THE Retailer's GUIDE
TO Effective Software

Introduction

The past 20 years have seen great advances in software functionality for the retail industry. Mechanical cash registers that once dominated store countertops have now been replaced by personal computers (PCs) with cash drawers and built-in credit card swipe machines for credit card transactions. Scanners read Stock Keeping Unit (SKU) numbers automatically from products being purchased, and an electronic pad with stylus captures the consumer's signature. The Internet has also had a big impact on retail software. Catalog sales that once were conducted via mail or over the phone are now being conducted online. These are just a few advances that retail software has brought to enhance the process of selling goods and services to customers.

Although large retail companies have implemented increasingly sophisticated technology, many smaller retailers have not yet taken advantage of these advances in technology due to cost and implementation issues. As software vendors such as Microsoft Business Solutions and their retail software business partners have turned their attention to smaller companies, these capabilities are now being offered to the mid-market. This guide provides an overview of modern software functionality for your small to midsize retail company and discusses how you can take advantage of this technology. Modern retail systems will enable you to tie your enterprise together, manage inventory better and, most importantly, offer better service to your customers so they become loyal patrons.

Microsoft Business Solutions offers a complete retail solution for the mid-market. In addition to the Retail Management System, Microsoft Business Solution's back-office products (Great Plains, Solomon, Navision, Axapta) integrate with many of the leading retail/point-of-sale (POS) software solutions and merchandise management, case management, business analytics solutions, etc., to provide a wide range of functionality that fits very well with the requirements and budget of small to midsize retail companies.

Technology Overview

Technology has had a significant impact on the retail industry, and the following are a few of the recent technological advances that retail systems offer small to midsize retailers, which you may want to take advantage of as you implement a new system. These advances will allow you to reach out to potential customers and improve the service to your customers.

Multichannel Retailing. Retail software has grown from store POS systems to taking advantage of Internet technology by offering Business to Consumer (B2C) Internet software capabilities. These capabilities include Web site setup with items and product information, Web shopping cart capability and B2C e-commerce capability using secure credit card transactions. This capability has greatly expanded the reach of mid-market companies to customers throughout the world, offering competitive pricing and a global reach that was once only available to the large, international retailers.

User Interface. The user interface for retail software applications has progressed from a Character User Interface (text-based) to a Graphical User Interface (Windows-based) and is now moving to a Web User Interface. Modern retail systems allow the ability to modify the user interface for each user or group of users. User screens can be designed to show only the fields that will be used and hide everything else. Also, touch screens are now being used to make the screens much more user-friendly and, hence, easier for training new employees.

Peripheral Hardware. Retail software products have been integrated with hardware vendors' products to result in peripheral POS-compatible hardware, such as POS printers, bar code scanners, scales, line displays, cash drawers and magnetic card readers. These peripheral devices interface with the retail and business systems to offer a completely integrated retail system that eliminates the need to manually enter data from one system to the other.

Bar Codes. Bar codes allow the tracking of inventory from the moment it arrives from suppliers, through the entire stocking and inventory process, and through the sale of the merchandise. This functionality has revolutionized product and inventory controls in a retail organization. Internal bar codes or Universal Product Code (UPC) bar codes can be printed on tags when inventory arrives.

There are many benefits to implementing a bar code system. It provides tracking of inventory through the entire retail process. Handheld bar code scanners can be carried around that automatically update the inventory system. Pricing can also be adjusted at a centralized computer and discounts automatically registered when the item is scanned at checkout. This results in fewer errors and guarantees the right price is put on the item without having to change all of the price tags. When items are sold, the system automatically reduces inventory levels. Bar code software and scanning devices are usually provided by a third-party vendor and it is important to determine which bar code vendors' products are integrated with your POS software.

Credit Card Processing. Retail software systems incorporate credit card processing either directly in the system or by interfacing with third-party credit card processing software. For example, Microsoft's Retail Management System offers merchant services (credit card transactions) through Citibank, although you have the option of setting up merchant services with any bank you wish. This eliminates the manual credit card process.

