

RETAIL REINVENTED

Navigating the New Era
of Managed Services



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Introduction

The North American retail market has never been in a more exciting and more fragile time. From early 2020 through 2023, over \$2 trillion was added to the economic engine of retail, with unprecedented growth – and this was done with over 3 million fewer workers in the industry. Also, the retail industry is increasingly reliant on technology to drive operational efficiency, enhance customer experiences, and support business growth. Managed services play a crucial role in ensuring that retail organizations have the necessary IT infrastructure and support to meet their evolving needs.

Using the results from research on 206 unique brands in North America, this paper aims to provide an overview of the state of retail managed services, focusing on the types of services included, how support is generally provided, and the impact of these services on retail operations.

As we look at the types of managed services, it is important to provide some definitions in our research. We lump these into two categories – Deployment of new or enhanced solutions and those related to ongoing management or fixing things when they go wrong.

NEW OR ENHANCED IT SYSTEMS

System Deployment: The process of setting up and configuring new hardware and software systems to ensure they are ready for use.

Hardware Refresh/ITAD: Involves the responsible disposal of outdated hardware and the implementation of new hardware to keep the IT infrastructure up to date.

Project Staffing: Providing skilled personnel for specific IT projects or tasks within the retail environment.

ONGOING MANAGEMENT OR WHEN THINGS GO WRONG

Field Service: On-site support for resolving technical issues and maintaining IT infrastructure within retail locations.

Level 1-2 Service Desk: Providing initial support and issue resolution for common IT problems.

Level 3-4 Service Desk: Handling complex technical issues and providing advanced support for critical IT systems.

Hardware Break/Fix Maintenance: Repair and maintenance services for malfunctioning hardware components.

Further, in the research we also look at the evaluation of 3 ways support is generally provided.

WAYS IN WHICH RETAILERS GET SUPPORT

Support In-House (Self-support): Retail organizations manage their IT support internally, utilizing their own resources and personnel for troubleshooting and maintenance.

OEM/Manufacturer Support: Leveraging support services provided directly by the original equipment manufacturer (OEM) for their products and solutions.

3rd Party Service Organization: Engaging external service providers specializing in IT support and managed services to address retail-specific needs.

This white paper aims to explore the evolving landscape of retail managed services, shedding light on the critical role they play in ensuring the seamless operation of retail businesses amidst technological advancements and increasing customer expectations.

As you will see there are differences by types of support, level of satisfaction, and size and segment. There is no “One Size Fits All.” And what is clear is that there is at least a strong correlations, if not outright causation between the satisfaction of service and the financial performance of retailers.



Where the Industry Gets Its Managed Services Support

NEW OR ENHANCED IT SERVICES

The provision of new or enhanced IT services is influenced by numerous factors, including the size and segment of the retailer. Notably, differences exist in the approach to obtaining managed services support between Food, Drug, Convenience, Mass Merchant Retailers (FDCM) and General Merchandise Retailers (GMS) as well as the size of retailers.

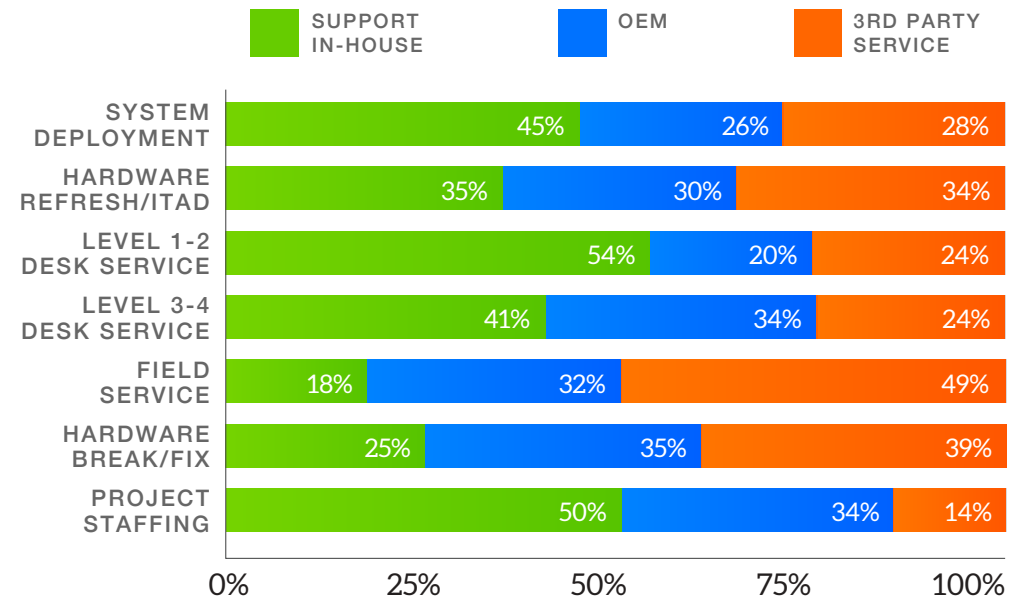
At the top level, we can see some trends that are interesting. Among all our respondents, In-House Support is the most popular for System Deployment, Hardware Refresh, Project Staffing and both Level 1-2 and Level 3-4 Service Desk. Then 3rd Party Service Organization showed the highest use for Hardware Break/Fix and Field Service. But as we dig deeper by segments, and size of retailers, the data tells a much clearer story.

