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The best way to benefit from these advancements is for retailers and store systems suppliers to cast aside their outdated adversarial relationship and develop a partnering philosophy.

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This special supplement to STORES explains how it's done.

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Collaborating for Mutual Benefit

Retailers and Store Systems Suppliers Prosper by Working Together

When it comes to selecting store technology systems, it's no longer enough to simply evaluate the features, functions and benefits of a potential solution. To be – and stay – truly competitive, store executives also need to consider the way suppliers do business. In fact, supplier differentiation is often the *most critical factor* in driving down costs over the life of the system and receiving the greatest return on a technology investment.

Why? Because every seasoned manager basically knows "what" a new technology needs to do. But "how" and "when" to implement a solution – and which choices are *optimal over the life of the system* – is another story. When choosing a supplier, retailers should look for a company that has discarded outmoded business models and is truly prepared to maximize ROI year after year.

" We absolutely believe that by relentlessly driving down our costs, we will differentiate our business performance – for customers and shareholders alike."

Three key factors should be considered:

The commercial model. The traditional approach pits retailers and vendors against each other. Retailers try to cut costs by demanding the rock bottom price, with little consideration of hidden costs over the life of the system. A better way is to use performance-level agreements and activity-based pricing to motivate both organizations to drive down costs. This way, both parties can reap the rewards of minimizing costs over time.

The relationship. In the past, retailers have usually been on their own once they bought their store technology systems. But ongoing relationships built on trust are a far better solution for the retailer and supplier alike. When a supplier is willing to keep all costs transparent to the retailer over the life of the system, both parties win. The supplier drives profits through repeat business, and the retailer saves money by using the supplier's expertise to minimize wasteful spending.

Operations. These days, a supplier should help a retailer work out new approaches to business. Together, the team can develop common processes that aid in making better decisions. And as partners, they can design better tools, share asset information and improve process design.

In all three areas, taking a relationship-driven approach helps drive down costs. Reducing costs is certainly an end in itself, but perhaps more importantly, lowering costs can also help retailers differentiate themselves from the competition.

"We absolutely believe that by relentlessly driving down our costs, we will differentiate our business performance – for customers and shareholders alike," says Rich White, senior vice president and CIO, Ross Stores.

Differentiation – and sustainable differentiation, in particular – is the Holy Grail of business. It's what helps retailers beat the competition and still preserve margins.

Differentiating Business Performance

Store systems suppliers can play a critical role in helping retailers differentiate themselves from the competition. Technology suppliers, in particular, can make it possible for retailers to take three significant steps:

- Lower prices to make their companies more competitive.
- Invest some of the savings in technology that other retailers don't have.
- Forecast how technology will continue to provide a competitive advantage over time.

All three steps can happen when retailers and suppliers collaborate.

Such a relationship requires a strong degree of mutual trust because, at times, the supplier might need to forego short-term profits to drive long-term benefits.

Fujitsu Transaction Solutions, headquartered in Dallas, Texas, has coined the phrase "enlightened cannibalism" to describe their willingness to pass up short-term sales in favor of building more profitable lasting relationships.

"If, for example, a supplier lowers the number of service calls it makes by eliminating calls that don't add much value, the supplier loses short-term billings but gains by developing a long-term relationship with the retailer," says Austen Mulinder, president and CEO of Fujitsu Transaction Solutions. "As our customers see the positive impact on their business over time, they trust us more, and we get a larger share of their business."

Many retailers who've worked in partnership with suppliers agree.

"A truly successful partnership," says Bill Homa, senior vice president and CIO at Hannaford Bros., "builds mutual trust over time and allows us to continue to grow and service

“Having a collaborative partner brings a valuable, fresh perspective. A truly successful partnership builds mutual trust over time and allows us to continue to grow and service our customers even more effectively.”

— Bill Homa, senior vice president and CIO at Hannaford Bros.

our customers even more effectively than ever before. Having a collaborative partner brings a valuable, fresh perspective to this task.”

Partnerships Build ROI

Working in partnership, retailers and store system suppliers must often share financial information so it’s important that suppliers are willing to be transparent about their costs. Both partners are obligated to safeguard this information. Numbers from both parties should be fed into an ROI analysis tool to calculate how IT decisions, which touch almost every facet of the retailer’s business, specifically affect ROI.

