



How Small to Medium Size Retailers Can Leverage Software as a Service to Optimize Multi- Channel Management

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The Multi-channel Imperative

Retailers today face a complex sales environment with an ever-growing number of sales channels to manage. What's more, the channels themselves are not necessarily discrete, they are becoming increasingly interconnected.

For instance, a consumer may go to the web to research product choices, then call-in to the retailer to place an order, then may go to the retailer's brick and mortar store to pick up the merchandise.

A recent survey by Sterling Commerce noted that 64% of its respondents went online before making a purchase. Further, 81% of respondents indicated that it was "very important/important" to be able to return merchandise to a store even if it was purchased online. Being able to pick up merchandise at a store after ordering online was "very important/important" to 56% of respondents.

In order to remain competitive retailers must be able to orchestrate successful cross-channel sales initiatives—they have to be there for their customers no matter when, where, or how they would like to interact with the retailer.

The Direct Marketing Association (DMA) emphasized this in their 2007 report called "Channel Integration and Benchmarks in the Retail Industry" which pointed out that to be successful, retailers need to merge and synchronize all channels in terms of consistent brand message, timing, and creativity of promotions, loyalty programs, and fulfillment.

Clearly, the retailer faces a "multi-channel imperative" to establish and manage its presence in many different sales channels simultaneously—while maintaining a single customer "view" (history of inquiries, orders, shopping habits and preferences) and consistency in its brand presentation and service quality across channels.

A variety of retail software solutions are available to facilitate channel management, merchandising, CRM, and operations, with the goal being to develop competitive advantage and deploy the most efficient and effective integrated operations, service, marketing and sales programs across channels—ultimately delivering a satisfying customer experience that will encourage brand loyalty and maximize sales over time.

Situation Analysis: The Growth Challenge for SMRs

Small to mid-size retailers (SMRs) that use disparate systems to manage store point of sales (POS), online channels, and back office functions frequently do so out of necessity rather than by design. Many retailers are growing so fast that the need to activate a new sales channel is the primary concern, with integration of the sales channel into their overall business a secondary concern. As new channels mature, orders, number of products, and customers all increase in volume. When this happens, the time and effort required to coordinate activities across sales channels increases exponentially, leading to a break down in the retailer's system and a bottleneck to further growing sales.

For example, a company's POS system may be used to track inventory levels, customer history, and even to exchange data with the retailer's web site, but product descriptions and images are maintained separately, as are data for online marketplace channels such as Amazon or eBay. As a result, orders originating online must be entered manually into the POS and a standalone shipping system. Meanwhile, product information is created and updated separately and by-hand for each channel, which causes delays in posting new products, and results in poor synchronization between channels. Customer data, including information such as notes and purchase history, is spread out over multiple systems. There is no single view of the customers, which adversely impacts the SMR's ability to properly service them.

Traditional Software Model for Retail Industry

Historically, the retail industry has had to rely on a variety of “on-premise” or installed and licensed “shrink-wrap” software solutions to meet its needs for the management of back office operations, ecommerce and point of sale.

Specialized “best of breed” enterprise solutions for business intelligence, customer relationship management, call centers, accounting, marketing, ecommerce, inventory management, purchasing, ordering and point of sale would be integrated to provide the retailer with the capabilities required for its business operations.



On-premise enterprise software application can be expensive to purchase/license, with the cost further ballooning when needs for customization, maintenance and support are added to the equation. When the task of integrating multiple disparate applications across the organization is accounted for, the costs and IT resources can be substantial—often beyond the means of SMRs.

Where a larger retailer can afford to stitch together best of breed software systems and automation to support its business processes, SMRs are forced to rely inordinately on human capital and/or manual and redundant processes to bridge the gap between what the software solutions they can afford are capable of and what their business needs are.

The expense of top tier enterprise software solutions (software + customization + management), and the resulting reliance on manual “human-intensive” processes, can inhibit the growth of the SMR. There is an inherent bottleneck in the SMR’s manual, labor intensive processes—they don’t scale easily. When faced with the opportunity to expand its business, the SMR must consider how quickly a new employee can get up to speed, and how quickly sales can be ramped up to effectively pay for the new hire.