Self Checkout. Self checkout is gaining in popularity as retailers are allowing customers to pay for their items without a sales associate to check them out. This capability has been made possible by implementing the technologies that have been mentioned earlier. For example, bar code scanners allow users to scan their items. Each item is accurately priced and the balance due is automatically calculated. This improves the customer's experience with the store because they do not have to wait in long lines for checkout.

Handheld Devices. Retailers are now using Personal Digital Assistants (PDAs) and mobile or wireless stations for associates on the sales floor or in the field to conduct sales transactions. Sales associates can now assist customers in a much more efficient manner as these devices can provide instant visibility to sales and inventory information right on the floor. In the future, this capability

will be pushed out to the consumer, as cell phones, PDAs and other wireless devices will be able to download store inventory andw pricing information.

Supply Chain Management. Supply chain management will also have a big impact on the future of the retail industry. Supply chain management is the linking of customers, retailers and suppliers to create a community of companies that provide products to the customer. For example, if an item is out of stock, a consumer can order it and the retailer can provide periodic updates on the status of the order because of their close electronic interaction with suppliers. The supplier may also automatically replenish a store's inventory levels because they have constant visibility of inventory levels on the store shelves. Although this level of electronic interaction may seem futuristic, many midsized retailers have already implemented some degree of supply chain management with their suppliers and customers.

Electronic Data Interchange (EDI). EDI is the process of electronically exchanging data, such as purchase orders, invoices, acknowledgments and advance shipping notices, between a retailer and its suppliers. Purchase orders can be instantly transmitted to suppliers to maintain inventory levels. This shortens the order cycle time, thus reducing the on-hand inventory requirements, which in turn reduces cost. In the past, EDI was only available to large retailers because of its cost. New Internet technologies, such as Microsoft's Commerce Portal, have now made it possible for small to mid-market retailers to do inexpensive Web-based EDI transactions.

Radio Frequency Identification (RFID). In the future, retail software will move toward the development of wireless technology, such as RFID. RFID uses intelligent computer chips placed on the tag of a merchandise item, which then communicates with a handheld wireless device or central computer. The benefit of this technology is that inventory stocking and locations can be maintained in real time. The computer can automatically reorder inventory that is low, as it has a constant, real-time view of inventory levels. Physical inventory counts become unnecessary, as the computer has a view of the entire inventory on hand. Another key advantage is that security is improved as the RFID chip communicates its location in the store. POS registers may eventually become unnecessary, since RFID technology provides the ability to automatically charge a person's credit card as they pass an RFID scanner with the item they are purchasing.

Functional Overview

Retail functionality can be divided into three general groups of functionality: (1) Store Operations that focus on the individual stores; (2) Headquarter Operations that focus on the retail operations at the headquarters; and (3) Back-office functions, such as distribution, purchasing, accounting and payroll. Although every retail company has unique requirements, the following are some of the key retail functionalities that you should consider including in your analysis of retail software products:

STORE OPERATIONS

Store operations refers to the management of the local store and support functions for direct sales and service to consumers. The main software module for store operations is the POS module. POS is a one-step billing process where customers make a purchase and payment in person and invoicing is done through the checkout process. The following is a list of some of the key advances in POS software functionality:

Floor Layout Planning. Floor layout planning assists the retailer with the optimization of the layout of the selling floor to increase sales and improve convenience for consumers. An example of this is the placement of smaller, low-priced items at the register to induce impulse buying by the consumer while they are waiting to check out.

Store Opening and End-of-Day Reporting. This functionality allows sales associates to conduct the steps for sign-in and store opening. It also includes the store closing at the end of the day, with the ability to view and print journals from any register by batch and/or receipt number, and run X, Z and ZZ reports. Retail software maintains transaction history along with an audit trail of voided receipts, date and time changes, etc. Other audit functions are standard reports, such as cash receipts balancing, bank reconciliation and detailed audit reports. What was once a very manual process has now been automated by POS software.