Based on the cost-cutting opportunities revealed by the ROI analyzer, the retailer and the supplier can then work together to drive down costs.

The result, according to Tom Juliano, Fujitsu’s senior vice president of marketing, is the desired outcome of a “relentless cost reduction” value approach. He describes the process as an alternative to the old way of “beating the supplier into submission on the basis of price alone.”

Beatings aside, retailers who have worked with Fujitsu say they’ve seen the benefits.

“Fujitsu and Staples have formed a partnership in every sense of the word,” says Scott Floeck, senior vice president, information systems, at Staples. “They truly recognize that we, as a team, are responsible for the impact technology has on Staples’ business.”

The relationship also frees retailers to explore new possibilities.

“Our IS organization is very focused on high value initiatives that provide differentiated business results. We wouldn’t be able to do this if, instead, we were working on a day-to-day basis on the things that Fujitsu does in partnership with us. Working with Fujitsu has enabled us to focus on things that we do best. It has allowed us to maximize the value that we deliver.”

This partnering approach is arriving in the marketplace at a time when retailers need a competitive edge, says Willard R. Bishop Jr., a Barrington, Ill.-based retail consultant who has written a white paper* on the competitive advantage of partnerships between retailers and store systems suppliers.

Industry consolidation and cross-channel competition are squeezing retailers, Bishop notes. Pinpointing the benefits of store technology has been difficult, and retailers have grown reluctant to base purchases on faith – now, they’re demanding proof.

“The reaction is universally positive from retailers who’ve been introduced to our partnership-focused Lifecycle Solutions model and our ROI Analyzer,” says Mulinder. “We are providing retailers the proof they are looking for and we’re winning business, even though it’s still early in the game.”

Within the next 12 to 18 months, Mulinder predicts, Fujitsu’s drive to form partnerships with retailers could change the industry’s model for buying, maintaining and even thinking about store technology systems.

“Fujitsu and Staples have formed a partnership in every sense of the word.”

— Scott Floeck, Staples senior vice president, information systems

****To obtain a free copy of Bill Bishop’s White Paper “Leveraging In-store Systems for Competitive Advantage, visit Fujitsu at www.ftxs.fujitsu.com or call 800-340-4425.***

Lifecycle Solutions

Looking at the Big Picture Helps Drive Down Technology Costs

Retailers don't need to feel alone when managing their store technology systems over the long haul. They should look for a store systems supplier that offers a tightly integrated package of hardware, software and infrastructure management services.

Choosing the right supplier means these products and services will fit together seamlessly from "cradle to grave." By managing the system throughout the lifecycle, a supplier can help a retailer reduce total cost of ownership, increase productivity and differentiate its services from the competition.

Focus on Value

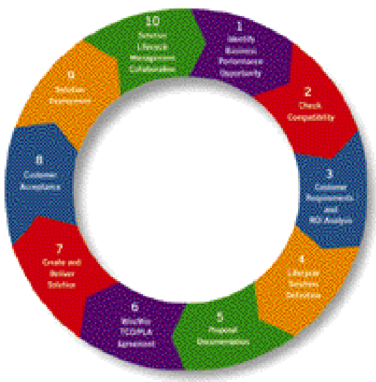
By switching to a lifecycle solutions approach, retailers can avoid unneeded capital purchases, prevent unnecessary service calls and keep the retail chain's IT system at optimum performance.

"That's the bar," Mulinder says. "If you can't get under that on new capital expense, a retailer won't spend the money today."

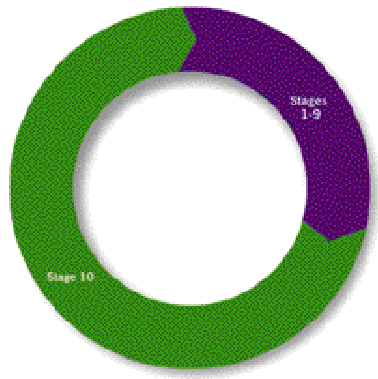
Working in partnership, the retailer and vendor can utilize ROI analyzer tools to explore different potential scenarios and reveal ways to drive out costs.