NOT ENOUGH TO GO AROUND

Smaller retailers are often priced out of OEM and 3rd Party services. This price sensitivity comes from two challenges. The first is not having enough locations or business to get the economies of scale in pricing. This is further exacerbated by the fact that there is also a considerable shortage of repair personnel in the industry leading to a price war for costs.

HOW RETAILERS GET THEIR MANAGED SERVICES TODAY

Source: IHL Group



The end result is Tier 3 retailers (those with sales under \$500m annually) are 3x as likely to handle field service in-house, 2x as likely to manage hardware break/fix, 34% more likely to handle Level 1-2 service desk, and 60% more likely than Tier 1 (those with sales over \$1b) retailers to manage their own Level 3-4 service desk.

SEGMENTS MATTER

- FDCM retailers generally rely on OEMs, with significant differences compared to GMS retailers in the utilization of support services for field service, hardware break/fix, and service desk levels.
- Conversely, GMS retailers exhibit a higher likelihood of using 3rd party support for Level 1-2 and Level 3-4 service desks, as well as for hardware break/fix.
- This data underscores the varying approaches to obtaining managed services support within the retail industry, highlighting the impact of retailer size and segment on the sourcing of IT services. For further insights into the evolving landscape of managed services in the retail industry, the following sections will delve into the overall impact of these support mechanisms and the implications for diverse types and sizes of retailers.

SMALL RETAILERS FORCED TO DIY SERVICES DUE TO LACK OF SERVICE PERSONNEL OR COST

Source: IHL Group

3x more likely to do **in-house field service** than large retailers.

2x more likely to do **in-house hardware break/fix** than large retailers.

State of the Service - Can Retailers Get Satisfaction?

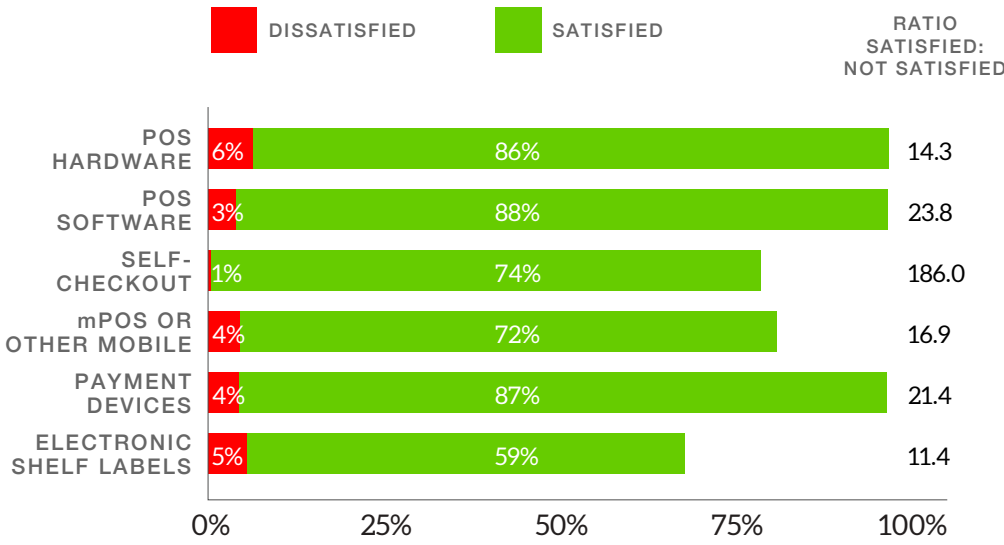
The data on the satisfaction of service levels in the retail industry provides valuable insights into the challenges faced by retailers in managing their IT infrastructure at the store level. Generally, the news is good, even in a market that is stretched as thin as we have seen recently, but many issues still remain.