The Software as a Service Model

Software as a Service (SaaS), also known as “On-Demand” software, is a business model based on the delivery of software functionality through a web-based application hosted by the provider. Customers do not purchase the software itself, or install anything on-premise, but rather pay for the use of the software through a web client

- For SMRs in particular, there are many inter-related advantages to utilizing the SaaS model over traditional installed or “on-premise” models, including:
 - Minimal upfront cost
 - Ongoing costs aligned with usage
 - Rapid return on investment
 - No incremental IT support staff needed
 - Minimal to no hardware investment

- Rich functionality
- Strong integration capability
- High Degree of Scalability
- Built-in PCI compliance
- High Reliability
- Rapid deployment

Minimal Upfront Cost, Ongoing Costs Aligned With Usage

A common model for SaaS software involves an initial setup fee for the retailer that can, depending on the vendor, involve the integration of the retailer's data into the system, a degree of customization of the solution, and training. Depending on the specific SaaS system being considered, the retailer may only need to "activate" or "unlock" certain capabilities of the software (ie. there may be some central setup required on the customer's account, but it is transparent on the customer end).

The SMR will then pay for its software usage, for example a per user monthly fee, on a per transaction basis, or on a percent of sales. In a very real sense this pricing model is mutually beneficial to both parties. The SMR is only paying for the specific software capabilities it uses, and for the volume of use it has at the time. Additionally, the SaaS provider is given a great deal of incentive to enhance the capabilities and performance of the software, integrating "best-of-breed" functionality on proactive basis. The SaaS provider also needs to ensure that its customers use and are happy with its product because the its revenue is directly tied to its customers on a daily basis (as opposed to the situation of a traditional on-premise software provider, which sells a license to its customer and doesn't interact with them again until it is time for a renewal or upgrade).

The development and maintenance costs for SaaS software are spread across many retailers. So the individual SMR benefits by being able to obtain enterprise-grade functionality that it wouldn't otherwise be able to afford. This can be a critical leveling of the playing field for the SMR relative to its larger competition. Critical resources are freed for the SMR, which it can reinvest into its core business.

Rapid Return On Investment

Compared to traditional "license and install" software models, SaaS deployments are characterized by rapid Return on Investment. In their 2006 "Software as a Service Buyer's Guide," the Aberdeen Group highlighted the fact that SaaS "is accelerating companies' return on investment, enabling them to make automation enhancements even in the face of internal IT resource constraints, and making it possible to solve business problems in much shorter time spans." This guide also characterized ROI across SaaS application areas as ranging from six months to a year at the outside.

In their September 2006 "Comparing The ROI of SaaS Versus On-Premise Using Forrester's TEI Approach," Forester Research evaluates SaaS deployments over a 10 year time period for different sized firms (categorized by number of employees and users) using its proprietary Total Economic Impact (TEI) methodology. Forrester's analysis shows higher (ie. more favorable) TEI for small to medium sized businesses with 50-100 users using SaaS versus On-premise solutions over the period analyzed, with an accompanying lower Total Cost of Ownership (TCO).

No Incremental IT Support Staff Needed

A common pain point for SMRs centers on IT administration resources and infrastructure costs. The purchase of more fully featured retail system software, along with the development and support costs associated with the implementation of the software, requires a substantial ongoing IT investment that can be a source of apprehension on the part of the retailer, and may be beyond its means. In its 2005 "The End of Software" report, global analyst firm Gartner Inc. estimated "that more than 75% of the IT budget is spent just maintaining and running existing systems and software infrastructure" and that "customers can spend up to four times the cost of their software license per year to own and manage their applications."

Using SaaS, the SMR can expand its capabilities with no corresponding increase in IT support staff, hardware or infrastructure. Indeed, upon implementation of a SaaS solution, the SMR often frees human resource capacity that can be used to productively grow its business. This is because with SaaS software there is no need to have IT applying patches, fixing bugs, or update versions of software. All updates and software maintenance are done on the SaaS vendor's side.

The ubiquitous nature of web technology also helps to reduce training costs and ramp-up times with staff because workers today are very familiar with web interfaces and functionality.

Minimal to No Hardware Investment

For retailers used to developing and/or hosting their own server-based retail applications with the associated hardware and network infrastructure, using SaaS can greatly reduce costs and administrative burdens because they no longer need to:

- Purchase original and replacement servers to maintain reliability/performance
- Purchase maintenance contracts on server fleets
- Maintain specialized IT staff to serve as interface to hardware vendors
- Pay direct hardware and infrastructure maintenance costs
- Develop, support and maintain data center network
- Support system and application administration, development and maintenance

The SaaS vendor is responsible for everything relating to the reliable delivery, 24/7/365, of their retail application to the customer. This includes purchasing servers (and backups), maintenance, monitoring, specialized IT staffing, data center facilities/partnerships, backups/ redundancy, system administration and software development.

