

HOW TO ACHIEVE OPERATIONAL EXCELLENCE IN THE DIGITAL ERA

MARKET CHALLENGES & OUTSOURCING
SOLUTIONS FOR RETAILERS

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WHAT IS OPERATIONAL EXCELLENCE?

“The retailers of today and tomorrow need to be streamlined, operationally lean and focused; the pinnacle of efficiency. The obvious benefit of building a culture around operational excellence is to support digitalization and connected commerce, to reduce costs, but a more optimized organization also empowers staff to spend more time concentrating on a core business objective: serving customers.”

— **Olaf Heyden**

Senior Vice President, Services, Diebold Nixdorf

Operational Excellence encompasses the management and operation of IT infrastructure, retail networks and the entire lifecycle of each store. The approach delivers an array of benefits in two main areas: enhanced efficiency and maximized availability.

In a highly competitive global industry, time to market is an increasingly important key to long-term success. To meet these strategic goals and changing consumer expectations, retailers are demanding greater process efficiency. Operational Excellence has never been a more important or timely subject in today's fast paced, rapidly changing, digital era.



THE CURRENT GLOBAL RETAIL LANDSCAPE

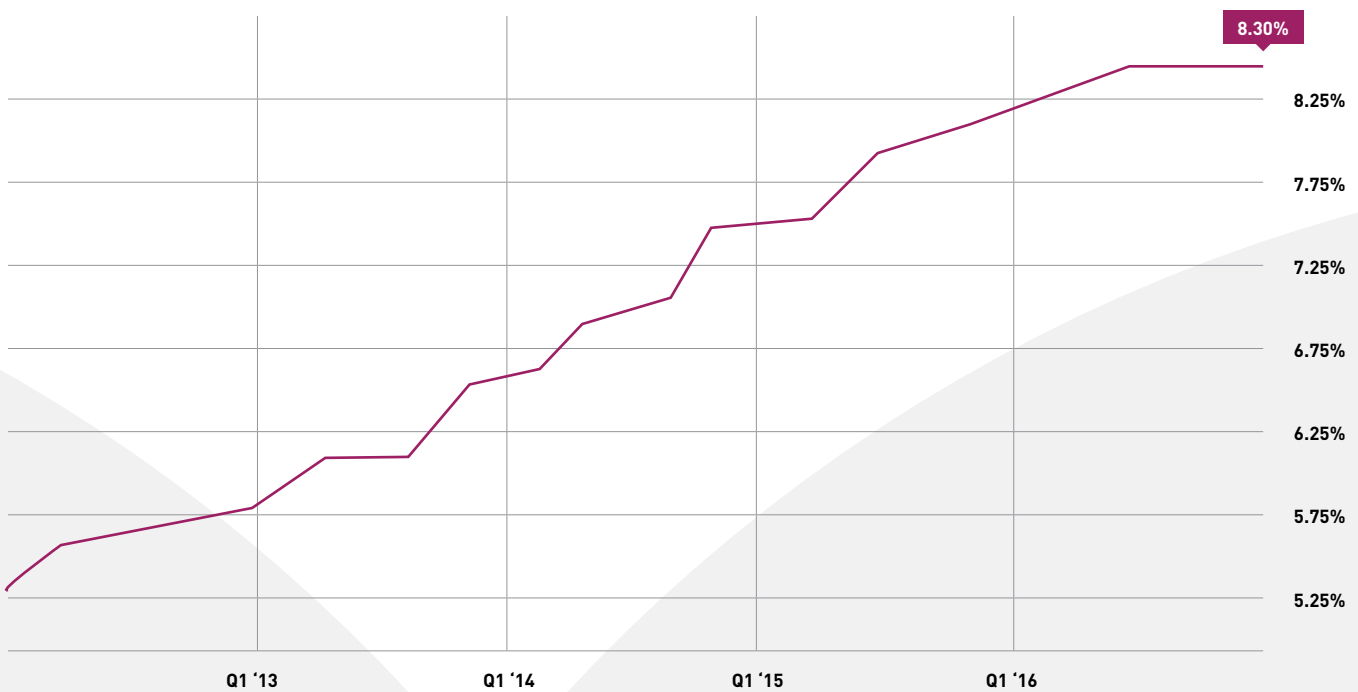
Digitalization, globalization, increased competition and changes in consumer behavior are all conspiring to make the job of the modern brick-and-mortar retailer more difficult and complex than ever before:

- Online competitors are chipping away at in-store sales.
- Digital natives, alongside a general population that is increasingly tech-savvy, are clamoring for omnichannel interactions—and visiting brick-and-mortar stores less and less.
- Showrooming and comparison shopping via smartphone inside the store are empowering consumers with more information on a given product in real-time.

FIGURE 1: E-COMMERCE SALES ARE ON THE RISE

U.S. E-Commerce Sales as Percent of Retail Sales

Source: Census Bureau



As FIG. 1 illustrates, online sales continue to grow, today making up nearly 10% of total sales in the United States. However, strong competition worldwide is affecting both brick-and-mortar and online retailers, who are all grappling for attention on a variety of channels. This competitive market is leading retailers to search for innovative solutions that can help them drive efficiencies and increase their net sales.

EMERGING TRENDS DRIVING CONNECTED COMMERCE IN THE RETAIL INDUSTRY

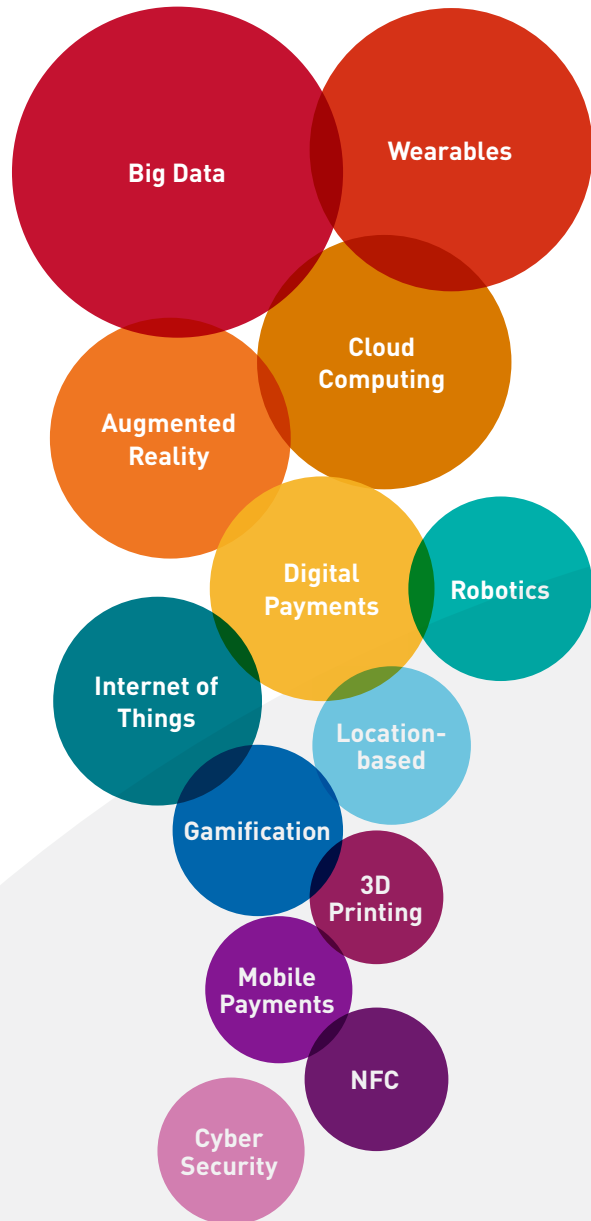
Today’s retail growth frequently occurs through acquisitions or expansion into new markets and countries (think discounters such as Aldi and Lidl in the UK, US and Australia). Retailers are also testing new store formats, such as convenience stores, smaller neighborhood stores and more digitalized stores. The pace of revamping, opening and closing stores is happening faster than ever—and we’re seeing a more subtle trend driving that rapid pace: online-only retailers are beginning to open brick-and-mortar stores.