Time Clock. POS terminals/registers can function as an employee time clock by allowing sales associates to check in and out at the PC register. The PC can then identify the sales associate who is operating each register and integrate to the back-office general ledger and payroll software.

Lookup. For customers needing assistance, retail systems offer the ability to look up items and display the item's picture, description, location and price. For retail chains, this lookup capability allows visibility to other stores so that customers can be directed to nearby locations that may hold an item that is out of stock. This keeps customers from going to a competitor for the purchase of the item. Inventory searches can be done using "wild card" information such as partial words, etc., and attributes can be searched, such as keyword, color, size, vendor, price, etc., customer and order queries by multiple selection criteria.

Customer Information. Retail software offers sales associates visibility of customer information (buying history, payment history, customer contact information, demographics, total sales, number of visits and last visit date) at the POS terminal. This provides more personal service, enables the sales associate to suggest add-on items and sale items, provides volume discounts and makes it possible to do automatic discounts and differential pricing for special customers. For example, if a customer is ordering coffee, the system would prompt the sales associate to ask the customer if they would like to purchase coffee filters or a coffee pot. This prompt may also suggest replacement items if the requested item in unavailable. This is a very powerful tool to increase sales by other customer interaction and to maintain a more personalized relationship with the consumer.

Customer Checkout. POS software customer checkout functionality includes easy data entry via hot keys and shortcut keys; unlimited line item entry; the automatic computation of tax; post voids; and process returns. Other great features are the ability to serve others while keeping a stalled transaction on hold, and to continue making transactions should the in-store network go down.

Multiple Payment Types. Retail software offers the ability to accept multiple forms of payment like cash, check, credit card, gift certificates, gift vouchers, coupons, government stamps and store credit accounts. POS software also includes credit card swipe links to online credit authorizations like ICVerify and PCCharge through a phone line connection. POS systems allow partial payments of transactions, allocation of a payment to multiple transactions, the processing of deposits on orders, layaways and in-house credit.

Receipts. Retail software ensures that each receipt clearly identifies the register to which the receipt is associated. Some products sequentially assign numbers for each receipt. Other products include intelligence with the number such as the register and the date that the transaction occurred. POS systems include the reprinting of receipts, printing of kit components on a receipt, and customization of receipts with a promotion for new products and specials.

HEADQUARTER OPERATIONS

Headquarter operations is the management of the headquarters of a retail chain. Periodic upload (polling) of each store's POS system can be set up to allow the headquarters to have a real-time view of the store's operation and to enable management of company-wide changes, such as sales and promotions. It also enables the headquarters to plan for the chain as a whole, including the movement of inventory. The following are some of the most important recent functional improvements available for headquarter operations that you should be aware of in your software selection process:

Inventory. Retail systems enable the visibility of inventory at a single store as well as for the company as a whole, including all stores, warehouses and in-transit inventory. They allow the transfer of inventory between stores and commitments of "out-of-stock" inventory with the ability to notify customers upon receipt of merchandise. Serial numbers can be tracked, kitting of multiple products that can be sold as one parent product can be made and consignment inventory can be maintained. Inventory plans are set up to include inventory turn targets by class, determine overrides or exceptions by period, calculate stock-to-sales amounts, receipt plan and period open to buy amounts, stock-turn review, stock-to-sales ratios and markdown planning. This complete view of inventory is critical to the management of a retail chain and has been a great benefit of modern retail systems.

Commissions. Commission structures are unique to every organization. Retail software offers flexibility for the tracking of sales information and commission calculations. This allows the retailer to adjust the system to the policies of that company.

Merchandise Planning. Merchandise planning helps retailers more accurately track and assemble data to help improve buying, distribution and store operations throughout the year, thereby improving efficiencies, reducing

inventory and increasing sales. This includes budgeting and forecasting for daily, weekly, monthly and seasonal budgets; assortment planning to deliver the right mix of products and value for targeted customers; merchandise changes to make adjustments such as new classes of product; and seasonal adjustments which allow the retailer to adjust pricing and markdown dollars by period, to plan seasonal sales targets.

