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The Vanishing Checkout Lane: Will Today's Point of Sale Satisfy Tomorrow's Retail Customers?

The retail point of sale is fundamentally changing. It is moving from traditional checkout lines to wherever the customer may be: shopping on the Internet, walking a store's aisles, traveling or lounging on the beach. Are you prepared for what this means to capturing and retaining customers?

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Introduction: An Almost Unnoticed Transformation

Not so many years ago, returning a rental car was often an exercise in anxiety and frustration.

Typically, you would be racing to the airport to catch your flight and probably cutting your schedule a little too closely. You'd drop off the car, gather up your possessions and drag them to the rental-return counter with paperwork in hand. You might stand in a slow line serviced by an attendant casually checking in the line of others returning their cars. If you forgot to write your mileage or fuel on the paperwork, you would dash back to the car, write down that information and then sprint back to the car-return counter. While completing the paperwork and processing your credit card, the counter attendant might try to engage you in idle chitchat. Meanwhile you were rapidly losing patience.

Those were the days.

Now, of course, returning a car is much simpler. You pull into the lot. An attendant walks over to you, scans a bar code on the car and checks the mileage. The attendant asks if you want to keep the charge on your card. He hands you the receipt, and you're done, almost before you've finished taking your luggage out of the trunk.

This new process seems so natural that it's easy to forget those not-so-good old days. Today's travelers have quickly grown to expect this level of service and even take it for granted.

From the car rental company's point of view, changing the way it checked in a rental return and completed a sale was inspired by one simple idea: rather than bringing the customer to the point of sale (POS), let's take the POS to the customer. New wireless technology made this possible, and the results were dramatic:

→ A major improvement in customer satisfaction

→ Significantly faster transaction processing

→ Fewer attendants needed to check in the same volume of returns

→ Reduced need for a staffed return counter and lobby area

→ A different kind of customer interaction. Rather than a pressured clerk facing an anxious customer, often in front of an audience of other anxious customers, you have a quick, efficient, satisfying, one-on-one transaction.

We hardly think about returning a rental car today. We just grab the receipt and run, and that could be all there is to say about how the POS changed in the car rental business.

But that's not the end of this story. It is, in fact, the beginning of a much bigger story, one that is unfolding right now and will have a profound impact on the way many kinds of retailers transact sales and interact with their customers.

Today's emerging POS technology will make many things possible, but there are two essential points to keep in mind:

→ What do customers really want when they stand in the checkout line?

→ What does this mean to the way retailers manage their businesses and interact with their customers?

What Do Customers Really Want?

Several years ago, market research firm Yankelovich reported that half of all consumers polled, at all income levels, say lack of time is a bigger problem for them than lack of money.[1] Anything a retailer can do to save shoppers time and make the shopping experience more convenient would pay dividends in increased loyalty, greater frequency of visits and fewer lost sales.

This is not surprising. Almost all significant technical changes at the POS over the past 30 years or more have been driven by the need to increase the speed and accuracy of transactions. From the time that magnetic strips on credit cards enabled the elimination of those old "knuckle buster" manual card imprinters, to the addition of bar-code readers at checkouts, and signature pads on card-swiping equipment, to the more recent entry of contactless readers at the POS, retailers have sought ways to accelerate and simplify transactions for customers. These advances have consistently improved customer satisfaction and reduced the cost of handling each transaction.

Changing POS technology has also changed people's attitudes about how they pay for things. A Nilson Report found that debit and credit card transactions now account for more than half of all transactions, compared to 29 percent a decade ago.[2] And 90 percent of retail consumers surveyed say they prefer or don't mind using cashless payment methods, according to selfserviceworld.com.[3] Today there are about 7 million checkout lanes in U.S. retail establishments that are capable of doing electronic checkout and processing cashless transactions. As consumers, we take these changes for granted, while retailers benefit from more efficient and secure transactions.

If history is a good indicator, and in this case it probably is, customers will continue to favor retailers and service providers who offer them greater speed and convenience in their transactions. Consider these scenarios:

→ Today if you go to a restaurant, the payment process is a ritual that goes something like this: You ask your server for the bill. Eventually the server brings you the bill in a folder or on a tray. You look at the bill and then place your payment card in the folder or on the tray. At some point, the server returns, picks up the bill and your card, and goes off somewhere to process your payment. After a while, the server returns with your card and payment slip for your signature.

Now consider this alternative way to pay at the restaurant: You signal you are ready for the bill. The server walks over to your table and prints the bill from a payment terminal he carries with him. You look over the receipt and hand your card to the server. He swipes your card through the portable terminal there at your table. When the transaction goes through, the server hands you the payment slip, which you sign in the typical way. The entire process takes less than a minute.