As brick-and-mortar retailers search for ways to differentiate themselves in an increasingly dynamic marketplace, the industry as a whole is searching for the new technological innovations that will help them connect more closely to their consumers. The auditing and consulting company KPMG, which regularly generates trend barometers for various industries, found that Big Data, wearables and cloud computing top the list of emerging retailer interests (see [FIG. 2](#)).

Digitalization is upon us, and consumers are now accustomed to the fast pace of online shopping. Retailers are beginning to realize that partnering with a services firm can help alleviate the burden of managing the back-end processes—from entering new markets and opening new stores to customizing, deploying and maintaining IT networks. The right services partner can also act as a guide to the brave new digital era, offering tools and insights to parse Big Data, connect with consumers via tools like wearables, tablets and mobile, and manage the complexity of modern retail networks.

FIGURE 2: TRENDING PHRASES IN THE RETAIL INDUSTRY

Source: KPMG Technology Trend Barometer, 2017



OPERATIONAL EXCELLENCE FOR RETAILERS

Digital advances are causing retailers to focus their attention on a wide range of emerging technology, as outlined in FIG. 2. Retailers are recognizing the omnichannel potential and new use cases to meet evolving consumer demands—but many don't have the capability or in-house resources to realize ambitious technology goals. Yet with plans to undertake new IT projects in the near future, and a recognition of the industry trends that are shaping retail strategies in the near term (FIG. 3 & 4), a natural tipping point is inevitable. Retailers will be forced to choose how they can best allocate limited resources: internal infrastructure or external consumer relationships?

