

Retail Information Systems

WHAT YOU WILL LEARN

- What system modules and functions you should look for in purchasing a new retail system.
- Names, phone numbers and web site addresses for some of the best Canadian distributors of retail system software.
- What you can expect to pay for a state-of-the-art retail information system.
- How to perform “reference checks” when evaluating a retail system you are considering.
- Why leasing computer software and equipment makes sense.
- How to calculate the “Return on Investment” when considering a system upgrade.

It has been said that not having a good, reliable retail information

The computer is an invaluable tool in processing the large number of transactions and vast amounts of information involved in managing a retail operation. For example, the amount of data needed for merchandise planning would require hundreds of man-

system is like flying an airplane with no instrumentation.

hours to produce, as compared to a well-designed computer system that can perform the task in seconds.

There is no way that management can operate in today's competitive climate without solid information on which to base decisions. With increasing competition from all fronts and operating expenses that are constantly inching upwards, gross margins are shrinking. This, coupled with the advent of the internet, means the business case for technology has never been stronger.

Computerized systems are no longer the domain of large stores and chains. You simply should not think of opening a specialty store today without a good retail information system.

SELECTING THE RIGHT SYSTEM

✓ **Tip**
Consider hiring a consultant, as it can be a fulltime job to perform a proper search and evaluation of a new retail system.

Selecting the right computer system is a complex and time-consuming process. There are at least sixty different software packages available for specialty retailers in Canada today. Each of these packages has its own strengths and weaknesses. The strengths have the ability to vastly improve your business, but the weaknesses could bankrupt it. The more information you have, the better the decision you can make.

Retail systems are made up of a series of "modules". Each module performs a special task or function. Most systems are "integrated", meaning that each module has the ability to share common data and work in unison with other modules under one larger system umbrella. Depending on your type of retail operation, some modules may be more important to your store than others.

Following are some of the more standard modules and functions found in some retail systems. Make a list of the ones you feel are important to your company before you start looking.

System Setup and Configuration

This is usually a series of settings “under the hood” that allows software companies to customize the system to the way you do business. Here, they will typically prepare your departments and classes, seasons and collections, and size runs, all of which are critical for proper reporting. The setup module also lays out the business rules for such things as store communication, collecting and tracking customer data, tax and exchange rates, networking and security levels.

✓ *Tip*

Touch screen capabilities at the POS can reduce training time and increase transaction speed.

Point of Sale

The point of sale module handles what the industry calls the “transaction set”. This is the group of basic transactions you perform on a daily basis (e.g. sales, returns, voids, layaways, refunds, and end of day reporting). Most systems handle these normal activities relatively well. However, some differences can be noted in the ease with which they handle these basic activities and in their ability to perform more sophisticated functions (e.g. tracking customers, special discounts, gift certificates, foreign currency, transfers, product lookups, touch screen, suspend sale and gift receipts).

Purchase Order Module

This critical area should be examined closely to ensure it handles all of the specific functions for your type of store. If they are relevant to your operation, check to see if it has the following:

- Size & colour matrix.
- Landed cost calculations.
- Back order tracking.
- Staggered shipping dates.
- Pre-distribution capabilities.
- Sale pricing.

As well, see how “user friendly” your potential system is by entering a purchase order and receiving merchandise against it.

✓ **Tip**

Interfacing capabilities with a third party report writer gives you more flexibility in seeing the data you want in the format you require.

Merchandising and Inventory Management

Merchandising and inventory management are a series of printed and on-screen reports that provide the tools to make timely decisions. Most systems come with plenty of “canned” reports.

The challenge is to find “summary” reports that offer management top-level information, highlighting both problem and opportunity areas. Once an area is identified, drill-down capabilities will allow you to generate additional detailed reports with the specific information necessary to act.

For example, a high level report on store sales and gross margins by department will usually prompt further questions such as “Why is the margin at this store so low? What are the inventories like in our best-sellers? What inventories are too heavy and should be marked down?” Drill-down capabilities will provide the additional information required to answer these queries.

✓ **Tip**

Consider “real time” internet communication with your stores, as the ROI may be justifiable.

Multi-Location Capabilities

It takes a lot more expertise for a software developer to successfully handle multiple locations. A system’s ability to track sales and inventory in more than one facility is related to communication and data integrity.

