Increasing revenue and decreasing cost at the point of sale

Transaction volumes and values are falling at many retailers as consumers reduce their spending. However, by developing innovative loyalty programmes and deploying more advanced POS technology retailers could generate a significant uplift. Paul Campbell, vice president of merchant solutions at First Data, discusses.

Retailers around the world are feeling the impact of the credit crunch and financial crisis. Many consumers, worried about job security or anxious to reduce their indebtedness, have radically reduced their spending.

Given that consumers are tightening their belts, retailers need to do everything possible to retain the business of their best customers. This is increasingly important as retailers’ cost bases are under significant pressure.

**Driving loyalty**

Loyalty programmes are some of the most effective weapons that retailers can deploy to maintain or increase consumer spend. At a time when consumer spend is falling rapidly, retailers are focusing on loyalty programmes as a way to increase customer footfall and drive revenues.

According to Aberdeen Group research (*), the top three reasons why retailers develop loyalty programmes are to generate repeat visits (61%), boost incremental sales (58%) and increase overall customer satisfaction (57%). However, the research also highlighted that in many cases building lifetime customer value is being overshadowed by short-term tactical campaigns.

Most loyalty programmes operate on the basis of retailers offering rewards after a consumer has built up the required number of points or spent a specified amount of money in a store. However, to generate immediate payback for customers, more retailers are now offering instant rewards.

Among the most successful types of instant rewards are POS-generated coupon offers. At the time of purchase the consumer not only receives their till receipt for the transaction, but also a reward, details of which are either printed at the end of the receipt or on a separate coupon. Some retail and entertainment outlets have taken this immediate rewards model a step further by offering gifts instead of the printed offer.

To drive additional volume, an increasing number of retailers are also offering customers who use physical retail outlets a discount if that customer also buys online.

At their most sophisticated level, these programmes deliver highly effective personalised offers. Imagine the scenario – you have just bought something at your favourite retailer when the retailer’s data system recognises that today is your birthday. Immediately, the system generates a customised coupon offer along the lines of “Happy birthday – as a token of our appreciation please accept 10% off your next purchase in this store.”

Another example – when you are paying for a meal in a restaurant, as well as printing off your payment receipt the POS terminal prints off a coupon entitling you to a discount the next time you visit the restaurant.

The technology behind the couponing system works as follows: retailers create the message to appear on their POS terminal receipts or coupons by using a unique password to access a hosted system to develop the content. The POS manufacturer then downloads the message to all the retailers’ terminals so that it can be printed either at the end of each receipt or on a separate piece of paper.

(*) Source: Aberdeen Group Retail Survey, July 2008
(**) Source: NBPCA/Giftex 2007 Study of Gift Card Buyers
Open Loop Prepaid

The evolution from traditional closed loop prepaid programmes to open loop creates an exciting new proposition for retailers who can now earn revenue from transactions taking place both within and outside their own business. Open loop prepaid cards can take up little display space in retail locations yet create a valuable recurring revenue stream based on a percentage of transaction value, even when it is used to purchase goods from another retailer. As spending on an open loop prepaid card can exceed closed loop spend by 30-40% (**), potential revenues for merchants could be considerable.

Offering their own open loop prepaid card also means merchants can access previously unavailable data that provides insight into their consumers’ spending behaviour after they leave their shop or e-commerce site that could help them create more targeted promotions that encourage increased spending in their own business.

Entering new businesses – the Check Forte model

As well as generating more business from existing customers, another solution for retailers is to increase the types of transactions that are processed at their point of sale. For example, retailers in many markets handle a wide range of transactions over and beyond traditional purchases. These include payments for utility bills, accepting payment for items such as mobile phone top-ups, utility bills, payment for government services, etc.

In Brazil, for example, First Data’s Check Forte business provides data capture, switching and POS terminal management as well as network processing services to banks for bill payment transactions initiated at off-premises merchant locations. It also provides check verification services directly to merchants. This enables retailers to accept a much wider range of transactions in their stores, with a significant opportunity to generate additional business from this increased footfall.

These capabilities are also relevant for retailers in more mature markets where they can be applied across the whole value chain to improve efficiencies, reduce costs and increase revenues. Data capture is key to driving loyalty programmes, while accepting a wider range of payment cards can both increase revenue opportunities and reduce processing costs. This is especially so when the costs of electronic payments are compared with those of handling cash and other paper-based payments instruments.

Technology costs

The ability to increase revenues at the point of sale is becoming increasingly important. In deciding the best POS strategy for their business, retailers also want to take advantage of the latest technology that can be used at the point of sale to provide better data analytics, reduce fraud and deliver better management information.

There are several options for retailers to consider when developing their POS network. In some markets the POS terminals are provided on the basis of an up-front fee paid by the retailer. In others they may be provided free of charge. However, there is a third option – the POS technology is offered on a leasing basis. This ensures that retailers automatically benefit from technology and infrastructure upgrades, without having to have the capital investment of owning their own fleet of POS units.

By using a complete end-to-end POS service, including the processing of payment transactions and the deployment of data storage and analysis systems, retailers can establish a detailed and continually updating profile of their customer base. Consumer behaviour at the POS can be monitored and in some cases even predicted, resulting in more transparent planning and price structuring.

Summary

Consumer spend has fallen dramatically as the recession impacts consumer confidence. Some of the impacts of this fall-off in spend can be countered by retailers developing and implementing strategies to both reduce costs and increase revenues through the point of sale.

Retailers should aim to develop more personalised and effective loyalty programmes, while entry into new business lines could provide opportunities to mitigate revenue losses from retailers’ traditional businesses. Instant reward solutions such as couponing could also have a significant impact in increasing loyalty.

Finally, retailers should look for the most cost-effective way to develop their POS infrastructure and processing solutions. Working with the right payment processor can enable retailers to compete more effectively, ensuring they have access to the best data analytics and POS technology.

For more information on how First Data can help your organisation to reduce costs and generate more revenue through its point of sale network, please contact Paul Campbell, vice president of merchant solutions at paul.campbell@firstdata.com

©2009 First Data Corporation. All rights reserved. You may not disclose, copy or use any part of these materials for any purpose without the express written consent of First Data Corporation. All trademarks, service marks and trade names referenced in this material are the property of their respective owners.