FIGURE 3: IMPORTANT TECH DEVELOPMENTS RETAILERS SEE EMERGING WITHIN THE NEXT THREE YEARS

Source: "IT Trends in Retail" EHI Retail Institute, 2017

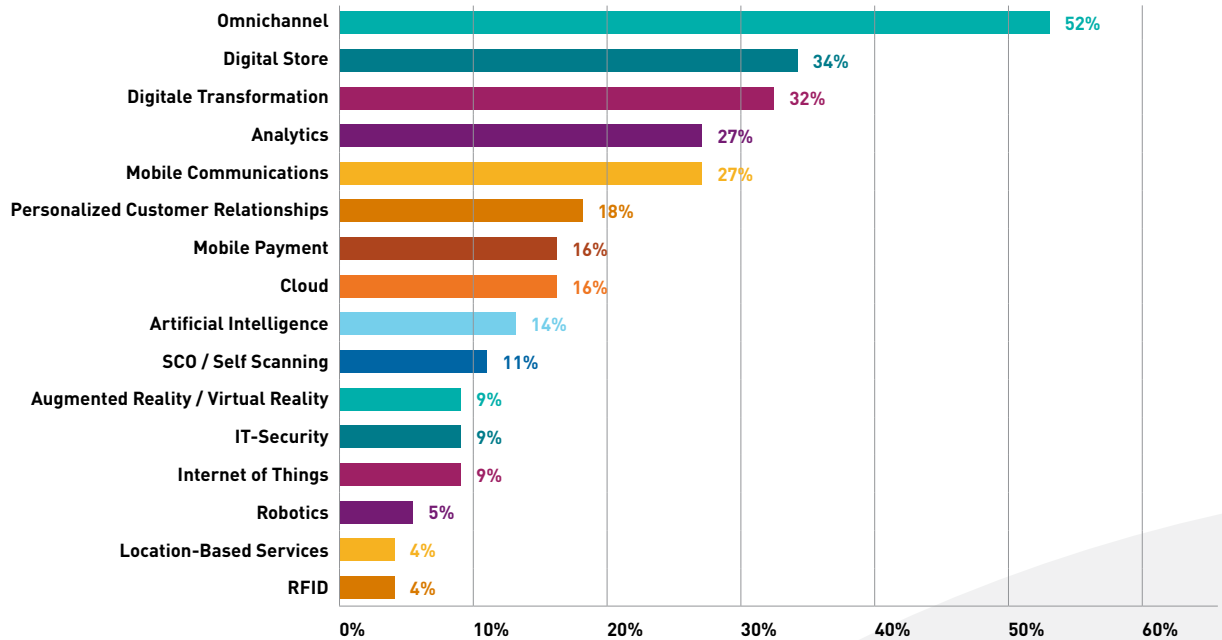
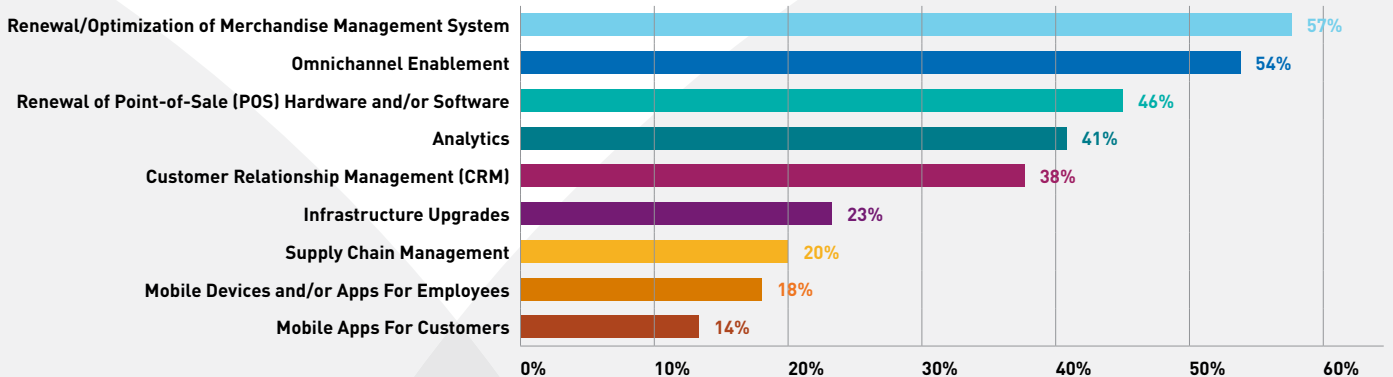


FIGURE 4: IT PROJECTS PLANNED FOR THE NEXT TWO YEARS

Source: "IT Trends in Retail" EHI Retail Institute, 2017



The EHI Retail Institute regularly asks retail companies for their opinions on relevant developments in tech, as well as the IT projects they plan to implement in the next two years. The results in FIG. 3 and 4 represent some 84,000 stores, primarily in Germany, Austria and Switzerland, and underline the broader, global trends that are emerging in mature retail markets.