In the traditional approach to this function, the store’s POS system stores daily transactions and sends this data over the phone lines during a nightly polling process. Once back at head office, the data is “unpackaged” and stored in master files ready for management to run reports on individual stores, or on a consolidated basis.

This capability takes years of experience for the software developer to master, so be sure to ask existing

users about the success and reliability of this process.

Customer Relationship Management


Customer databases are very valuable sources of information. The ability to capture customer data at the point of sale and attach a purchase to this file gives merchandising and marketing staff the ability to focus both product mix and customer communication. See Chapter #4, Marketing for more information regarding CRM and Loyalty Programs .

Other Valuable Modules/Functions

- **Wholesale Capabilities:** This function allows you to record charge sales, where goods are shipped or picked up and paid for at a later date.
- **Open-to-Buy:** At a basic level, these modules link with the purchase order function and debit pre-determined budgets to assist you in the process of hitting planned inventory levels.
- **Employee Productivity:** These modules assist in tracking sales statistics by employee (e.g. Sales vs. Budget, Sales Per Hour, Items Per Sale, Average Sale).
- **Auto Replenishment:** There are many levels of sophistication in auto replenishment modules. In their simplest form, the system will monitor inventory levels of key products and suggest reordering or filling from a central warehouse.
- **Payroll:** This can be helpful if you have a regular commission and spiff system. However, if you have an unusual commission program, finding a module that calculates it properly may be difficult.
- **Loss Prevention:** Most of these modules are based on combating internal theft at the POS using a series of "exception" reports that trace voids, refunds and "no sale" transactions over a long period of time.

Winning Fact

On average, 15% of gift certificates sold are never redeemed.

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- **Electronic Gift Cards:** This is basically an electronic gift certificate in the form of a credit card that is not activated until presented at the POS.
 - **Gift Registry:** This can be advantageous for china and bedding stores where engaged couples register so wedding guests can purchase items pre-selected by the bride and groom.
 - **Work Orders:** This applies to retailers who might do some service and repair work as part of their retail business. Electronic and appliance stores are the most common examples.
 - **Integrated Debit & Credit:** This is usually a third party software module that integrates with the POS for authorizing credit and debit card purchases. Transaction receipts come off the POS and the pin pad is plugged into a POS port. It will free up counter space and eliminate credit card transposition errors.
 - **Consignment Module:** Popular with large antique stores, where small dealers display their product and get paid by the storeowner only after item is sold.

 - **Serial Number Tracking:** Again, this is a specific module for retailers selling products that require tracking of a manufacturer's serial number for warranty reasons. Cell phone and electronic retailers take advantage of this function.
 - **E-Commerce Interface:** For retailers with a web site, listing products for sale and maintaining the product master files can be greatly facilitated if the retail system has this "web load" capability. When building inventories in the retail system, the web load sends the same data to the web site, eliminating double entry.
 - **Accounting Interface:** Rather than offer a full

accounting package, most retail systems have the ability to interface with third party software like Quick Books and Simply Accounting.

CANADIAN RETAIL SYSTEM SUPPLIERS

✓ **Tip**

It will take a minimum of six months from the time you start looking for a system to the time it's up and running.

After identifying which of the system modules/functions are important to you it is time to contact software suppliers. One of the best methods of sourcing vendors is by talking to other reputable retailers with similar operations. Find out what system they are using, and how happy they are with the equipment and service offered by the vendor.

On the following page is a partial list of Canadian retail system suppliers who specialize in small, independent, single store and small chain retailers. Many of these vendors will do internet demonstrations for you if they do not have an office or dealer in your area. The ability to train and support retailers remotely by phone and internet has allowed software developers to sell their products and services around the world.