Real Estate Management. Real estate management is the ability to manage the retailer's headquarters, store and warehouse properties, thus offering the ability to easily add or remove stores and manage leases.

Price Management. Retail systems help retailers manage and optimize item pricing and allow the home office to download any changes to specific stores or across the enterprise. Price management functionality includes: promotional pricing for items with effective dating, giveaways, "Buy X, Get Y" discounts and program price changes. Retail systems also allow corporate/volume price breaks and tiered pricing discounts based on rules set up and maintained within the system. This enables corporate pricing policies to be managed at the headquarters level where it can be downloaded to the individual stores.

Employee Management. Employee management includes workforce scheduling for each store and the entire sales force. This information can then be used to predict what days and hours to staff up or cut back. The system also tracks the register used by salesclerk, credit items sold to appropriate salesclerks, labor cost, associate selling budgets and the assignment of system security levels for each employee.

Cooperative Advertising. Cooperative advertising is the ability to track advertising efforts between your organization and trading partners and suppliers. Advertising costs can be shared among multiple companies and retail systems offer the ability to track these agreements and the sharing of these costs.

Customer Relationship Management (CRM). CRM for retail aims at helping retailers understand customer buying habits and provide better customer information across departments and throughout the organization. CRM can be used to promote marketing and merchandising across channels, provide consistency across all customer contact points and target valuable customers. CRM provides the capture of customer detail, such as demographics, preferences, purchase history, problem history, account balance and credit information. It allows the retailer to analyze individual and chain-wide buying trends by region, time of day, season, location, shopping frequency and purchase amounts. The retailer can then push sales, conduct relationship selling to targeted customers and focus efforts on selling extended warranties to customers who recently purchased serviceable items.

BACK OFFICE

A strong backend financial system is very important to the success of a retail organization. Microsoft Business Solutions offers distribution, purchasing, accounting and payroll products that tightly integrate with the leading retail systems on the market. This provides a complete retail management system that allows retailers to take advantage of the latest advances in technology to enable competitive advantages for their

companies. The following are some of the key functionalities of back-office systems that are pertinent to retail organizations:

Distribution. In addition to selling merchandise in a store at a POS terminal, many retailers also take orders from catalogs and the Internet for distribution to consumers. The order-entry module within distribution is designed to handle these orders. Orders may come in via phone, fax, mail or the Internet. Order-entry personnel have many of the same capabilities with the software as their counterparts on the store floor. They have visibility to inventory and their location, and the status of orders and delivery dates for any questions that a customer may have. Order-entry personnel also have the ability to upsell to customers as they are taking orders.

After the order is placed, integration with the warehouse is very important. Pick lists are generated and warehouse personnel pull the correct items from the warehouse. They are then packed for shipment and automatic ship rate calculations based on item SKU, ZIP code, country, dollar value or other parameters are done by the system. Other capabilities include comment and delivery instructions, special instructions, user-defined shipping methods, tracking of an order through fulfillment, estimated delivery date, shipping window, etc. Integration to standard shipping software such as UPS, USPS and FedEx is also available.

Finally, the order is invoiced to the customer. The accounts receivable module handles this functionality and is directly linked to the distribution software to enable strong credit management, invoicing and collection functionality. This module allows retailers to track multiple customer types such as corporate, catalog, Web or in-store customers and flag customers for discount eligibility at the store level and centralized back office. It allows payments to be allocated across invoices and automatically applies finance charges on past-due accounts. Invoices can also be customized to customer invoicing requirements.

Purchasing. The purchasing process is very important for a retail organization. Inventory must come in the door at the right time and the right price. This functionality is closely tied with Merchandise Planning, which plans the inventory purchases and then the purchasing module executes that plan. The following describes some of the functionality available in the purchasing module that is most applicable to retail companies:

Purchase requisitions can be created and electronically routed to the appropriate approval personnel. The approved requisition can then be automatically converted to a purchase order and then printed or sent out electronically to suppliers. This module also allows the allocation of inventory by location on a purchase order to track inventory to the stores. It also handles blanket purchase orders, which are long-term commitments to a suppler for material against which short-term releases are generated automatically by the system based on predetermined delivery dates.