→ You are in a meeting that is taking longer than you thought. Your car is parked at a metered space, and time is running out. From your mobile phone, you call a toll-free number, enter the lot and space number where your car is parked, and pay for another hour of meter time.

→ While other shoppers wait in checkout lanes, you stroll through the store selecting the items you want. You bag them and set them in the cart as you go. When you're done, you leave the store. Did you forget to pay? No—the specially equipped grocery cart used contactless reader technology to scan the items you placed in the cart and then authorized your credit card payment as you left the store.

FD400 portable, wireless payment processing terminal from First Data. This unit accepts payment cards, prints receipts and reports, and has a bright touch-screen display. It is fully security compliant.

→ You manage a beachfront bar and cabana, one of several in the area. People who lounge on the beach in front of your place come into the bar to buy drinks. Recently, you've noticed a decline in your business, and yet business seems to be booming as never before for your competitor a mile up the road. It turns out that the competitor extended his service area onto the beach, with his staff taking drink orders from customers lying on the sand, sitting in their beach chairs or playing volleyball. The servers then deliver the drinks to the customers (who are still doing something other than waiting in line for a drink) and processes card payments on the spot, right where the customer is, with small wireless terminals they carry around with them.

These are just a few instances that show how the changing POS can have a huge impact on merchants and relationships with their customers. All of these examples are happening, or can happen, with products and technologies available today.

Just as in the rental car return example cited earlier, customers want the benefits gained by moving the points of sale closer to them, and customers are a major driving force in this trend. But there are benefits for the retailer as well, and these go beyond just the ability to attract more customers with a service they want. The examples described above underscore the key factors driving the trend to more mobile POS solutions:

→ Greater convenience and time savings for customers

→ A more efficient transaction process for retailers

→ Opportunities for retailers to provide more personalized service to their customers, which results in more chances to up-sell customers, close sales and build customer loyalty

→ Ability to offer products and services where it has not been physically possible to do so before

So what are these new technologies that are changing the face of the retail checkout process?

Technology Enablers for the New POS

Recent advances in POS hardware and mobile technology are enabling retailers to move their points of sale, and their customer relationships, closer to their customers.

Trends in POS Hardware.

In recent years POS devices have become smaller and more functional. Several scenarios described earlier show retail staff going directly to customers to complete a payment transaction using portable POS devices.

New, highly compact payment terminals can supply a full shift's battery power and provide wireless access to communications networks for connection to payment processing systems. Many of these devices have software that enables retailers to customize the checkout process and printouts for different business models.

Increasingly, contactless readers are becoming a normal part of the POS so that customers with cards or stickers with embedded Near Field Communication (NFC) chips can make purchases by simply waving the chipped device very close to the contactless NFC. Many fast-food chains are equipping all their POS devices with contactless readers, and the technology is spreading. These readers work with any kind of payment device that uses NFC chips, such as contactless credit cards, contactless stickers and some new mobile phones that are beginning to appear in the market. (For more information about commerce-enabled mobile devices, see First Data's series of mobile commerce white papers on the First Data Web site, firstdata.com.) In the transportation sector, businesses and transit authorities alike have been early adopters of contactless technology that has revolutionized the way consumers pay for taxis, toll roads and mass transit. Removing the long-standing reliance upon cash in transportation payment scenarios has increased satisfaction, improved efficiency and reduced costs.

Mobile Devices – Putting the POS Into the Hands of Your Customers.

Increasingly, consumers' mobile phones are turning into payment terminals people can use to do their banking and initiate transactions. Here are a couple quick examples:

→ USAA is a large insurance company that provides insurance, banking services and investment services to members of the armed forces, veterans and their families. Now USAA bank account holders can deposit paper checks via their iPhones. To deposit a check, the customer uses the camera in the phone to photograph both sides of the check, and then uses the iPhone application to send the images as part of his or her electronic deposit.

→ A new application from eBay sends alerts to customers' iPhones regarding items on which they are bidding. The application also enables eBay customers to pay for purchased items from their phones through their PayPal™ accounts.

→ Sprint, First Data and others participated in a pilot project with Bay Area Rapid Transit (BART) to test mobile phones equipped with NFC chips and account management software. People with these phones could pay for their transit fares as well as food items from Jack in the Box restaurants. To make payments, participants simply waved the phones very close to contactless readers at the transit turnstiles and restaurant points of sale.

These technology-enablers not only change the way a retailer physically processes a payment, but they also introduce new ways of selling and marketing to customers. What does all this mean to the way merchants relate to their customers?

Taking the Transaction to the Customer

When the POS moves closer to the customer, there is a fundamental change in the relationship the retailer has with that customer. Traditional retailers are set up to bring customers into the store and guide them through a maze of product offerings, which leads to checkout lines where customers transact their business.