Canadian Retail System Suppliers Specializing in Small Chains and Single Stores

Company Name	Software Name	Located	Prov. Served	Phone #	Web Site	E-mail
True North Computer	Retail Plus POS	Huntsville ON	ALL	(705) 787-0110	retailsoftware.com	sales@retailsoftware.com
Multipost Retail Systems	Smart Vendor	Markham ON	ALL	1-800 661-0500	vendorware.com	sales@vendorware.com
Aralco Retail System	Aralco Inventory & POS	West Vancouver BC	ALL	(604) 922-6316 Ext 106	alalco.com	alan@aralco.com
Samco Software Inc.	Samco Power Accounting	Surrey BC	ALL	1-800 663-2080	samco.com	info@samco.com
Idea Technology	Vendor 21	Richmond Hill ON	ALL	(905) 882-6882	vendor21.com	sales@vendor21.com
Microhouse Systems	Multiflex RMS	Markham ON	ALL	1-888 491-8888	mhsystems.com	allan@mhsystems.com
Retail Management Systems Ltd.	Fashionsense	Saskatoon SK	ALL	(306) 249-4301	retail-pos.com	sales@retail-pos.com
Merchant Applications	Merchant RMS	Mississauga ON	ALL	(905) 890-6169	merchantapplications.com	sales@merchantapplications.com
Vigilant	Vigilant	Toronto ON	ALL	1-800 668-2200	vigilant.com	sales@vigilant.com
Windward Software Inc.	Windward System Five	Penticton BC	ALL	1-800 663-5600	wws5.com	sales@wws5.com
Multidev Technology	Chain Drive	Montreal QC	ALL	1-800-820-1412	multidev.net	sales@multidev.net
Master Merchant Systems Inc.	MMS POS	Dartmouth NS	ALL	(902) 496-9500	mmspos.com	info@mmspos.com
Canadian Retail Solutions	Retail Pro	Edmonton AB	ALL	1-800 725-6810	crsretailpro.com	solutions@crsretailpro.com

HOW MUCH WILL IT COST?

✓ **Tip**

As with most things in life, we usually underestimate the total cost and time it takes to complete projects.

Not an easy question to answer unless a more in-depth study of your business is completed. Some of the other factors involved in pricing include total sales volume and number of locations, along with such issues as “Does hardware presently exist? What type of ‘point of sale’ machine is now in use, if any?”

Generally speaking, retailers new to computers can expect to spend approximately 0.5% to 1% of annual sales to support a state-of-the-art information system. For example, with sales in the \$500,000 range, you can expect an annual expense of approximately \$2,500 (\$200 per month). This will support a \$10,000 system, capitalized over five years. At \$5 million in sales and no existing hardware, one should allocate \$25,000 dollars per year. This expense will support a \$100,000 system capitalized over five years.

REFERENCE CHECKS

✓ **Tip**

Always perform reference checks yourself, talking owner-to-owner.

Once you have short-listed your vendors and seen their demonstrations, the next step is to check their references. Ask the software vendor to supply you with a list of similar users. Make sure they have been using the software for some time (at least six months), as new users may still be in the honeymoon stage.

Try to get references that are the same size as your organization, selling similar products and using the same version of the software that you are considering. It is also a plus if they are in the same geographical area, in case you have to visit them to see the system in action.

Use the form on the following page as a starting point to help you with your reference checks. As a potential buyer, it includes questions that you would typically ask a current user of retail software. You can change this form to suit your specific business and technology support needs.

The key is to remember that conducting reference checks is an important part of your supplier evaluation process.

Reference Check Form

Retailer Name	Phone #	# of Stores
Type of Store	# of Employees	
Dedicated I.S. manager? Yes No		
How long have you had the package?		
Do you have the complete package, or just one or two modules?		
What release is it?		
What do you like best about the product? How does it help you run your business better?		
What is the biggest problem, if any, that you currently have with the software?		
What hardware do you use with it?		
Was it customized for you? If so, how well was it done? Was it completed in the time originally promised?		
How would you rate the support on installation and ongoing operation?		
Would you buy this software again?		
Other		

Note: The above reference check form was reproduced with the consent of Industry Canada and The Retail Council of Canada. The form is also available from Industry Canada's Technology Guide retailinteractive.ca

LEASING

Much like your automobile, leasing your computer system has a lot of advantages. Anything that depreciates quickly is usually a good bet to lease. Today's leasing companies will underwrite almost everything, including hardware, software and services. You should get some advice from your accountant before signing any documents.

The following are some advantages of leasing:

✓ **Tip**

Like buying a house, it is a good idea to get pre-approved on leasing before you get too far into the search.

