

## 14 POS tech: integrate or die

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By Carla Bridge, Inside Retailing Magazine

Integration is critical for retailers upgrading their point of purchase technology. It's a matter of integrate or die, say the experts...

In the point of sale technology arena, there's a race on to embrace technology - and it's all in aid of improving the bottom line through accuracy and efficiency.

The advent of new generation broadband technologies and internet payment gateways, coupled with sophisticated Customer Relationship Management (CRM), customer loyalty programs and inventory management, means systems which can amalgamate a variety of duties are shining through as the strongest choices.

Andrew Gorecki, MD of Retail Directions, a provider of high-end retail management software to retail chains, said there were two main trends emerging in the point of sale (POS) market - the need for CRM schemes linked to POS systems and eliminating system segmentation.

"Creating customer loyalty through CRM is becoming increasingly popular in overseas markets, but it is not yet as visible in Australia," he explained.

"At The Body Shop in Hong Kong, 95% of customers who walk through the door are already known by name. The company gives benefits, creates immense reward for loyalty - and people are keen to join."

What this really means, he says, is retailers need to have a POS system that not only does point of sale, but has built in CRM and rule based promotional capabilities. That way, if a gold level loyal customer comes into the store and spends a certain amount, they will automatically get their relevant level of reward or rebate.

"It's convergence of selling, passing goods to the customer and collecting money all at the same time."



Gorecki said that while many retailers still used systems in pieces, with separate POS, hand held devices, back office systems, warehouse systems and CRM, these were a thing of the past.

"In the next five years those with such separate systems will find it impossible to manage in terms of cost, because you cannot justify having an army of IT people in retail. If you can buy yourself an integrated system, it all talks to the same component to manage all those complexities.

"Good retailers do not necessarily specialise in IT, but the fact is they need to manage systems, so unfortunately in the absence of other judgment they think expensive is good. There are many expensive systems that have crippled retail business in this country," he said.

"On the other hand you cannot buy stuff off the shelf like many accounting software packages unless you run a single shop. So anyone who spends too much or too less on technology will get burned. You need to spend the right amount."

Graeme Bergmeier, director of operations for Micros Retail Asia Pacific, also noted that there has been an evolution away from Windows platforms into newer technologies, as well as closer integration of CRM, loyalty and gift card schemes.

Bergmeier said Micros had moved its entire product suite to Java integration of cross channel retailing, which was becoming more apparent in the Australian market.

"What you need is that all customer contact points be integrated, so that if a customer comes into the store or buys online, you recognise that customer. If they have a loyalty program with you it should apply equally in-store or online. If they bought it online they can return it in the store and if they have a giftcard they can use it in both locations.

"So your inventory needs to be coming from a central source so it is ultimately all coming out of the one bucket. "Cross channel retailing has already started to happen here, and what we're seeing at the exhibitions would tend to indicate that there's a realisation that cross channel is something that is real and it's here to stay," he said. Gorecki said multichannel retailing had now become something people expect.

"It's all coming back to integration, and having one system with one centralised database and having everything talk to that database," said Gorecki.



Integration of loyalty programs is something all retailers should be considering if they don't already have it, whether it be through the eftpos network, or CRM system.

"Micros' system allows you to fully integrate loyalty and gift card through the CRM using a single card that could allow you to have many memberships within the retailer, but have them all recognised at the POS," Bergmeier said.

Tyro Payments allows gift and loyalty cards to be linked into its eftpos system, eliminating set up fees usually associated with such programs.

Launched in 2007, Tyro Payments was the first new player to the eftpos industry in 13 years and has no capabilities to issue cards. Tyro holds a special banking licence called a Specialist Credit Card Institution (SCI) which allows it to participate in the eftpos market only.

Because of this, Garry Duursma, Tyro vice president of sales and marketing, said Tyro is the only participant that does not have conflict of interest.

"Integrating loyalty cards into an eftpos system is of growing importance. There's lots of focus on loyalty as a consequence of the times that we live in, and people are trying to get more out of their customers.

"But the key is to keep it simple. If it adds more burden or if there's a complexity trying to make the card transaction or gift card work, it just doesn't get the uptake," Duursma said.