However, in a number of business scenarios, moving the POS to the customer enables merchants to personalize their service. This can take as many different forms as there are business models, but let's look at some examples:

→ Apple stores, which are the retail outlets dedicated to selling Apple computers, iPods, iPhones and other products from Apple, frequently do not have cash registers. Roaming representatives engage shoppers as they view the merchandise. The representatives answer questions, retrieve the selected products from inventory and complete the purchase transaction with portable devices. This method enables Apple to provide a substantially higher level of personal service by bringing the representatives' expertise directly into the customers' decision-making processes.

→ Convenience is the driver behind a changing point of sale for the hospitality industry. Already, hotels have streamlined their procedures so guests don't have to visit the front desk when they check out. But what about check-in? The hotel knows the preferences of its regular guests. Guests could receive their room confirmations on their mobile phones and go directly to their room without stopping at the front desk. Touching the commerce-enabled phone to a reader on the door could provide keyless entry.

→ In a more visionary application scenario, consider how a department store can combine consumer metrics and mobile commerce to highly personalize interactions with its customers. Imagine that you're a regular shopper at a department store that uses sophisticated analytics to follow your buying preferences. Let's further speculate that you carry a commerce-enabled mobile phone. As you enter your favorite department store, you tap your mobile phone to a special "welcome" contactless reader.

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Instantly, you receive a text message: "Welcome back. Ralph is working in the Men's Suits department. If you buy a suit from him today, he will give you two free shirts." Meanwhile, Ralph (your favorite fashion consultant) has been alerted that you are in the store and is viewing your prior purchases so he can recommend something you will like.

Alternatively, a regular department store shopper could tap his loyalty card on a contactless reader as he enters the store to receive a printout of personalized messages and discounts.

These examples not only provide a more efficient checkout experience by reducing the customer's overall shopping time, but they also enable retailers to merge sales, marketing and relationship building with the checkout processes.

And many consumers are equally interested in the "self-service" aspect of making purchases through new technologies, whether it's bypassing the front desk at the hotel and going directly to their room, making purchases from their personal computers or mobile phones, or using self-checkout kiosks in stores.

Self-checkout kiosks and cashier-free checkout lanes are increasingly popular with major retailers and their customers, especially in grocery stores and home improvement centers. A 2007 study by IHL Group found overwhelming acceptance of self-checkout systems.[4]

Increasingly, retailers are relying on these and other self-checkout methods instead of cashiers. According to IHL Group, the value of transactions at self-service kiosks will surpass $775 billion in 2009 and will grow to more than $1.6 trillion by 2013.[5]

The benefits go beyond the customers' convenience. Self-service techniques can:

→ Reduce slippage (most of which is attributed to dishonest employees, not customers)

→ Reduce the rate of abandoned shopping carts, which often results when lines are long during peak periods, promotions and store openings

→ Provide a business scalability to better handle peak-period demand without dramatic increases in staffing

One challenge for retailers is how they can take advantage of the changing POS in ways that provide checkout options customers want and that can strengthen customer relationships. In an environment where POS technologies are changing even as customers' purchasing habits are evolving, it is important for merchants to align their points of sale to their customers' preferences.

IHL analyst: Self-service helps in tough times

"Most consumers have adapted to self-service as a way of life. The current recession is actually increasing the acceptance of the technologies, as they are a hedge against increasing labor expenses during a tough economic climate. They allow companies to schedule their workforce for high-volume periods without sacrificing service during non-peak times."

Lee Holman, lead retail analyst, IHL Group

(June 29, 2009 news release)

Matching Customers to the Right POS

Different business models bring about different relationships between retailers and their customers, and these relationships are changing.

For instance, traditional grocery stores have lost some market share to high-end gourmet merchants, low-end price leaders and grocery sections in non-grocery stores. All supermarket segments are dealing with major shifts in consumer behavior. Consumers are health-conscious yet time-strapped. They spend far less time cooking meals, and they make twice as many grocery shopping trips than they did a generation ago. They want nicer stores, more variety and fancier, fresher foods at lower prices.

Rethinking the POS is one of the steps supermarkets are taking to stay competitive. The industry has been a leader in self-checkout lanes, which typically pay for themselves in less than a year in labor savings alone.

Now, a new generation of POS technology can put personalized service and queue-busting methods in the shopper's hands. Earlier, this paper described experimental shopping carts that use contactless technology to enable the shopper to bypass the checkout line altogether by ringing up items placed in the cart and authorizing payment for them. This technology can even be enhanced with features like electronic shopping lists that direct shoppers to each item's location and call attention to special discounts available as the shopper approaches items that fit her shopping profile—personalizing the shopping experience and providing an abundance of marketing opportunities for the retailer.

Similar challenges and opportunities exist for all industries. When retailers consider what is right for their businesses, these questions should be included in the considerations:

→ What major trends are impacting your stores and customers?