When examining the satisfaction levels for specific technologies, the following insights emerge.

Overall, the rating of service was quite positive with Self-Checkout users sharing that they are 186x more likely to be satisfied vs dissatisfied with the service from their service provider. But not every retailer uses Self-Checkout. For those technologies where over 90% use today, POS Software (23.8x) and Payment (21.4) have the highest ratios of satisfaction/dissatisfaction. But once again, as we will see below, all this data changes dramatically as we look to a deeper level.

HOW SATISFIED RETAILERS ARE WITH THEIR MANAGED SERVICES

Source: IHL Group



MAJOR AREAS OF PAIN

Smaller retailers are notably more likely to express dissatisfaction with the service levels for specific technologies. This trend underscores the impact of retailer size on the perception of service quality, with labor shortages being a contributing factor to this disparity.

In every technology category we studied, smaller retailers are more likely than large retailers to be dissatisfied with the services provided. For instance, smaller retailers are 2.8 times more likely to be dissatisfied with POS hardware service than large retailers. A similar story is told with POS software services (5.7x), Mobile Solution services (2.8x), and Payment Terminal services (7x).

Additionally, General Merchandise Retailers (GMS) are 5.6x more likely to be dissatisfied with mobile solutions, 6.1x more likely to be dissatisfied with payment terminals, and 2x with electronic shelf labels than FDCM retailers.

This analysis underscores the critical importance of understanding the nuanced challenges faced by retailers in managing specific technologies, particularly in the context of their size and segment. The data suggests that using a key outside partner can make a significant difference not only in satisfaction with service levels, but in overall performance. The subsequent sections will further explore the implications of these findings and provide recommendations for addressing the disparities in satisfaction levels across different retailer categories.

MOST RETAILERS SATISFIED WITH SERVICE BASED ON MOST USED SYSTEMS

Source: IHL Group

On average **85%** of retailers say they are satisfied with the managed services they receive today.

PAYMENT TERMINALS A REAL PROBLEM

Source: IHL Group

Small retailers
7X more likely to be dissatisfied with service on payment terminals than large.

General Merchandise retailers
6X more likely to be dissatisfied with payment terminals than food retailers.

Key Pain Points of Retailers in Managed Services

The challenges faced by retailers in managing their IT infrastructure and leveraging managed services are multifaceted. And once again, we see significant differences based on segment or size. Understanding these pain points is crucial for service providers and retailers alike to address the underlying issues and enhance the effectiveness of managed services.

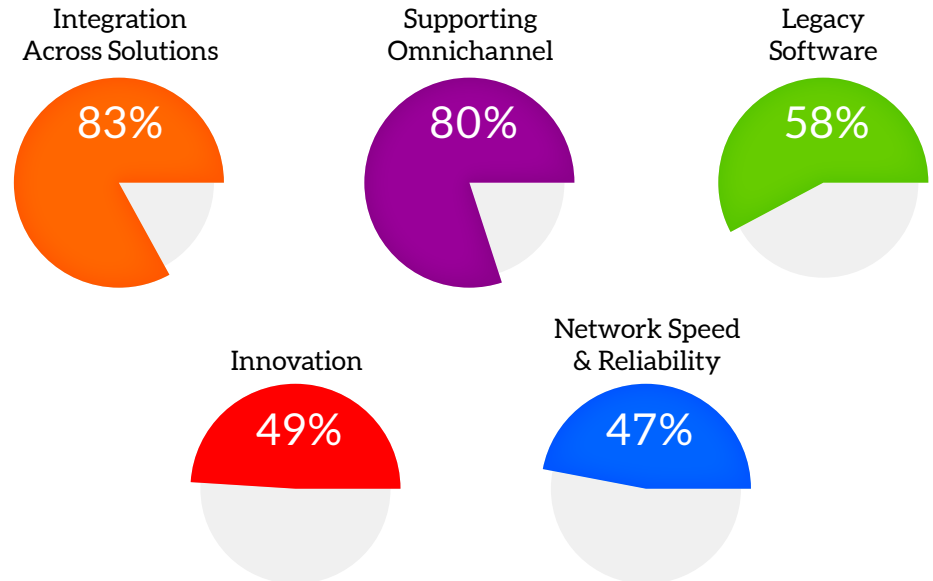
At the top level, the data reveals that integration across solutions and supporting omnichannel operations are the top pain points across all segments, reflecting the growing complexity of retail IT environments. Legacy software and the need for innovation also emerge as significant challenges, underscoring the industry's struggle to adapt to rapidly evolving technological landscapes. Additionally, clearly having a robust enough IT infrastructure is also key as network speed and reliability are critical concerns.

