How Point of Sales (POS) Systems Help Retail Stores

AN ANALYSIS OF THE UTILITY OF A POS SYSTEM AND HOW IT BENEFITS A RETAIL STORE.
CORPORATE EDITION

EXECTUTIVE SUMMARY

When James Ritty invented the cash register back in the 1800's, its sole purpose was to protect from employee fraud and secure cash in the store front. Today, stores utilize cash registers for more than securing money. Cash registers have evolved into Point of Sale Systems (POS), which effect customer service, inventory levels, and even revenues; all of which influence a store's bottom line.

The paper analyzes the many features a POS system offers to retail stores and how they positively affect operations.

To illustrate, POS systems maintain electronic backups of transactions, protect cash in its drawers, report on how sales go and promote positive customer service. Modern POS systems offer ample flexibility and a wide range of tool sets that a business can utilize.

Table of Contents

THE EVOLUTION OF POS SYSTEMS

POS systems have improved greatly since the first one was designed in the 1800's. They first appeared out of of necessity. The saloon owner who created the cash register, James Ritty, wanted the money he was earning to stop disappearing into his employee's hands. Back in the day a cash register's sole purpose was to secure cash, but one hundred years later, the cash register has changed into something more.

By the 1970's fast food chains started using the earliest "Point of Sales" systems. They began using their cash registers to not only accept money from clients, but to record orders and increase employee productivity.

How Personal Computers Affected the Path of POS systems

Once personal computers (PCs) began to heavily infiltrate homes, the idea of PC integration with businesses was born. More restaurants started catching on to the technology and by 1986 PC based systems with touch screens started permeating the industry. The same trend started to take hold in the retail industry as well. More and more store owners recognized the many tools that a POS system offered in assisting them to run their business.

With the invention of IT retail in 1992 the first POS software appeared on computer hardware. At this time consistent operating speeds, reliability, and low costs allowed POS units to spread throughout all industries, including retail.

MODERN POS SYSTEMS ARE MORE THAN JUST CASH REGISTERS

Modern POS systems have become much more than simple cash registers. They touch all aspects of retail stores including inventory management, data analysis, security/cash management, transaction management, and revenue management. Vast improvements in all five of these areas emerged over the past 5 years. Below we have highlighted some of the many features a retail POS system provides.

Inventory Management

Stores must maintain inventory levels of regular stock. Aside from the normal purchases and sales, there are also other factors that lower stock levels such as damaged goods or shrinkage (stolen items).

A recent study estimates the excess inventory in the United States alone is costing businesses 224 billion USD – a cost everyone wants to avoid. With the proper data available stores can begin carrying stock for what sells and re-order selectively for other items. Moreover, because POS systems track returns, exchanges, and voids, it allows management to gauge customer satisfaction levels of individual products accurately plus evaluate the quality of goods sold based on the returns.

Data Analysis

Because all transactions pass through the POS system, it makes an entire array of data available, which leads to actionable insight through reporting.

For instance, POS systems can track the performance of different sales items. Accessing data on the performance of previous years' seasonal items can help management fine tune the store's purchases for the next year. Furthermore, POS systems can help analyze customers by viewing purchase history. This insight helps sales staff and marketers target messages towards the right customers at the right time. It can also help sales managers decide, which employees to staff at busy times of the day and which employees are most effective at their job. Staffing seasoned staff during peak times and trainees during off hours helps improve the bottom line as well as customer service.

Cash Management

Cash registers were originally designed to keep money in the till, only adding or removing it during the course of a transaction. Modern POS systems force employees to log in during a transaction and refuse to open the drawer without a transaction occurring, thereby protecting the business from fraudulent activity. In addition, a POS system can track cash amounts at the opening of sales and compare those to the end-of-day cash available. Based on the cash in and outflow, the numbers must match or the clerk will have to answer for any discrepancies. Tracking cash identifies those responsible and thereby promotes security. However, a POS

system's capability stretches far beyond keeping the drawer closed. Coupled with CCTV capabilities POS systems can attach sales data to video in real time, allowing review of errors or fraudulent claims made by employees or clients alike.

