improve the bottom line, generally by improving sales, reducing expenses and payroll, and reducing inventory. Not surprisingly, all the retailers surveyed plan to reduce expenses over the next 12 months to offset difficult economic conditions. (Exhibit 13.)

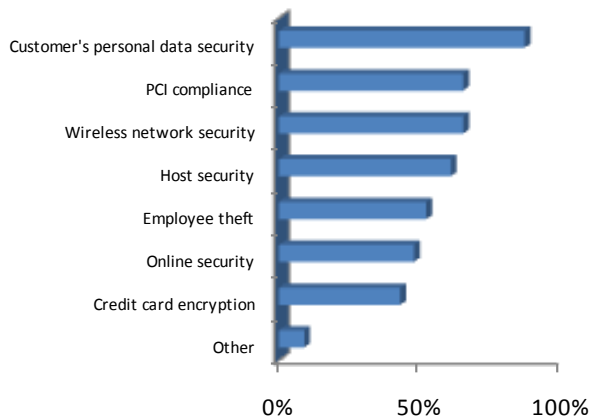


There is also a strong focus on inventory with nearly all the retailers planning to reduce inventory and improve their supply chain management. Retailers are looking at improving sales by improving their product assortments and supply chain efficiency. Another way they are tackling this area is through a focus on multi-channel strategies to offer customers more shopping options.

Retailers are very focused on making their business more efficient in the short-term. Surprisingly, closing stores is not a major focus for the retailers surveyed; only 40% indicate that there is any focus on closing stores over the next year. It will be interesting to see how that plays out over the next year. We anticipate that further store closings will occur.

While retailers are concentrating on making the business more efficient to ride out the current economic conditions, they are still addressing many of the security concerns that continue to make headlines. It is reassuring as a consumer to see that the top security priority among leading retailers is their customer's personal data security with nearly all of the retailers surveyed indicating this. (Exhibit 14.)

Exhibit 14.
Security focus for next 12 months

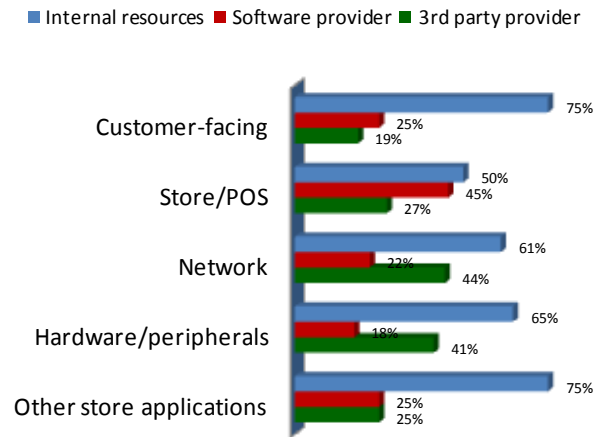


Retailers are also focused on wireless network security and PCI compliance with more than half of the retailers indicating these are a focus over the next year.

PCI compliance remains a resource-focused area as retailers continue to work towards ensuring that their software, hardware, networking, and peripherals meet PCI compliance regulations. We asked the top retailers how they have allocated resources across this area and found that many are utilizing internal resources to complete these tasks, especially on the customer-facing side. (Exhibit 15.)

Overall, we see that retailers generally rely on third-party providers for their networking and hardware issues and then look to their software providers for assistance with POS software issues. Because PCI compliance remains a big concern for retailers, we expect to see a large allocation of resources to these projects for the next few years.