TOP PAIN POINTS - TIER 1

1. **Integration across Solutions** - 84%
2. **Supporting Omnichannel** - 81%
3. **Legacy Software** - 59%
4. **Innovation** - 49%
5. **Network Speed and Reliability** - 47%

TOP 5 PAIN POINTS ACROSS ALL SEGMENTS

Source: IHL Group



Tier 1 retailers face similar pain points to the overall segment, with a slightly higher emphasis on legacy software. This tier's focus on innovation and network speed and reliability aligns with the need for innovative technology and robust infrastructure to support their operations. As we move to more IT in the stores and the use of AI, these issues become even more pressing for the largest retailers.

TOP PAIN POINTS - TIER 2

1. Innovation - 51%
2. Supporting Omnichannel - 51%
3. AI Supported Tech - 51%
4. Legacy Software - 50%
5. Hardware/Device Issues - 50%

In contrast, Tier 2 retailers exhibit a heightened focus on innovation and AI-supported technology, reflecting their efforts to stay competitive through technological advancements. Additionally, hardware/device issues emerge as a notable concern, indicating the challenges associated with maintaining and supporting diverse IT hardware within this tier. Once again, we begin to see the issue with lack of qualified personnel entering the equation. Further, we have seen in the last 5 years that the rate of IT spend growth is often considerably less for Tier 2 retailers than their larger counterparts (often segment related), leading to more issues with Legacy Software as the market moves to more cloud and AI-driven solutions.

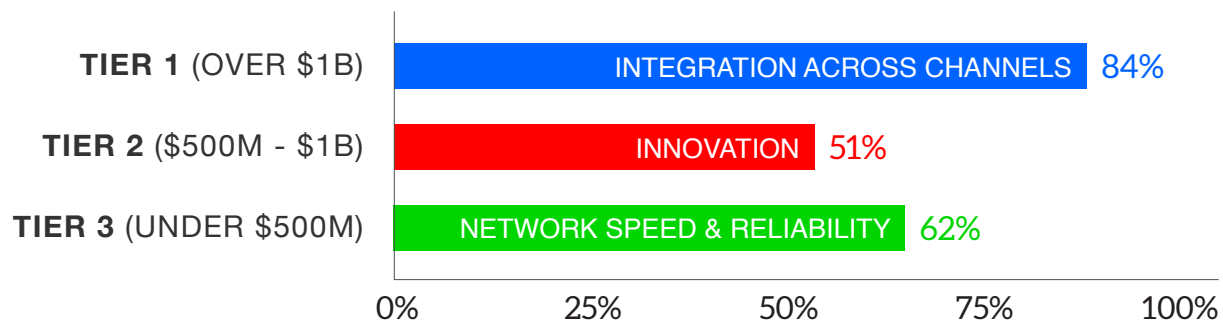
TOP PAIN POINTS - TIER 3

1. Network Speed and Reliability - 62%
2. IT Staffing - 57%
3. Hardware/Device Issues - 52%
4. Innovation - 50%
5. Integration across Solutions - 48%

For Tier 3 retailers, network speed and reliability, along with IT staffing, are the most pressing pain points. This underscores the critical role of a stable network infrastructure and adequate staffing to support the IT needs of smaller retailers. Hardware/device issues and the challenge of integrating solutions also feature prominently, reflecting the complexities faced by this tier in managing their IT environments. In particular, the challenges of getting quality service for payment terminals are particularly acute with smaller retailers rating this as 10x the challenge that they see in the big companies. Services availability, as well as free cash flow or availability of credit, all contribute to the pain points at this level.

TOP PAIN POINTS BY TIER

Source: IHL Group



Pain Points and Retail Performance

As we went through the research it became obvious that the best performing retailers are dealing with pain points differently than those who are not performing at the same level. Often this is a result that Winners (2023 sales growth > 10%) have been and continue to increase their IT spend at much higher levels than Average retailers (2023 sales growth 1-9%) and Below Average retailers (2023 sales flat or negative).

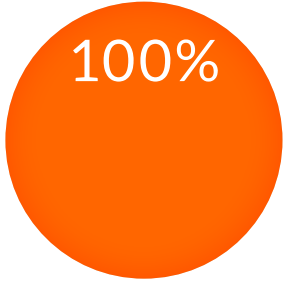
Even if we look at IT Spend growth for 2024, Winners are increasing their spending up to 4x faster than Average or Below Average retailers. The end result is more transformation gets done and that leads to different issues.