Security

POS systems provide redundant security of all business data through secured memory and data backups. Secured memory takes the form of FLASH ROMs, which store a transaction's data in the event of a power loss. Once the system boots back up, the last transaction automatically reopens to continue the process. Furthermore, the built-in backup of configuration and system files, prevents dreaded re-installation scenarios. All you need is a USB stick to store the information on. Upon hardware failure a backup POS system can restore all information from the USB files. The whole process takes mere minutes, not hours.

Transaction Management & Customer Service

Modern POS system designers have recognized the need to improve data entry with a streamlined UIs - User Interfaces. UIs of POS systems have been cleaned up, making data entry simpler for users. Touch screens and menu structures lead the user through the transaction process. In addition, touch screen UIs have seen as much as a 90% reduction in new employee training time compared to systems that are merely just 5 years old. This significantly lowers the cost of hiring a new employee. In addition to shortening the training time, the number of errors an operator makes during the course of his or her employment drops dramatically. The result is faster customer turn over, which improves the bottom line and customer service.

Today, the customer's understanding of the transaction in progress has seen vast improvements as well. Transactions in progress and the final total have been confusing to consumers at times. Customers expect a certain level of transparency, so they can follow what rings up, when they visit the cashier. Large customer displays at the POS help guide customers through their transactions, making them feel more comfortable with the business they visit.

Case Studies: Customer Satisfaction Improvements at the POS

After updating their POS system, an unnamed Australian Telecom company reported that "new pricing and promotion capability enhanced sell functionality, resulting in revenue increase[s]". They associated that with the capability of the POS to provide item and discount options, which lead to increased unit sales for accessories and handheld devices.

This telecom company also saw a drastic decrease in the average handling time, which in turn increased customer satisfaction and freed up more employee resources, allowing them to assist more consumers with their purchases in the same amount of time.

Another retailer, K-M Paint also saw a noted improvement of customer handling times. They claim their new POS system allows them to process orders 30 percent faster than their previous system.

K-M also noted that their modern POS system has resolved many issues that store managers had with the previous set-up. The simplicity of the POS systems made it so that with only 15 in house IT personnel, K-M Paint were able to install 547 new systems in under 10 weeks. "There's really nothing more embarrassing than having a customer come to a register and then having to ask them to move to another counter to process the order, because the cash register is down," a store manager from Sacramento explained his predicament.

Lastly, customers have their own preferences, when it comes to tendering their purchase. The POS system must therefore offer the customer flexible payment options. These generally include credit cards, debit cards, cash, checks, or even mobile wallets. Modern POS systems can accept a combination, if not all of these tenders today.

Revenue Management

The counter top of retail stores is reserved for impulse purchases – except during transactions, when the customer's eyes are likely focused on the POS terminal and not the rest of the counter. Merely displaying data on their transaction represents a wasted sales opportunity.

However, a recent trend to add marketing messages to the POS display screen has allowed the retailer to up-sell and cross sell to clients as well as inform them on promotions. Some POS displays even show an item after relating it to one of the customer's current item list, similar to EBay's "Customers also purchased" section, tailoring the experience to remind the customer that they may need another item; like displaying an ad for batteries, if certain battery operated toys are purchased.

POS systems continue to make advancements as marketing machines. The emergence of the loyalty system has allowed retailers to track customer buying patterns. As a result, marketing efforts are more targeted, saving thousands of marketing dollars on A/B testing or other guess work. In addition, POS systems can be set to offer discounts during a certain time or date for happy hour or scheduled promotions. Likewise, coupons can be registered with a barcode or by coupon numbers. They can handle loyalty systems, track participating customers and reward them with discounts on repeat purchases to keep them coming back.

Case Study: Improved Average Transactions

A recent report done by A G INC. indicates that by installing a new multi-channel POS system, stores enjoyed an average transaction value growth of 19.5% year over year. Imagine the difference a 20% increase in sales would accomplish for stores.

SUMMARY

POS systems may seem like a heavy up-front cost to a retail business, but in many ways they save businesses money long term. If POS systems solely offered a better understanding inventory flow, they would already pay for themselves. However, today's POS systems provide the ability to up-sell and cross sell to customers, to protect stores from fraud, and provide many more valuable services that are required to maintain an efficient, informed, and secure business.

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