The retailer might, for example, reduce training time for sales associates by introducing software or hardware that's easier to use, or reduce maintenance costs by adding applications that are modular and require less development or customization than the current system.

Sometimes, technological advances make equipment obsolete. The supplier is in a position to know what's new and can use ROI analysis tools to help the retailer understand the options. A new printer, for example, might pay for itself by operating more quickly and thus save employees time.



More than 60% of the opportunity to drive out cost is NOT in the procurement phases, but in the Lifecycle collaboration phase — and a joint focus on each other's direct costs.



> "By anticipating costs, we can drive them out before they happen. This is what 'Lifecycle Solutions' really means – managing cost throughout the lifecycle."
>
> ***— Scott Floeck, Staples senior vice president, information systems***

"After all, 60 percent of the opportunities to drive down technology costs come when it's time to maintain and manage the systems, not at the time of acquisition," says Austen Mulinder, president and CEO of Fujitsu Transaction Solutions.

One way to reduce costs throughout the life of the equipment is to keep assets online as long as they're viable. While this approach may lose a few sales in the short term, the supplier earns trust and establishes lasting business relationships with retailers.

Today's economy dictates that capital investments have to reach the break-even point after 18 months.

Driving Down Support Costs

"The traditional method of providing repair services was to buy an 'insurance policy' which is to pay for something that might never happen," says Scott Floeck, Staples senior vice president, information systems. "Staples and Fujitsu have moved beyond the traditional approach to ongoing service by providing managed services."

With the "insurance" model, retailers can reduce the number of distress calls they make, but that doesn't lower their payments to the service provider. However, with activity-based costing, fewer service calls mean lower service outlays for retailers.

The retailer and supplier work out a performance-level agreement, listing opportunities for cost reduction. An ROI analysis tool can use numbers supplied by the retailer to ferret out opportunities to cut costs.

Say, for example, that store employees make dozens of calls to the vendor's help desk every month that the supplier answers with an admonition to turn up the contrast on the monitor. Through ROI analysis, the vendor can show how much the retailer could save by training employees to avoid the error, rather than appealing to the supplier for help.

"A high percentage of service calls from stores add no value for retailers," Mulinder says. "If they can be relentless in driving down OUR costs, then we can be relentless in reducing THEIR costs."

Retailers confirm they're impressed with the results.

"By anticipating costs, we can drive them out before they happen," Floeck says. "This is what 'Lifecycle Solutions' really means – managing cost throughout the lifecycle."

> " Cost contributes directly to our ROI — taking cost out of our operations wherever we can is critical to our success."
>
> *— Keith Porter, director of store systems, K*B Toy Stores*

Asset Management: Help is on the Way

Managing a store's technology assets can be a gargantuan task – and one that's constantly changing. So rapidly, in fact, many chains believe it's better for outside suppliers to handle their IT maintenance, training and purchasing, rather than to do it in-house.

The reason? A supplier whose primary expertise is in technology, rather than retailing, is in a better position to know how to minimize IT management costs over the life of the system.

"Asset management is the next major step in driving costs out of our business," says Scott Floeck, Staples senior vice president, information services.

And according to Doug Wallace, vice president of client operations at Fujitsu, it's "understanding the entire asset management process" that makes cost-cutting possible.

For instance, Wallace says, pieces of equipment wear out at varying rates, so buying everything at once doesn't make sense.

"Printers, keyboards and scanners age quickly, but motherboards seldom break," he points out.

If, for example, a printer that costs $200 a year to maintain can be replaced with a new one for $200, buying a new one could cut costs in the second, third and fourth years.

Another example: "A retailer is opening ten stores and needs POS equipment," he says. "We can identify registers not being utilized in existing stores and re-deploy them."

Just handling the warranties for all of that equipment represents a major contribution that the vendor can make to a retailer, says Wallace.

What ever the name is on the hardware, just understanding what's currently in place is the first step. Until recently, this initial phase required a physical audit. Now, some vendors like Fujitsu are introducing software that senses what's out there.

"With the major components, it's not hard," says Wallace. "With the new asset management software, however, you can also monitor the location of every printer, keyboard and scanner – the parts that are most likely to break because they contain moving components and get lots of human contact. The ability to drill down to the most significant levels of potential breakage is new to the retail industry."