Retailers identified as “Winners” uniformly rate integration across solutions and supporting omnichannel operations as their top pain point at 100%. Their emphasis on network speed and reliability (94%) reflects a proactive approach to maintaining robust IT infrastructure to support all their IT initiatives. Innovation (57%) and AI Supported Technology (52%) round out the top 5.

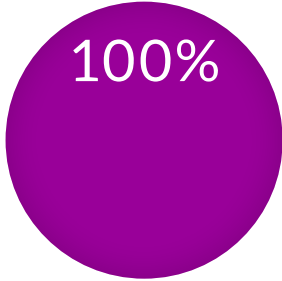
WINNERS PAIN POINTS

Source: IHL Group

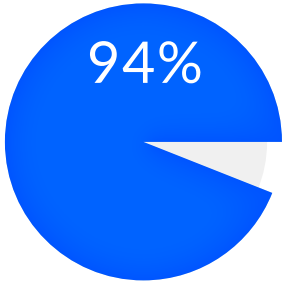
Integration Across Solutions



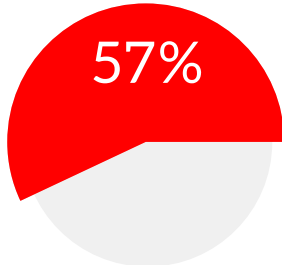
Supporting Omnichannel



Network Speed & Reliability



Innovation



Bad Service/Bad Performance?

On the flip side, when we look at the Below Average retailers, we see that dealing with Legacy Software (65%) and quality Field Support (62%) are key pain points. These pain points highlight the challenges faced by this group in maintaining efficient and reliable IT operations, underscoring the need for targeted interventions to address these concerns effectively.

As we discussed earlier in the study, challenges Below Average performers rate dissatisfaction with three key solution areas as being major headaches. They express dissatisfaction in POS Hardware service 7x higher, POS Software 22x higher, and Payment Terminals 20x higher than top performing retailers, leading to at least a correlation (maybe even causation) that store level service quality has a direct impact on overall financial performance.

BAD SERVICE/BAD PERFORMANCE: CORRELATION OR CAUSATION?

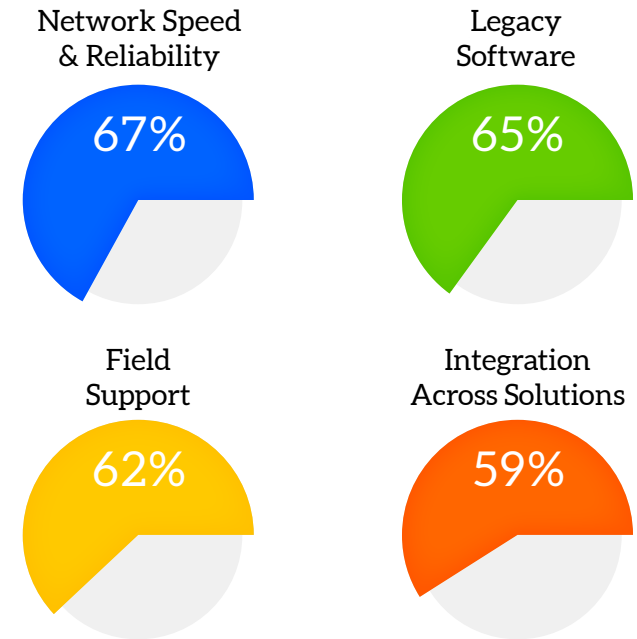
Source: IHL Group

Below average performers are more dissatisfied than winning retailers in 3 key areas:



BELOW AVERAGE PERFORMING RETAILER PAIN POINTS

Source: IHL Group



How Winners Operate Differently

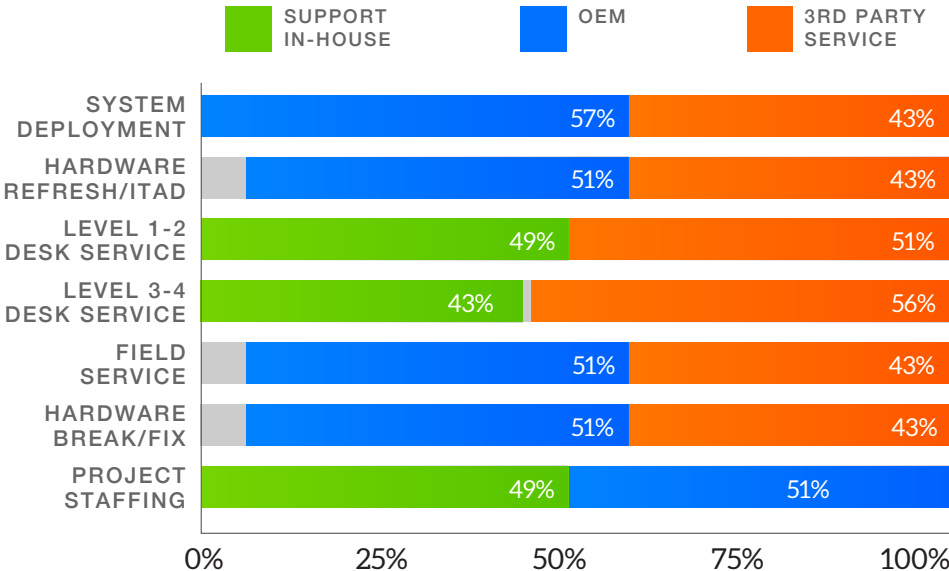
Winners, defined as retailers with sales increases of 10% or greater in 2023, exhibit distinct operational patterns compared to average and below average retailers. We have already discussed their investment priorities and IT spending, but their operational strategies as it applies to managed services also set them apart, further contributing to their success in the retail landscape.

OPERATIONAL DIFFERENCES

- Winners are 2.3x more likely to use OEM for initial deployment, indicating a preference for leveraging the expertise of original equipment manufacturers in setting up their IT infrastructure in the beginning.
- But they are also 2.3x more likely to utilize 3rd Party Services for hardware refresh, highlighting their inclination towards outsourcing hardware management and refreshing activities to specialized service providers once they get used to the new equipment.

WHAT SERVICES DO WINNERS USE MOST

Source: IHL Group



SERVICE DESK UTILIZATION

- Winners are 4.2x more likely than average retailers to engage third-party services for Level 1-2 service desks, indicating their proactive approach to leveraging external expertise for initial issue resolution.
- They are nearly 6x more likely to use third-party support for Level 3-4 service desks, reflecting their emphasis on advanced technical support from specialized providers.
- What is clear is that while Winning retailers might rely on OEMs for deployment and other functions, when it comes to Help Desk, they eschew OEMs for this function. Not a single winner in our study admitted to using OEM for Level 1-2 Help Desk and only 0.9% admitted to using OEMs for Level 3-4 Help Desk. They choose 3rd Party (51%) or In-House (49%) for Level 1-2, and for Level 3-4, 56% use 3rd Party and 43% use In-House support.
- But when looking at Below Average performers, they use OEM support for Level 1-2 Help Desk 40% of the time and Level 3-4 Help Desk 41% of the time.

3RD PARTY HELP FOR WINNERS

Source: IHL Group

Winners over
4X more likely to use 3rd party services for Level 1-2 Help Desk.
And
6X more likely to use 3rd party services for Level 3-4 Help Desk.

FIELD SERVICE AND HARDWARE MAINTENANCE

- Winners exhibit a substantial reliance on OEM and 3rd-party support for field service, being 8x more likely to use OEM services and 7x more likely to engage third-party providers than trying to support in-house. This underscores their commitment to ensuring on-site technical support sources regardless of where their stores are located.
- For Hardware Break/Fix, Winners are 9x more likely to utilize OEM services and 7.5x more likely to engage 3rd-party support than supporting in-house.

WINNERS AND OEM SUPPORT

Source: IHL Group

Rather than supporting in-house, winners are over
8X more likely to use OEM Services for Field Service and
9X more likely to use OEM Services for Hardware Break/Fix.

Final Thoughts

The combination of retail sales growth, the proliferation of store technologies, and the shortage of quality field service and maintenance staff are driving major changes in the retail market. Just like a high performing sports team must have a top training staff to keep their best players on the field, the best performing retailers are prioritizing their Managed Services and are very strategic in which services they do In-House, through OEM, or using 3rd Party resources.

This is the first year of what we hope will be an annual study on the state of Managed Services in Retail. These data are part of a larger study on overall retailer's priorities and performance called *Winning the Race of Innovation: How Top Performing Retailers are Investing in Technology*.

For more details including how AI plays a role and purchase timing for new technologies, contact us at ihl@ihlservices.com.





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