- **Protects cash flow:** Saves working capital that may be greatly needed in other areas.
- **Low monthly payments:** Allows for payment structures that give you greater control of monthly operating expenses.
- **Protects bank lines:** Leasing companies are considered "non-banks" and are, in fact, separate entities altogether. As a result, your bank line of credit may never be affected.
- **Provides additional source of credit:** Additional sources of financing strengthen your credit profile and, in turn, give you the ability to maximize your financing alternatives.
- **Possible tax benefits:** In general, lease payments that are used as an operating expense may be 100% tax deductible. Your lease payments may, in fact, be lower than a traditional loan.
- **Hedge against inflation:** No more worrying about the increasing costs of new products and technology. With leasing, you have fixed payments for the term of the lease.
- **Finance 100% of equipment:** The opportunity to finance up to 100% of the total equipment cost is another strong advantage. You can get the equipment you need today, without the burden of a down payment.

Return On Investment (ROI)

In this purchase, like any business investment, you must have a reasonable chance of not only recouping your costs, but also increasing profits as a result of this expenditure. The increased profitability you will earn from your acquisition of a POS System is called "Return on Investment" (ROI). It is common to calculate how long it will take to recover your investment prior to making a Return on Investment. This is commonly referred to as your payback period.

On the next page is a sample ROI worksheet that is partially completed for a fictitious store purchasing its first system. This will help you understand how to figure out ROI when considering a major expenditure. Following the worksheet are instructions for its completion.

Return on Investment - Worksheet

Annual Sales \$	\$800,000
Gross Margin: %	41.00%
Stock Turns:	2.5
Wage Costs %	14.50%
Shrinkage %	

The following are some of the areas where retailers have gained efficiencies by installing a new information system.

A: Sales/Revenue	Average Gains	Yearly \$ Efficiencies
1 <i>Customer Relationship Management/Loyalty Program</i>		
* Reduced customer defection		\$
* Increased Average Sale		\$
* Increased visits		\$
2 <i>Electronic "gift" Cards - Increased sales and breakage</i>		\$
3 <i>Merchandise Planning & Smart Transfer (Right merchandise at the right place at the right time.)</i>		\$
4 <i>Employee Productivity Reporting – goal-setting, Sales Per Hour, Items Per Sale, Conversion Rate, etc.</i>		\$
Average Sales Increases		\$

B: Gross Margin		
1 <i>Margin Reports: by department, by class, by supplier, by style, yearly, monthly, weekly, daily, etc.</i>		\$
2 <i>Suggested markdown reporting.</i>		\$
3 <i>Smart Transfer reporting</i>		\$
4 <i>Loss prevention: shrink controls, exception reporting, vendor theft</i>		\$
Average Margin Increases	1.50%	\$12,000.00

C: Stock Turn/GMROI	Stock Turn Increases	
1 <i>Merchandise Planning & Open-to-Buy modules</i>		
2 <i>Smart Transfer modules</i>		
3 <i>Auto Replenishment module</i>		
Average Stock Turn Increases		\$

D: Manpower Efficiencies	Weekly Savings	
1 <i>Auditing & Bookkeeping</i>	\$100.00	\$5,200.00
2 <i>Data Entry</i>		
3 <i>Distribution</i>		
4 <i>Payroll</i>		
5 <i>Store Communication</i>		
6 <i>Physical Inventories</i>		
7 <i>Merchandise Planning</i>		
Total Manpower Savings		

Total Yearly Savings/Gains

\$17,200.00

E: Return on Investment : # of months to recover costs

Total System Investment \$	\$30,000	Average Monthly Efficiencies \$	\$1,433	ROI - # of months to recover investment	21
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Filling Out The ROI Worksheet

There are no hard and fast rules or right and wrong answers to estimating gains from computerizing. It simply reflects your goals and expectations.

The left side of the page lists the five main areas where you might expect efficiencies if you are willing to “work the system”. The middle column is a work area and the right column is where you calculate the yearly efficiencies from each section.

Follow these steps:

1) Enter your stats.

In the top right-hand corner, enter your actual statistics for the last complete year. As you can see from our sample store, sales were \$800K, margin 41% and shrink was unknown.

2) Estimate sales and revenue gains.