Exhibit 15.
Resources utilized to address PCI compliance



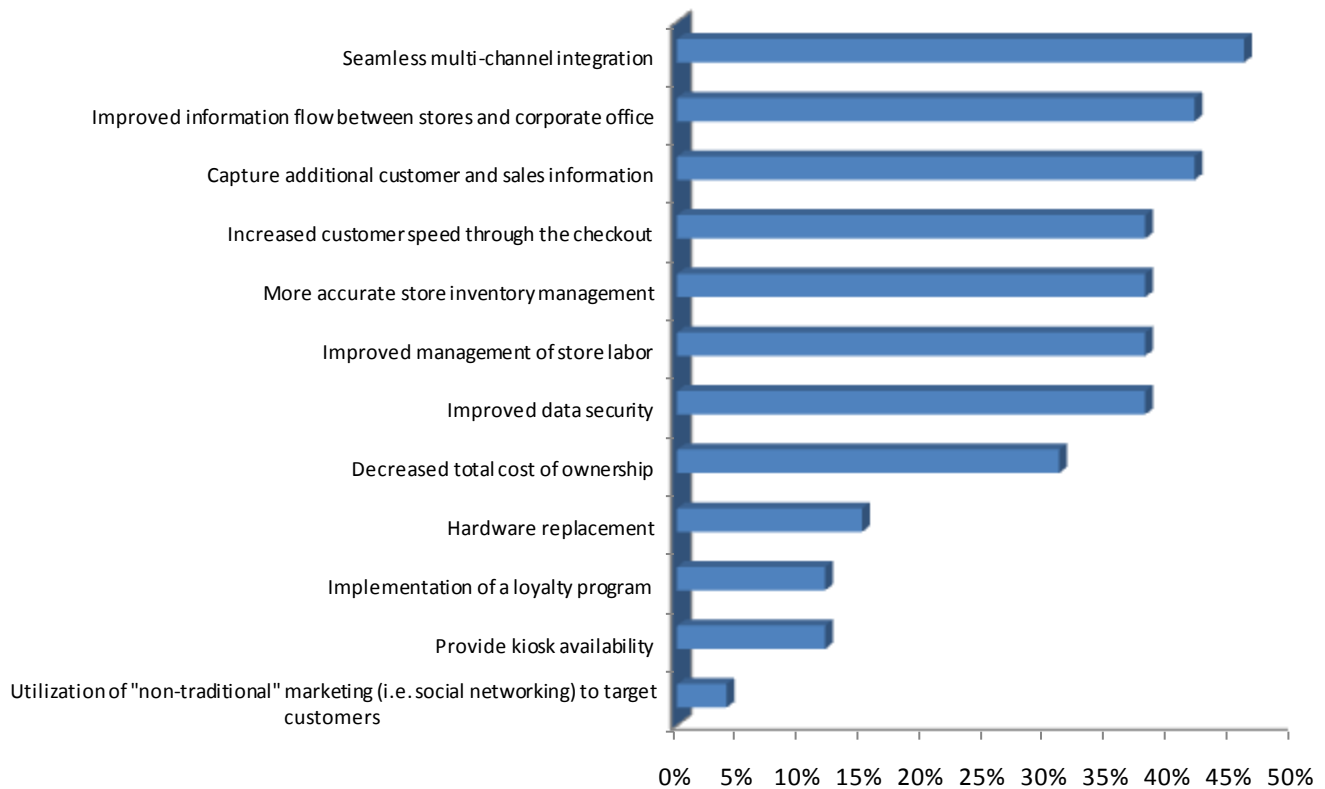
Long-term focus

In the long-term, retailers are continuing to focus on offering customers better service, more shopping options, and more personalization of promotions and services. When asked about their top priorities for the next two years, best-in-class retailers are still focused on the customer as they have been for a number of years. (Exhibit 16.)

For the first time in our POS survey history, multi-channel integration is the top priority for retailers over the next few years. Retailers also indicated a stronger emphasis on improving the flow of information between stores and corporate. This information flow encompasses store goals, sales information, inventory, and store tasks. Again, we are seeing retailers working towards making their organizations more efficient to better serve the customer.

More than half of the retailers are focused on increasing customer speed through checkout and capturing additional customer and sales information to personalize the promotions offered to the customer. Interestingly, it remains a challenge for retailers to balance the gathering of customer information at the checkout to help personalize the shopping experience for the customer, with the need to expedite the checkout process. Another

**Exhibit 16.
Top priorities for the next 2 years**



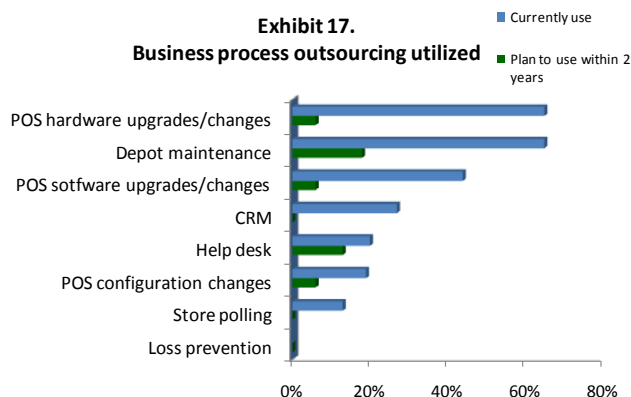
priority for retailers continues to be seamless multi-channel integration as customers expect to be able to purchase products in whichever channel they choose.