→ How could new or different points of sale improve your relationship and bring you closer to your customers?

→ If customers could reinvent your checkout procedures and interactions with checkout staff, what would they come up with?

For some merchants, innovations in POS may mean different, less personal customer touchpoints—with fewer opportunities to be face-to-face with the customer. This may not be what every merchant wants to hear. Many have geared their entire business to creating personal interactions with customers, and now technology comes along that enables customers to sidestep a personal relationship, if they prefer.

This dilemma has no clear answer. In any industry, technology will influence the ways a business relates to its customers, and when and how those interactions occur.

The banking industry is an enlightening example of what happens when the desire for face-to-face contact with customers collides with consumer preferences and new technology. Decades ago, ATMs transformed banking. Freed from bankers' hours and teller lines, bank customers made much fewer lobby visits. Bankers, meanwhile, saw that ATMs dramatically reduced the cost of processing a typical transaction. But they faced a dilemma: How do banks sell more services to customers who don't come into the brick-and-mortar locations as often? Banks not only adapted, but they also accelerated the pace of change with Internet banking and more interactive ATMs, both of which offer them ways to personalize service to their customers.

The lesson here is that many customers prefer speed and convenience over personal interaction. Businesses must adapt to avoid losing this segment to competitors. Innovations in POS will force businesses to be better marketers with better offerings and better ways to build customer loyalty.

Conclusion: What Can a Retailer Do Now?

Technology is enabling newer, faster and more mobile POS options for retailers, but customer demand is the real driving force. Current trends suggest that the POS is moving ever closer to the customer. What can a merchant do to stay competitive?

The most important point to keep in mind is that many new POS technologies, especially wireless mobile POS hardware, are entirely compatible with existing POS technologies. Retailers do not need to redesign their entire stores and totally change the existing checkout processes. They can test new hardware and see what works in their respective businesses. Change can be evolutionary, not revolutionary.

Here are some practical suggestions for staying ahead of the curve:

→ Look at ways new POS technologies can make the shopping experience faster and more pleasant for your customers

→ Consider if there are ways to use new POS technologies to actually expand the reach of your business

→ Even if you're just replacing end-of-life POS terminals or buying equipment for new stores, consider incorporating a "mobile POS" mentality into near-term purchase decisions. Recognize that your system has to be open and capable of accepting contactless transactions and transactions from wireless devices.

→ Get the help of payment processing experts, such as First Data, in exploring opportunities and developing a strategic POS plan

Traditional retail points of sale are changing rapidly. To remain competitive, merchants must think strategically about this key customer touchpoint.

Please contact me or any member of my team. We not only want to help, but we also want to listen. I can be reached directly at barry.mccarthy@firstdata.com.

Sources

[1] USA Today, "Stores, banks go speedy to win harried customers," December 1, 2006

[2] Nilson Report via IBM white paper, "Cashless self checkout," January 2008

[3] Selfserviceworld.com via IBM white paper, "Cashless self checkout," January 2008

[4] IHL Group, "2007 North American Self-Service Kiosks," July 2007

[5] IHL Group press release, "More than $775 Billion to be Processed in Self-Service Kiosk Transactions in 2009," June 29, 2009

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The Global Leader in Electronic Commerce

First Data powers the global economy by making it easy, fast and secure for people and businesses around the world to buy goods and services using virtually any form of payment. Serving millions of merchant locations and thousands of card issuers, we have the expertise and insight to help you accelerate your business. Put our intelligence to work for you.

About the Author

Barry McCarthy was appointed to lead the newly formed Mobile Commerce Solutions business unit of First Data in January 2008. There, he has responsibility for commercializing all First Data assets globally for use in mobile commerce. In this role, McCarthy and his team work closely with a variety of industry partners, from the largest wireless carriers to young start-ups, financial institutions, technology provider and terminal manufacturers.

Previously, McCarthy led global product and business development for First Data and before that, product development for the Commercial Services business unit. Prior to joining First Data, McCarthy was vice president and general manager of VeriSign's Internet Payments & Risk Management business unit, a NASDAQ 100 technology company. Before VeriSign, McCarthy co-founded and later sold MagnaCash, a Silicon Valley micro-payments company that is currently owned by Digital River (NASDAQ: DRV). Previously serving Wells Fargo (NYSE: WFC) as vice president and general manager of the ATM business, McCarthy had P&L responsibility for $110 billion in annual transaction volume and 14 million active ATM cards. McCarthy started his career at Procter and Gamble (NYSE: PG), where he spent 12 years in roles of increasing responsibility, first in sales and sales management and later in customer marketing and brand management. He earned a masters in business administration from the Kellogg School of Management at Northwestern University and completed his undergraduate studies at the University of Illinois, Urbana.

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