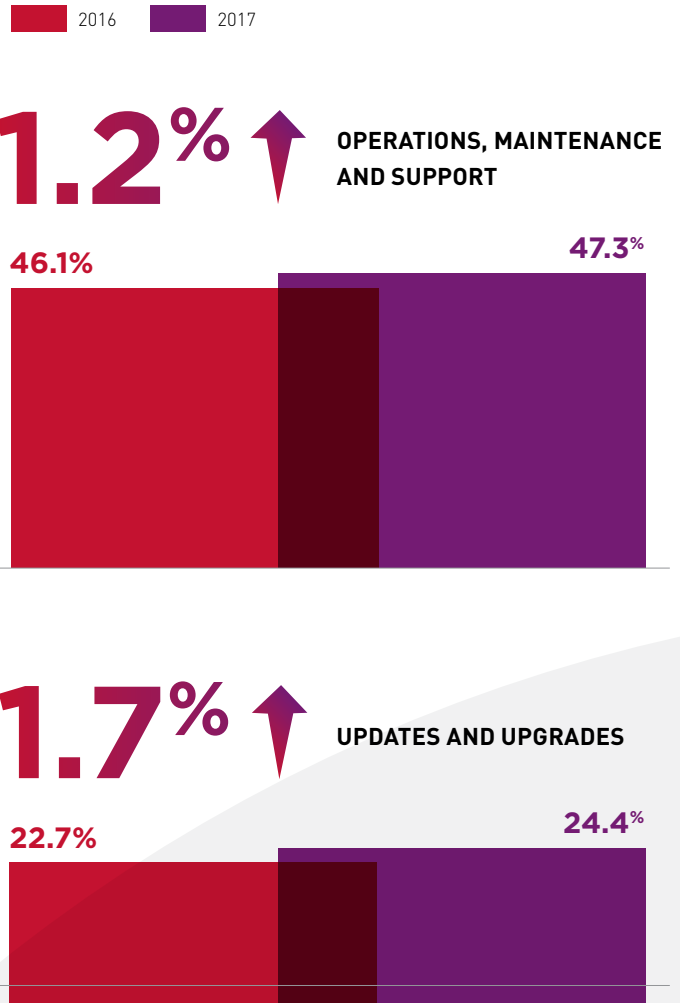
IT OUTSOURCING TRENDS IN RETAIL

In this turbulent, rapidly evolving environment, retailers must rethink their strategies from top to bottom—and focus tightly on the areas where they can have the most impact. The budget needs for areas like operations and upgrades are increasing, as retailers are forced to shorten the cycle of rollouts and new tech implementations to satisfy changing consumer demands (see FIG. 5). Additionally, digitalization and additional features and functionality are driving more frequent updates to technology.

A capable managed service provider can provide support for nearly every element of a traditional in-house IT department, including operations, maintenance, support, updates upgrades, new technology implementations, technology evaluations, and store lifecycle management, and offer the scale and expertise to enhance IT programs while slashing costs. As a single point of contact (SPOC), they can provide a full-service solution and take over responsibility for the lifecycle of the store's IT, freeing retailers to re-prioritize their in-house tasks and refocus on core responsibilities. Outsourcing non-core functions to a service provider can free up critical funds while enabling retailers to focus on their core business, and devote more time and resources to building better customer experiences and connecting more deeply with their customers.

FIGURE 5: IT SPENDING BREAKDOWN

Source: Capgemini 2016

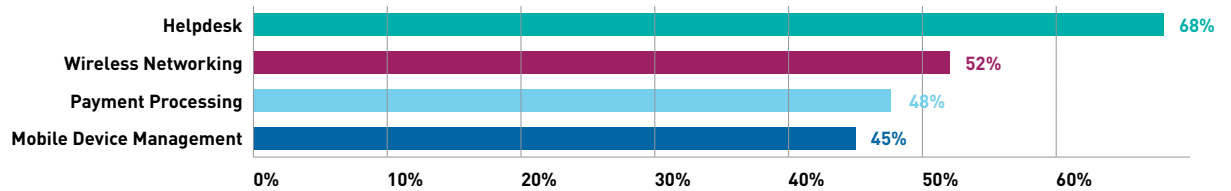


OPERATIONAL EXCELLENCE FOR RETAILERS

Retail Info Systems (RIS), an industry research firm, surveyed senior executives from national and regional US retailers to better understand their perspectives on IT outsourcing. They discovered that retailers are increasingly interested in outsourcing the management of their store IT networks (see FIG. 6). As IT has grown more complex, the cost of managing that network has grown too. The pressure is on IT departments to minimize costs and optimize their processes from beginning to end. Retailers mentioned a number of reasons why outsourcing is becoming more appealing (see FIG. 7 & 8).