Direct supplier fulfilment is also taking a hold in international markets such as the US, whereby a store will only need to stock enough sizes and colours of an item for the customer to choose what they want, pay for it, and have it dispatched to them directly from the supplier.

Usage of the correct thermal papers for printing of receipts also remains a key component for retailers at POS. Paul Sfetkidis, MD of Charters Papers, said problems could arise for retailers if they used cheaper, imported rolls

of thermal paper.

"Thermal paper is here to stay, it's a worldwide trend. But retailers need to understand the technology of both the thermal paper and the printer to get the most out of their machines.

"What small businesses sometimes understand is that buying a cheaper brand will damage the head of the printer which will inflate the cost of ownership," he said.

### **Broadening the possibilities**

The advantages of broadband technologies are already being witnessed across the point of sale industry, with new products at faster speeds emerging daily, however, for smaller retailers the speed that comes with broadband connection may be several years off.

While Tyro Payments, the only non-bank player in the Australian market is already using Internet Protocol (IP), many of the banks don't anticipate a noticeable shift to the technology for some time.

With the average dial-up transaction taking around 20 seconds to complete, an IP transaction can be done between three and four seconds. Despite this, of the 600,000 odd eftpos devices operating in the Australian marketplace, major retailers are the only ones taking advantage.

For those still on dial-up, this means missing out on a host of benefits.

Duursma, said that aside from the most obvious advantage of speed when it comes to broadband and IP transactions, retailers could save costs on other aspects of their business.

"When your transaction speed drops from 20 seconds to four seconds, if you are a queue-based organisation, you will reduce customer waiting time.

"Once you've done that, you can also look at reducing the number of service lanes you require, and in turn your staff costs come down.

"You get less abandoned sales by people who are in a rush and change their mind at the last minute when they see a queue," Duursma said.

In addition to this, communications costs are also lower, with no need to pay for a direct phone line at between \$400 and \$1200 per year.

A spokesperson for ANZ said the use of IP over dial-up made a lot of sense as a result of the cost savings and the ability to use existing company networks.

But those not considering IP should not fear being left behind. According to ANZ, dial-up technology is expected to be about for quite some time.

"It's tried and tested and suits the needs of smaller customers in particular," it said.

According to Duursma, some of the larger retailers have invested in middleware products to increase speeds, but even within the top 100 Australian retailers there are plenty still using dial-up.

"At the moment, Tyro is the only one doing broadband. The other guys have ways of dusting the system and putting in middleware and gateways to make the transaction run over a business' virtual private network or secured IP tunnel. It's still dial-up though, so while it may add speed, it will also add costs and complexities." In terms of the future, Duursma predicts that dynamic currency conversion will be the most prominent factor to evolve.

"There are a number of things like contactless payments and chip card technology that are coming out, but I don't see those as quite the same panacea there is with broadband.

"For instance with contactless payments merchants are not that keen to have you use your Visa or Mastercard for a \$3.50 coffee purchase because it slows them down.

"Broadband is the underlying thing and everyone needs it to make all those aspects work better," he said.

### **Cards without contact**

But ANZ is ploughing ahead with a range of these new technology developments.

In July last year it launched a contactless card and terminal pilot at ANZ stadium, featuring the first contactless, reloadable, prepaid Visa card in Australia.

The technology allows customers to make payments for transaction under \$35 by holding their card within 5cm of a contactless reader without the need for a PIN or signature. Rollout of contactless hardware will begin shortly, although ANZ says wide availability is still sometime off.

The ANZ spokesperson said more than 95% of its terminals now process chip transactions.

"This is well above the market average of about 50%. We are currently the only acquirer that has a certified chip solution for integrated Point of Sale solutions using PC-efitpos.

"We're also working with two of Australia's largest retailers to bring Bluetooth eftpos terminals to the retail environment as well as larger, full colour eftpos touch screens that can display advertising content on the screen and capture customer signatures electronically," the ANZ spokesperson said.

Duursma said Tyro was seeing 30% of people using the PIN function for credit card transactions, which was above expectations, but was in line with Visa and Mastercard's prediction to phase out signatures on Australian cards altogether by 2013.