With the software, the vendor can also detect a cash drawer that's open or record the failure rate of swipes for every scanner. In many cases, the equipment can distinguish between operator error and the weaknesses of an aging machine. This helps retailers and their suppliers collaborate on preventive maintenance or simply replace equipment that's wearing out.

Certainty about what equipment's in place also helps lessen the chance of error on service calls. "The field engineers aren't as likely to go out with the wrong printer or part," Wallace says.

Bill Homa, senior vice president and CIO at Hannaford Bros., concurs that working with a qualified expert to manage technology assets can pay off.

"Effective management of our IT infrastructure is key," Homa says. "With asset management, we are able to uniquely identify underperforming assets and proactively take corrective action. In the future it might mean the difference between success and failure."

Fujitsu's Wallace agrees, but suggests that the future is already here.

No More Financial Guesswork

ROI Analyzers Help Retailers Calculate and Project Results

Retailers who can accurately assess how their IT decisions will affect return on investment stand a good chance of achieving the desired result. Otherwise, they're only guessing at possible outcomes and have to rely on vendors and expensive consultants for help.

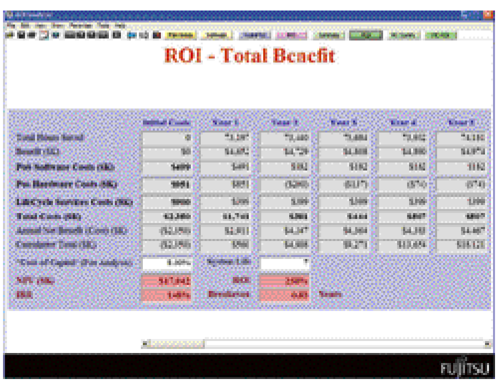
Much is at stake. IT decisions touch nearly every aspect of a retailer's business, and tremendous rewards await those who use comprehensive analyses that calculate the size, timing and uncertainty of decisions on store technology systems.

This kind of analysis requires hard ROI numbers, something that Jeff Roster, a senior analyst at the Gartner Group, says executives need when they make their case for a project.

"In hard times, fluff is out the window and ROI is king," says Roster. Not every aspect of each project is quantifiable, he cautions, but numbers can be attached to many variables.

To arrive at these figures, retailers and store systems suppliers need to sit down with an ROI analysis tool to assess everything from the payback time for a new keyboard to the cost of training cashiers to use a simpler POS system.

> "There are three ways to reduce cost – displace it, by replacing the cost with a lower one; avoid it, by investing in better processes; and improve it, by enhancing performance."
>
> ***— Rich White, senior vice president and CIO, Ross Stores***



An ROI tool also should allow executives to compare actual vs. target ROI. Quantifying added value along the three dimensions of "how much," "how soon" and "how certain" yields an effective ROI statement, says Fujitsu's Al Pappa.

Why an ROI Analyzer?

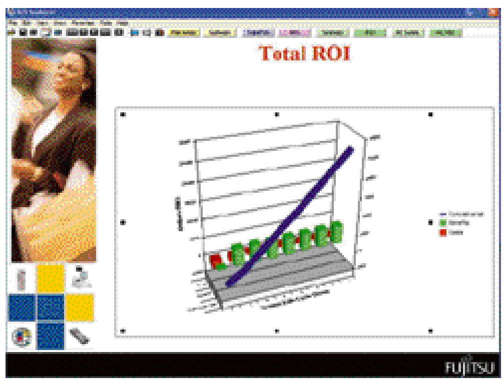
These days, many executives who aren't financial specialists take part in IT decisions. A good ROI analyzer makes the financial implications of the purchases and maintenance easy to grasp, even for people who don't spend their days poring over spreadsheets.

Experimenting by trying different numbers for certain categories, retailers can use an efficient analyzer to create "what if" scenarios. Each change immediately alters the bottom line of the ROI statement. That way, retailers can explore the possible consequences of initiatives that might be undertaken.

"Seeing the effects of policy shifts instantaneously can prove fascinating," says Keith McNamara, Fujitsu's vice president of software development. He tells of a Fujitsu employee who was working with an executive from a Midwestern retailer at an ROI workshop.