FIGURE 6: AREAS RETAILERS ARE MOST LIKELY TO CONSIDER OUTSOURCING

Source: "Store as a Service," RIS Custom Research, 2016



THE BENEFITS OF AN END-TO-END SERVICE PARTNER

There are clearly many opportunities to optimize costs and drive better engagement with customers in the retail environment through outsourced services, and many benefits an end-to-end partner can provide. RIS identified four key areas where retailers expect to reap the biggest rewards:

FIGURE 7: KEY STRATEGIC BENEFITS RETAILERS HOPE TO ACHIEVE THROUGH OUTSOURCING

Source: "Store as a Service," RIS Custom Research, 2016

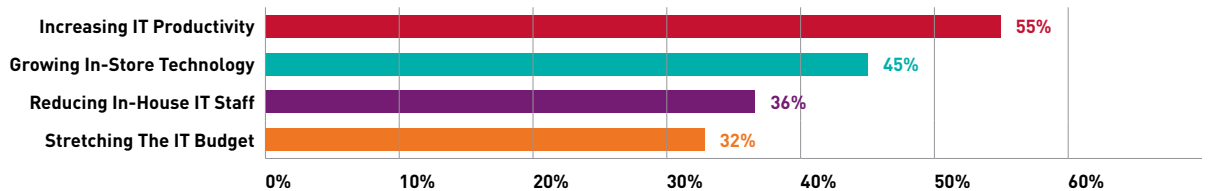


Fig. 7 emphasizes IT-based benefits, but there are less tangible advantages to collaborating with the right partner:

- 1. External partners can offer fresh approaches that drive innovation and growth.** The right partner can provide retailers with the benefit of niche expertise: They're masters at looking backward (having met and conquered a wide range of challenges unique to the retail industry) and forward (since their very livelihood depends on building solutions for emerging global trends). Co-creating with a trusted services provider can offer industry-leading access to innovation without investing the resources in-house.

Knowledgeable vendors can also meet a retail organization on its own unique, current-state terms, and provide local experts with a deep knowledge of a particular region, or global experts who have a broad, high-level understanding of major industry challenges.

- 2. An international services organization can deliver the global scale to assist retailers as they expand or contract their networks.** Store owners are in the business of getting their goods into the hands of their consumers; store management, openings and closings are vital, but shouldn't overshadow a commitment to customer service. With a global services partner, retailers can leverage a single vendor as they grow, shrink or move into new markets and ensure changes are executed as efficiently as possible.

- 3. Advocacy and change management are driven by an experienced external voice.** An experienced services provider has assisted many organizations with the transition from in-house processes and procedures to outsourced service support. They can be a trusted, authoritative advocate to support a retail organization's transformation success. If internal stakeholders and external support staff are sitting at the same table from the outset, long-term strategic goals can be aligned, and together, the team can pick and choose what tasks should remain local, and what tasks can be centralized.

"Managed services should not be a 'hobby' of the partner you choose. You don't need a partner that is still figuring things out; experience – not experimentation – is what will ensure a successful partnership for the long term."

— **Olaf Heyden**

SVP, Services, Diebold Nixdorf

A PROVIDER CHECKLIST: SERVICES & CAPABILITIES TO LOOK FOR

End-to-End Service Delivery

When a service provider offers a range of solutions that covers all of an organization's needs, retailers get the security of knowing they have a partner for the long term, no matter how their needs change. A SPOC approach can drastically simplify operations and minimize disruptions.

Store Lifecycle Management Capabilities

Things like customizing and staging IT solutions, deploying and installing IT solutions in-store and even operations can be handled externally. In the store lifecycle management model, a partner like Diebold Nixdorf can ease the burden on IT of responding to store opening/closing tasks, so retailers can focus on core business demands and customer-facing initiatives.