Our fictitious store could not see any gains in this area, but other retailers have seen sales increases from launching a loyalty program (see Chapter #4, Marketing), switching to electronic gift cards, mastering Planning modules and introducing employee accountability systems (see Chapter #8, Sales Management).

3) Estimate gross margin gains.

If this is your first system, it is not unusual to see gross margin gains of 2% or more. The fact that you will get accurate margin figures daily makes them that

✓ **Tip**

When buying your first system, it is not unusual to see gross margin gains of 2% or more.

much easier to control. A Smart Transfer module for chains and the exception reporting capability from a Loss Prevention module can also make strong contributions to margin increases.

4) Estimate stock turn/GROMII gains.

It's tougher to build a business case in this area, but interest savings and cash flow benefits will be realized for each fraction of a stock turn you gain. The Planning, Smart Transfer and Auto Replenishment modules will also help.

5) Estimate manpower efficiency gains.

When purchasing your first system, there are certain areas where manpower expense will definitely increase, like receiving & ticketing. But if your new system has modules for auditing, payroll, e-mail, portable inventory scanners and merchandise planning, you should be able to generate a positive gain.

6) Calculate ROI.

Our fictitious store hopes to realize a 1.5% increase in gross margin and \$5,200 per year (\$100 per week) in manpower efficiencies, for a total yearly gain of \$17,200. On the last line, we see the proposed system will cost \$30,000. Therefore, if we calculate the yearly savings per month ($\$17,200/12 = \$1,433$) and divide the cost of the system by these monthly savings, we see that it will take 21 months before you begin to realize a return on this investment.

SUMMARY

There is no longer a question of whether we need technology to be competitive in today's retail world. The only issue in this area is which system will give you the best return on your investment.

Remember to follow these key suggestions:

- 1) Do your homework before you start looking. Perform a needs analysis that outlines the functions/modules you require.
- 2) Save time by getting an overview of the systems you're considering via a remote internet demonstration.
- 3) Always do reference checks yourself on an owner-to-owner basis.
- 4) Leasing may allow you to purchase a better system that can provide you with a more favourable return on your investment.

CASE STUDY: RETAIL INFORMATION SYSTEMS

Now let's get back to the challenges at Jackson's Department Store. In this segment, you will now focus on purchasing your first retail information system.

CHAPTER 12: RETAIL INFORMATION SYSTEMS

Susan and the management team (yourself included) have done a brilliant job of turning the operation around. In just under year, you've managed, not only to stop the bleeding, but also to turn a small profit ... the first in many years.

In light of the company's turnaround and bullish outlook for the future, you felt the timing was right to push for computerization. The following is a brief quiz you gave to Susan and her father so they could get a better feel for the benefits of the latest retail information systems. Try scoring your operation against the following:

How Important Is Retail Technology?

Score your operation using the following questionnaire.

1. Do you know the true value of your inventory (cost & retail) right now?
Yes No
2. Do you know your top 20 best sellers and your slowest sellers?
Yes No
3. Do you know your shrinkage down to the item level?
Yes No
4. Do you know your gross margins by vendor, by store, every day?
Yes No
5. Do you know if every item is priced correctly?
Yes No
6. Do you know what to re-order and how often?
Yes No
7. Do you know who your best customers are and when/ what they buy?
Yes No
8. Do you target-market your loyal customers?
Yes No
9. Do you offer preferred customer discounts, gifts or incentives?

Yes No

10. Do you have tight cash control systems?

Yes No

11. Do you have disciplined customer return procedures?

Yes No

12. Do you match all invoices with purchase orders for pricing or quantity errors?

Yes No

13. Do you have staff purchase procedures?

Yes No

14. Do you print price tickets as soon as inventory is received?

Yes No

15. Do you know each sales clerk's productivity by hour, week, etc.?

Yes No

16. Do you have suggestive sell reminders at time of purchase?

Yes No

17. Do you know the actual sales results by item during a short-term promotion?

Yes No

18. Do you know the markdown dollars taken during a promotion?

Yes No

19. Do you know what your future order exposure is in dollars?

Yes No

20. Do you order items based on accurate history?

Yes No

21. Do you know exactly what each store is selling to the item level?

Yes No

22. Do you have accurate history by item, category, department, vendor and store?

Yes No

23. Do you use historical data or visual checks to manage your business?

Yes No

24. Do you know enough about your business today to plan for tomorrow?

Yes No

Score:

- A. 19 to 24 "Yes" answers:** Your information systems are above average.
- B. 13 to 18 "Yes" answers:** You could use a software upgrade.
- C. 8 to 12 "Yes" answers:** You are missing valuable information that could greatly benefit the running of your business.
- D. Less than 8 "Yes" answers:** It is amazing you're still in business!

