Global Headquarters: 5 Speen Street Framingham, MA 01701 USA P.508.872.8200 F.508.935.4015 www.idc.com

EXECUTIVE SUMMARY

Total Cost of Ownership for Point-of-Sale and PC Cash Drawer Solutions: A Comparative Analysis of Retail Checkout Environments, 2004 Update

Sponsored by: IBM

Christopher Boone Randy Perry

September 2004

The retail industry remains highly competitive and cost-sensitive; thus, even the smallest shifts in the flow of profit can result in a major advantage. To stay competitive, leading retailers have increasingly turned to information technology (IT) to capture and analyze data to improve operations and customer experiences. Topping the list of retailer IT investment priorities are store systems. Today, store systems are evaluated on how they can improve worker productivity and customer satisfaction to boost sales.

Data gathered at the POS drives a retailer's business, not only monitoring financial returns daily but also providing information necessary for inventory management, merchandising planning and allocation, supply chain management and execution, sales and marketing, and customer service.

Moreover, retailers typically rely on individual pieces of hardware to support their businesses for several years. Therefore, the costs and benefits of the POS devices must be clearly delineated in order to aid retailers when they are making their decisions on spending.

The costs and benefits of the POS devices must be clearly delineated in order to aid retailers when they are making their decisions on spending.

With this information in mind, IDC conducted a series of interviews with retailers in the United States and Europe. This research focused on users of IBM's PC cash drawer (PCCD) and POS solutions and sought to identify the implications of investment in either option. It aimed to define for retailers the total cost of ownership (TCO) and the functional benefits of using these systems.

Total Costs

The standard perception in the retail environment, according to those surveyed, is that not only is PCCD cheaper to buy initially than POS, but it also offers cheaper operating costs than POS. However, the TCO model reveals that, in reality, *PCCD is more costly* to run than POS, even within the first year of use and for each subsequent year. PCCD costs on average over 30% more than POS after five years of use.

The TCO model reveals that, in reality, PCCD *is more costly* to run than POS, even within the first year of use and for each subsequent year.

Beyond the total costs, IDC's research and analysis uncovered the following findings:

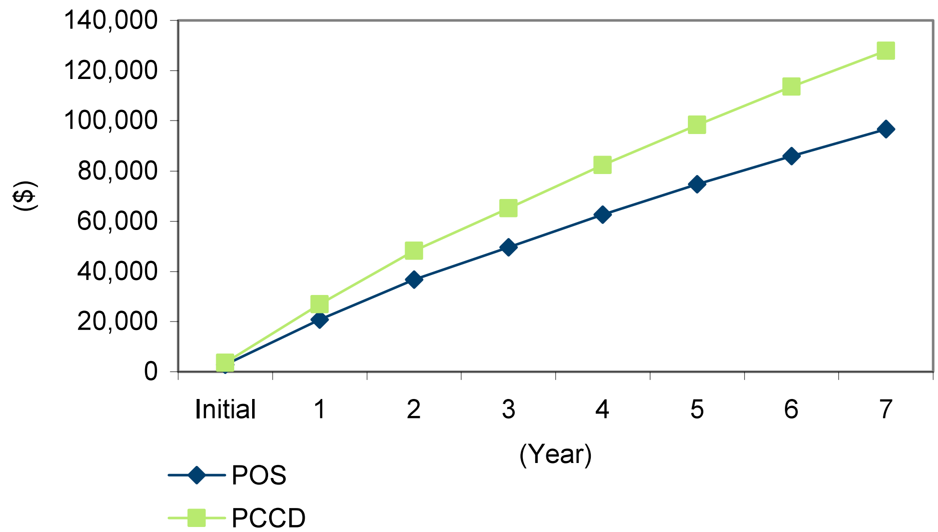
- When analyzed individually, system hardware costs, peripheral costs, software costs, and staffing costs are all cheaper over the life of a POS system than a PCCD system.
- POS systems improve customer service by speeding up transactions, thereby increasing throughput.
- Asset utilization of POS systems is greater than that of PCCD systems due to lower costs per customer served and longer life span of POS systems.

When analyzed individually, system hardware costs, peripheral costs, software costs, and staffing costs are all cheaper over the life of a POS system than a PCCD system.

As retailers seek to update legacy checkout systems to improve customer service and operational efficiency, they must consider each system's TCO, not just the initial cost, when making the final purchasing decision. The reduction of costs by a few basis points can lead to dramatic improvements of a retailers' bottom-line results. IDC's analysis of POS and PCCD in retail environments reveals clear and compelling advantages for POS over PCCD (see Figure 1).

FIGURE 1

Total Costs per Checkout System



Note: The research has highlighted that a PCCD solution is typically in use for no more than five years.

Source: IDC, 2004

Methodology

This IDC white paper has been developed through a process of in-depth interviews with a number of IBM business partners and executives as well as a quantitative survey of end-user organizations coupled with TCO modeling and analysis. The research covered 52,837 POS and PCCD terminals from different retail operations across the United States and Europe.

Copyright Notice