As we look at some of the other areas where retailers are focusing on reducing expenses and making their operations more efficient, we asked the top retailers about additional process and technology models that may be options.

Business process outsourcing involves the contracting of various business function operations and responsibilities to a third-party service provider. Nearly two-thirds of the retailers surveyed indicated that POS hardware and depot maintenance were the main areas where this model is currently used with some additional retailers looking at these as options within the next two years. (Exhibit 17.)

As Software as a Service (SaaS) gains momentum in the ERP retail marketplace, many software and service providers are bundling some areas together – such as software license, installation, and maintenance; hardware acquisition and maintenance; or services – under the SaaS umbrella to reduce the initial capital outlay for retailers and offer them a lower annual cost through an on-demand pricing model. This can be an intriguing way for retailers to advance technology while reducing expenses. While none of the top retailers surveyed are currently utilizing this type of model for POS,

**Exhibit 17.
Business process outsourcing utilized**



nearly one-third would consider this type of solution in the future.

Conclusion

As we look at how retailers are planning to spend their store operations budgets, it appears that the top retailers have the right pieces in place to ride out the current economic storm and plan for a bright future. (Exhibit 18.)

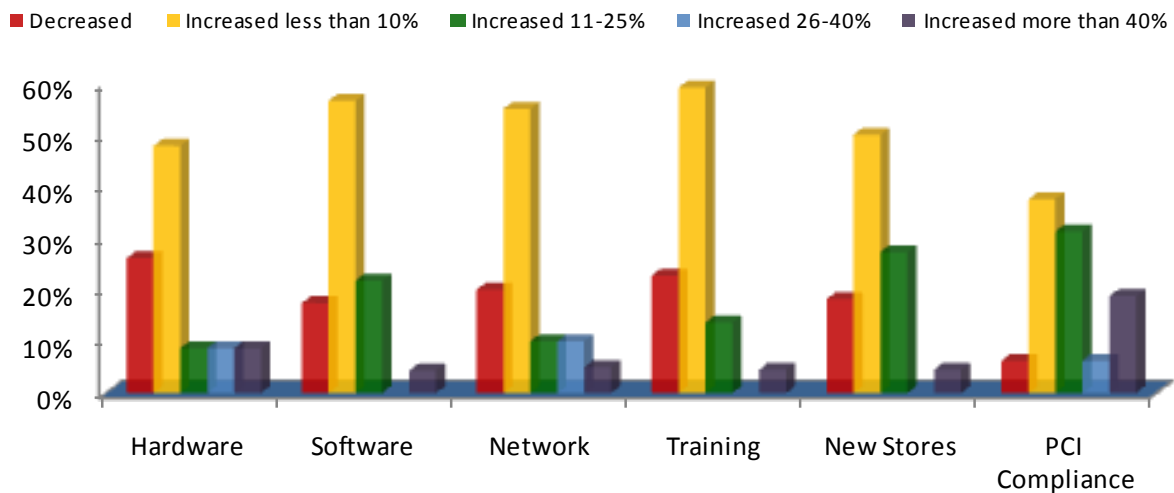
Overall, the retailers surveyed have continued to increase their budgets to account for implementations, updates, or enhancements within the store environment which is good news for consumers. For the majority of the retailers surveyed, budgets have increased across all areas. Generally, less than 25% of the retailers surveyed actually decreased their store operations budgets from fiscal 2007 to fiscal 2008.

We are also seeing a major increase in PCI compliance budgets as retailers work to satisfy the necessary requirements; only 6% actually decreased their budgets and more than half increased their budgets by more than 10%.

It is unclear at this time how long the current economic climate will last or how severe it will be, but retailers must plan for the long term and continue to differentiate and reinvent themselves while also focusing on becoming more efficient at running their business.

The key for successful retailers is to ensure that they have created their customer value proposition and that the store associates, the merchandise assortment, and technology are aligned to support the overall strategy. Best-in-class retailers find creative ways to ensure that their customers remain loyal even in challenging times.

Exhibit 18.
Store operations budget changes from 2007 to 2008



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LakeWest Group, LLC is the premier management consulting firm dedicated to the retail and consumer products industries. With deep retail business knowledge and cross-functional capabilities, the firm delivers superior design and implementation of strategy, technology, and process solutions to help its clients achieve their full business potential. Headquartered in Cleveland with offices in New York City and Boston, LakeWest Group serves all retail segments and channels.

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