After the above questionnaire, you tabulated the results for Jackson's (they scored a 10). The next step was to hire a consultant to help wade through the maze of product on the market, the suppliers of which all claimed to be the best.

Selecting the right computer system is a complex and time-consuming process. There are at least sixty (60) different software packages available for retailers in Canada today. Each of these packages has its own strengths and weaknesses. The strengths will improve your business, but the weaknesses could bankrupt it.

You outlined a systematic step-by-step approach which everyone thought made a lot of sense. The following was part of this proposal:

Step 1: Define Project Scope and Budget

Define the long-term growth goals of the company (five years), as well as the anticipated budget for the project. Retailers new to computers ordinarily spend between 0.5% and 1.0% of gross sales per year to maintain state-of-the-art systems. Many of the retailers today who have made a commitment to "technology" will replace or upgrade their systems every four to five years. As a rule of thumb, approximately 50% of your budget will be spent on hardware, 25% on software and 25% for training and support.

Leasing or renting is the best way to keep your information systems "fresh". Hardware, software and support valued at \$10,000 can be financed over 48 months for as low as \$280/month (\$70/week).

Budget estimate for Jackson's:

- Sales Projection (5 years) = \$7,000,000
- Maximum computerization factor 1.0% = \$70,000
- Monthly lease payments over 48 mo. = \$1,458

- Hardware budget at 50% of total cost = \$35,000
- Software budget at 25% of total cost = \$17,500
- Training & support cost at 25% of budget = \$17,500

Retail Computerization Budget:

	High	Low
1. Sales Projection (5 years)		
2. Computerization factor (low .5%, high 1.0%)		
3. Monthly lease payments		
4. Hardware budget at 50% of total cost		
5. Software budget at 25% of total cost		
6. Training & support cost at 25% of budget		

Step 2: Conduct the Needs Analysis Study

The company must prioritize and detail its needs from these general areas:

1. Multi company/Divisional/Regional/Store Reporting.
2. Department/Class/Style/Colour/Size Requirements.
3. Purchase Order Controls and Management.
4. Physical Inventory Counts.
5. Receiving and Distribution.
6. Ticketing and Marking.
7. Merchandise Allocations.
8. Picking and Shipping.
9. Sales Reporting - Units/Dollars
10. Inventory Transfers.
11. Replenishing - Warehouse/Store
12. Reporting- Daily/Weekly/Monthly/Season/Yearly
13. Employee Database/Accountability Systems.
14. Customer Database/Relationship Marketing.
15. Planning and Forecasting.
16. Vendor Analysis Reporting
17. Merchandise Cycle Reports.
18. Accounting Interface.
19. POS Functionality.
20. Growth Potential.
21. Training & Support
22. Installation Timetable
23. Financing
24. Handling specific concerns.
 - Inter-store Transfer functionality.
 - Future expansion plans, both franchise & company owned

- Home Office Interface.
- Etc., etc. etc.

Step 3: Write the Request for Proposal

Based on the results of the needs analysis, you must prepare a detailed needs form that will list all the requirements for the system. This form will then be sent to three or four software vendors for response.

Step 4: Review and Demo Finalists

After determining the top two or three finalist's, you will set up a demonstration for Jackson's management with the various vendors. You will determine the finalist on the basis of who has fulfilled all or most of the company's requirements.

Step 5: Finalize Contract with Successful Vendor

After selecting the most favourable vendor, you will assist Jackson's in negotiating and signing the final contract.

CONGRATULATIONS!!!

Well, you made it. What you discovered over the past 12 months is that independent retailers can make big improvements in their operations. It requires discipline and dedication ... not to mention the right information.

As you move on to your next project, take the lessons you learned here with you. Make retailing a success story in your own personal world!