Indeed, since the SaaS vendor is addressing these areas for multiple SMRs, it can leverage economies of scale to deploy a level of performance, reliability, expertise, support and functionality that the individual retailer could not ordinarily afford. In its "Software as a Service Buying Guide," Aberdeen indicates "many companies find that SaaS hosting environments provide superior availability and reliability over on-premise software, and for a lower solution fee and operating cost."

Rich Functionality and Integration Capability

Having disparate systems for business intelligence, CRM, ecommerce, ordering, purchasing, fulfillment and point of sale is at best inefficient, at worst it can result in lost sales and customers for a variety of reasons (lost orders, better service and prices from competitors, inability to establish presence in a valuable sales channel, failure to identify and exploit cross-sell or up-sell opportunities, etc..).

Due to limited resources, SMRs often fill in the gaps "between" systems with manual, often redundant, procedures that introduce error and delay into their business processes.

Large retailers identify "best of breed" software, then (at no small expense) attempt to integrate these point solutions in the hope they will work well together—with varying degrees of success.

For the SMR, SaaS provides an ideal opportunity to obtain enterprise-grade business functionality and capabilities already "pre-integrated" for them—so the SMR has a single "all-in-one" solution for its multi-channel management, order lifecycle, inventory, supplier management and CRM.

An entirely integrated SaaS solution provides scalability, efficiency, and an ever critical "single-view" of the customer across all channels—whether eBay auction, web store purchase, call center, or retail POS. By having a single view of its customer, the SMR is able to "be there" for its customer, serving his/her needs wherever, whenever, and however they prefer.

Operational efficiencies gained by integrated retail management systems have even transformed what were traditionally regarded by retailers as cost centers, such as shipping and order fulfillment, into new sources for profits and competitive differentiation.

For example, in a recent Internet Retailer survey report, "Time & Money," it was observed that "retailers are finding new and better ways to keep processing costs down while raising the rates they charge customers for shipping orders." Specifically, "59.3% of chain retailers, catalogers, web merchants and consumer brand manufacturers spend \$6 or less to process and ship an order," while "72.1% charge \$6 or above to ship an order."

The control and efficiency of the integrated retail systems also allow the retailer to control costs and increase sales by implementing "free shipping" promotions around holidays, or when order totals reach certain thresholds.

Customer loyalty and satisfaction is enhanced by the improved communications and visibility into the fulfillment process that customers can be provided by the integrated retail systems.

SaaS retail management systems facilitate the synchronized integration of channel branding, messaging, timing and fulfillment for SMRs.

High Degree of Scalability

SMR processes are often heavily reliant on manual labor, spreadsheets, slips of paper and midnight oil—which can create an operational bottleneck that restricts the retailer's ability to grow. To eliminate this bottleneck, the SMR has traditionally had two choices: (1) investing in relatively expensive human capital—staff—to support its inefficient manual business processes; or (2) invest in on-premise software, with its accompanying IT and hardware requirements. In either case, the retailer faces a substantial investment with a relatively long ROI period.

With the advent of SaaS, the SMR has a third choice—an option that requires relatively small upfront cost, requires no additional staff or hardware, and that grows with his business. The SMR doesn't have to pay for "capacity" ahead of actual sales growth.

Built-in PCI Compliance

The economies of scale in the development and maintenance of SaaS system delivery infrastructure and application development also apply to Payment Card Industry (PCI) compliance requirements for **processing credit card payments**.

The time and cost of maintaining compliance with PCI standards can be substantial, and is often underestimated by SMRs (or worse yet, SMRs ignore PCI compliance). By using a SaaS provider for its retail solutions, the retailer can avoid the direct cost, complexity and headaches of maintaining PCI compliance.

High System Reliability

Leading providers of SaaS retail systems software ensure the absolute reliability of their services by contracting with the best core Internet exchange services, with multiple Tier 1 Internet connectivity and advanced security features (both soft and physical).

When needed, SaaS systems may even have "off-line modes" where users can still utilize functionality of the system until service is restored. For instance, some SaaS POS applications can operate off-line until real-time connectivity is restored.