"But that will depend on the fraud rate. Fraud will migrate to the weakest point, as many countries in the region with the highest rates of fraud mandate chip and pin."

ANZ agreed that chip and PIN would be becoming increasingly popular.

From a card perspective, the biggest change ANZ has seen has been the strong growth in Visa and MasterCard debit transactions. The bank said that in the current economic climate customers appeared to be retreating from credit to debit products.

Another of the changes ANZ has witnessed has been an increase in the number of customers integrating their eftpos solution into their POS system, shortening the transaction for customers and assisting with account reconciliation.

"Over the next 12 months there will be a continued shift to IP communications and we expect there will be more pilots of things like mobile phone payments as well as more secure ways of making payments over the internet," the ANZ spokesperson said.

### **Online solutions**

Tyro's business focuses on card-present transactions only at present, leaving the market for card-not-present transactions to online payment gateways such as eWay.

eWay has been in operation for 10 years, and unlike its more prominent competitor PayPal, provides services to businesses only, as opposed to the large consumer market that PayPal targets.

"The market is quite small in the online gateway payment industry, although there used to be quite a few people in it," Matt Bullock, CEO and founder of eWay told Inside Retailing Magazine.

"We're solely online so we don't have any terminals. When someone comes to our site it's like a virtual eftpos machine through the internet, so instead of swiping a card to buy something, you type it in."

The popularity of online payment gateways is steadily increasing, with eWay doubling its customers each year. Bullock said there were only a few companies like eWay which had direct connections to all the Australian banks. eWay has also just launched into New Zealand and the UK.

"Businesses can connect their website to us and we talk directly to the banking network. At the end of the day, we do one thing and that is a result of only two possible things - yes, the funds are there in your merchant facility now, or no the funds aren't there. And we're saying it within three seconds.

"So customers aren't having to send faxes or wait for a phone call, and businesses don't have to process the payment manually.

"Once you have an internet merchant facility, you give us the details and we set it up and link it to your bank," Bullock said.

Online retailers have the choice of building their own shopping carts or using one of eWay's 120 global shopping cart vendors.

eWay also complies with the Payment Card Industry Data Security Standard (PCI DSS), the highest security standard, and is audited externally.

Andrew Gorecki, MD of Retail Directions, said that while there was more and more pressure for operators to

become PCI compliant internationally, Australia hadn't given this the same prominence.

"A retailer who uses a system of integrated payment really needs to be aware of PCI, and that will become more and more prevalent as fraud increases and card issuers want to protect the payment system.

"It's not trivial and a lot of systems would fail to pass the test. It's something we've been working on to ensure we're protected and it's not a value add, you just have to comply," Gorecki said. Negotiating the best rate for eftpos services remains a rocky path, with many banks still seemingly reluctant to discuss their rate schemes.

Tyro Payments vice president of sales and marketing, Garry Duursma, said Tyro had positioned itself as the exact opposite to the banks.

"The major retailers have told us that it is a case of 'you tell us what your rate is now and we'll tell you the new rate'. We've attempted to be more transparent, so we publish our rates on our website and stagger them depending on turn over.

"We also have an online facility that shows everyone exactly what our costs are, the interchange on the transaction, our wholesale cost and margin."

The standoff between the banks and the Reserve Bank of Australia (RBA) on the issue of interchange fees is continuing, with the RBA reiterating its threat to cut interchange fees in the credit card system if the banks don't increase their competitiveness.

Should the major players not comply to its ultimatum to lower fees and increase competition by August, the RBA will retain interchange regulation and cut interchange fees for credit card, scheme debit and eftpos transactions. Duursma said he expected the August deadline would go unmet by the banks, while the ANZ said it found customers valued reliability above all else.

"We welcome competition in the market," an ANZ spokesperson said. "Despite low margins in the industry we continue to invest to keep up with market and regulatory changes."

But Duursma said that not all merchants had been able to take advantage of previous interchange falls from 1.3% to 0.5% because several banks had not yet passed along costs.

"The undertaking we give our customers is that we will pass along all interchange falls to the merchant."

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Great Article - this technology will take off with GS1 Databars on fresh produce - the consumer who purchases produce could receive an email or text if any of the produce they buy were recalled.