After inputting data for an hour, the executive called in his manager to examine the results and think up additional "what if" situations. After 20 minutes, the manager brought in the controller. By the end of the day the chief financial officer was standing behind the gaggle of executives, brainstorming and offering his own changes.

"By the end of an effective workshop, the retailer and supplier usually can identify im-



mediate cost reductions of 20 percent," says Austen Mulinder, president and CEO of Fujitsu Transaction Solutions. "Working together over time, we can typically cut costs by 50 percent or more."

Proof not Promises

The time is right for ROI analyzers to begin playing a big role in IT decisions, industry observers say.

Retailers who have worked with Fujitsu on ROI analysis confirm its ability to help drive down costs.

"There are three ways to reduce cost – displace it, by replacing the cost with a lower one; avoid it, by investing in better processes; and improve it, by enhancing performance," says Rich White, senior vice president and CIO, Ross Stores. "Fujitsu's ROI Analyzer has helped do all three," he says.

The need for an effective ROI analysis tool is growing.

"The market environment today is markedly different from the one of a few years ago," says Al Pappa, Fujitsu's chief ROI architect. "The market has swung from a seller's market to a buyer's market as growth rates decline and companies shift from a strategy of managing growth to one of protecting market share."

IT buyers are under pressure to find a more disciplined approach to spending and have to justify each purchase with a clear-cut business case. ROI analyzers can help retailers realize those goals.

What Makes an ROI Analyzer Effective?

The days of carefree spending have ended for CIOs who make decisions on store technology systems. An economic downturn and profit imperatives have combined to make demonstrable return on investment critical.

How can companies accurately calculate ROI from store systems? The key is an effective ROI analysis tool.

ROI tools can range from simple Excel spreadsheets to elaborate software that incorporates numerous parameters and assumptions. Some companies rely on generic ROI tools designed to cover a range of industries, but the most effective analyzers are geared for a specific business model.

Let's look at ten characteristics of superior ROI analysis tools.

1. Industry-specific modeling. An ROI tool should go beyond general technology investments to take into account benefits specific to retailing. The tool should allow for benefits of efficiency gains, productivity improvement, risk reduction, cost cuts and revenue generation.

2. Accounting for investment costs. The analyzer should track initial and ongoing investment, including capital licenses, resources, procurement, training, installation and maintenance.

3. Straightforward reports. The CFO isn't the only person who reads and needs to understand the ROI statement. Large, complicated spreadsheets aren't the best way to communicate complex ROI models. A simple, straightforward report is best.

4. "What if" analysis. ROI tools should allow quick, smooth interactive modification of the base model and parameters for easy "what if" analyses and the addition of new benefits.

5. Key viability measures. Analyzers should provide key project viability measures to help management make decisions, including the net present value, internal rate of return, payback period and ROI.

6. Hard and soft benefits. ROI tools should model hard and soft benefits, distinguishing between those that remove existing costs, avoid future costs and improve performance. That way, decision makers can include only the benefits they feel comfortable counting.

7. Risk adjustments and uncertainty modeling. Decision makers need to assess the realistic versus potential ROI outcome of any purchase. An analyzer should produce both a best-case ROI statement and a more achievable and risk-adjusted statement. The tool also should provide uncertainty modeling because management can't always predict parameters precisely.

8. Sensitivity analysis. ROI analyzers may use hundreds of parameters and assumptions. Sensitivity analysis determines the most important criteria so management can allocate time and resources wisely.

9. Change audits. An effective ROI tool should audit and log parameter changes and supply decision makers with a record of the evolution of the ROI statement.

10. Target versus actual ROI comparison. Decision makers can evaluate their choices with post-implementation audits.

About Fujitsu

Fujitsu Transaction Solutions Inc. is a North American provider of store-level technologies and services for the retail market. We are the only "lifecycle solutions provider" for retailers who demand proven, quantifiable value and return on investment through optimized technology management, start to finish. While traditional commercial and operating models drive costs INTO the retailer's operations, our relationships with our customers are based on changing these operating models to drive costs OUT - through Lifecycle Solutions. All while delivering verifiable bottom-line results. We feel so strongly about this that we are willing to share in the investment to make this happen.

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