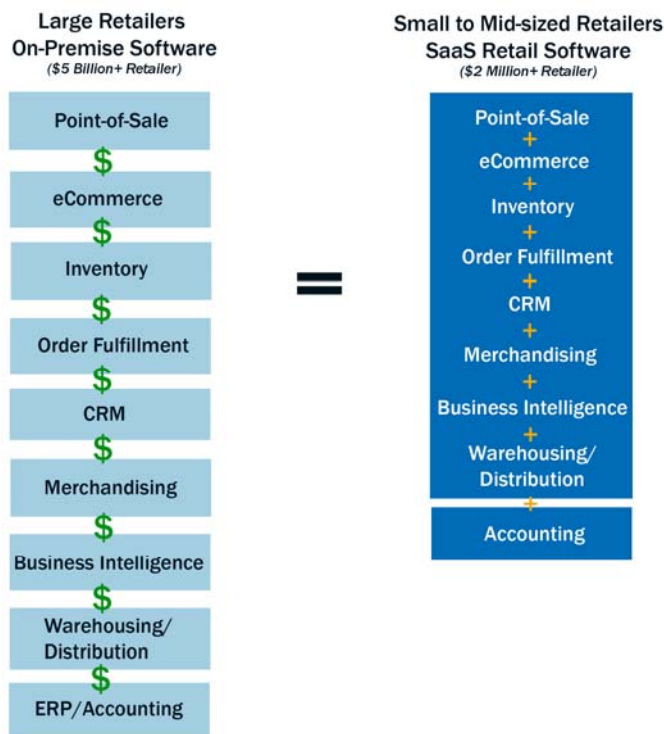
SaaS providers leverage economies of scale to deploy systems with high-performance hardware, network capacity, data center redundancy, backups, and system administration, that most individual SMRs could not afford to deploy themselves. SaaS can deliver the reliability and performance needed for mission critical retail business operations, 24/7/365.

Rapid Deployment

The web-based SaaS model can be rapidly deployed because it doesn't require the SMR to train IT staff, buy and install hardware, or install and configure software locally. A SaaS deployment can measure in weeks, depending on variables such as whether (and how much) customer data needs to be integrated into the system, whether the application is being customized for the SMR, and the time-table for SMR transition and staff training in usage of the system by the SaaS vendor.

Summary

In today's complex multi-channel retail environment, SMRs need to be there for their customers wherever, and whenever they want to buy. The retailer that relies solely on a single channel may be outflanked by larger, more versatile or efficient competitors.



SaaS provides SMRs with Tier 1 functionality at an entry point the SMR can afford

The SaaS model provides SMRs with a valuable competitive edge they can leverage to expand their business across key retail channels. SaaS affordability and performance helps SMRs to achieve a tight integration between POS, ecommerce, inventory, order fulfillment, CRM, merchandising, business intelligence and distribution. The integration of these functions delivers efficiency, service quality, performance, scalability, and a customer-centric view of the business that fuels growth for the SMR.

About CORESense

CORESense, Inc. is a leading Software-as-a-Service-based (SaaS) retail management system company, providing integrated, end-to-end solutions to small to medium-sized multi-channel retailers in specialty verticals including sporting goods, apparel and accessories, shoes and wine.

CORESense was founded in 2000 with the mission of creating a competitive advantage for small to medium-sized independent retailers in the marketplace by offering them access to the same retail management feature, functions and sales channels used by big box retailers in a delivery model that fits their business and their budget.

After years of close work with best-in-class independent retailers, the CORESense offering is a mature and fully integrated retail management system which both streamlines day-to-day operations giving retailers more time to focus on their customers and provides them with powerful tools to grow both in-store and on-line sales. Included in our web-based platform are market leading on-line, catalog and phone selling capabilities; an easy to use point of sale and store management application; powerful marketing, promotions and e-mail management tools; centralized merchandizing and product management tools; and extensive reporting and analytics. Our SaaS-based delivery model provides them with access to these capabilities for a fraction of the upfront cost and without any of the headaches associated with on-premise solutions.

Most importantly, we have responsive and insightful implementation and account services teams dedicated to helping each customer become a more competitive and successful retailer.

Small to medium-sized retailers are attracting new customers, increasing sales per customer, delighting customers with great service and building and maintaining their loyal customer base with our powerful retail success solution.

CORESense has offices nationally and is headquartered in historic Saratoga Springs, N.Y.

For additional information about CORESense and our market leading solution visit us at www.CORESense.com or call (866) 229-2804.

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