One of the greatest advantages of using a purchasing module is the ability to track vendor metrics. This is the ability to track statistical information about your suppliers, including orders, cost, on-time delivery, damaged goods, correct quantities, performance, etc. Because of the high volume of orders generated by a retail store, this information gives the purchasing agent

visibility of the pertinent vendor metrics at the time of placing the order, which is a very powerful tool to negotiate with and manage suppliers.

Business-to-Business (B2B) e-commerce functionality is another key benefit of purchasing. B2B functionality allows secure Internet access to the system for suppliers for order entry, order status, inventory pricing and availability, invoice status, and online payments. The benefit of B2B e-commerce is that suppliers and customers can electronically perform the tasks normally associated with phone calls, faxes and e-mail, to make the process faster and more efficient.

Accounting. Microsoft Business Solutions offers a general ledger that has strong data input and reporting capabilities. A flexible chart of accounts can be set up for project costing requirements and multiple company consolidations. Recurring journal entries can be automatically created, and flexible reporting allows standard balance sheet and income statement reports, along with many ad hoc reports for specific reporting needs.

Accounts payable functionality automates the invoice payment process with workflow routing and electronic commerce. It is tightly integrated with purchasing for payment of invoices to suppliers. Accounts payable automates the payment process, offering the ability to get payment discounts and manage suppliers.

Payroll. Payroll software can be integrated with the time-clock software for direct download of employee time information. Some of the basic functionality available in a payroll module includes timesheet tracking, payroll processing, tax calculations and government reporting. Of course retailers have payroll requirements that are unique to their industry. For example, seasonal hiring and layoffs is a common requirement of retail companies and it is not as prevalent in other industries.

Reporting Overview

Retailers need to move quickly in order to take advantage of trends that are occurring so they can sell more products. This makes up-to-date reports critical to the success of a retail operation. This reporting functionality has greatly enhanced the information available to store managers and executives, enabling better tactical and strategic decisions. The following is a high-level list of reports that modern retail software offers:

- Store Operations. Sales per square foot by store, by division, class, style, category or any other attribute defined at the store level; product analysis; stock-to-sales ratios; etc.

- Merchandise Planning. Extensive ranking, coordinate management, etc.

- Purchasing. Purchase order status (such as pending, committed, open confirmations, etc.); product aging by supplier; stock-to-sales ratios by vendor

- Inventory Reports. Inventory turnover by day/region/store/consolidated/top sellers/least selling, etc.; markdowns by user-defined date range, item number, product category, etc.

- **Sales.** Predictive reporting based on historical sales information; buying trend historical reports; profit analysis; sales commissions; sales breakdowns; slow-moving items; sales for any day by store location, items, departments, categories, customer or taxes; traffic rates; sales per transaction; sales transactions per staff; items per transaction; traffic-to-staff ratios; season and product aging; and stock-to-sales ratios by season

- **Employee Management.** Hourly staffing patterns, staffing requirements

In addition to these reports, ad hoc report writers such as Crystal Reports and FRx can be used to query information in the database and handle custom reports that are not in the available standard reports. They also enable charting and graphing capabilities for pictorial representations of the data. For companies with more sophisticated requirements, Online Analytical Processing (OLAP) tools are available. OLAP is a reporting function that allows you to put data into a data "cube" and then analyze the information in many different ways.

Conclusion

There are many advantages that retail software offers retail organizations. These capabilities that were once used to advantage only by large retail chains are now available within budget to small and midsize companies. Microsoft Business Solutions' accounting and retail solutions, along with the leading retail software products they partner with, will allow you to take advantage of the recent retail technological advances to improve your inventory management and, most importantly, to improve the interaction with your customers.

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