Experienced Local Service Personnel

The right service provider should offer "boots on the ground" in every region where a retailer has a physical store, with experienced technicians who can efficiently maintain and troubleshoot equipment. Is their incident management process standardized and accessible? Do they have the ability to handle incidents remotely? We have cultivated relationships around the globe over decades of building our service network, to ensure that we can uphold our high standards of excellence in every region where we operate. Local experts understand the unique region in which they operate – and that is often a critical differentiator when it comes to tackling and solving problems quickly and efficiently. The right partner should already have a deep understanding of a retailer's country or region, and be able to provide local, experienced service personnel.

Retail Experience

Vendors should be experienced in the retail sector. Look for a partner that has worked with a wide range of retail clients, large and small, regional and international. Likewise, the right vendor should have multi-vendor capabilities and the ability to quickly solve problems 24/7, 365 days a year, so there is minimal disruption to consumers.

Global Know-How

Diebold Nixdorf's global knowledge base is a secret weapon for retail clients, who can rest assured that no matter what issue crops up, someone in our network has undoubtedly seen it and fixed it somewhere else already. This ability to think and operate globally ensures we can help our clients stay ahead of emerging trends, new security threats, the latest technology and more.

Flexibility

A strong services partner has the expertise and portfolio to offer tailored solutions to clients. They recognize that retailers are not "one size fits all" and adapt their offerings accordingly, working in collaboration with each client to ensure the road map and strategy are appropriate and meet their unique business objectives.

Modular Solutions

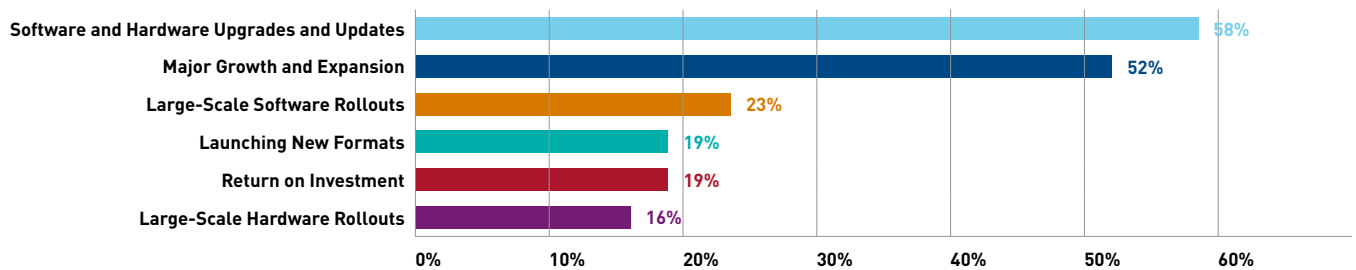
Vendors must be able to meet retailers "where they are," whether that means collaborating on a total transformation project or identifying easy wins that can help move the needle quickly. Solutions should be modular and scalable, and a vendor should be able to flex according to each retailer's needs.

MANAGED SERVICES SUPPORT FOR KEY BUSINESS CHALLENGES

There is no time to stand still in the modern digital era – retailers must be continuously innovating, improving and reassessing their store networks. While managed services are beneficial on a day-to-day level, there are major events in the life of every retailer that depend on an experienced partner for success. **Fig. 8** highlights some of the most common strategic changes that drive engagements with end-to-end providers like Diebold Nixdorf.

FIGURE 8: KEY BUSINESS CHALLENGES RETAILERS SAID WERE DRIVING THEIR INTEREST IN IT OUTSOURCING

Source: "Store as a Service," RIS Custom Research, 2016



HARDWARE REPLACEMENT

Replacing or updating hardware presents a significant financial and organizational challenge.

How Diebold Nixdorf can help:

- Investment calculations
- Management of physical replacement
- Asset management
- Software adjustment
- Ongoing implementation updates
- Monitoring capabilities

SOFTWARE UPGRADES, UPDATES & REPLACEMENT

Like hardware implementation, software replacement can be challenging – even more so in a complex, multi-vendor environment.

How Diebold Nixdorf can help:

- Help desk staff training
- Company-wide software distribution
- Quick, seamless updates as they're released
- Managing security compliance requirements
- Expansion into new areas, such as central data retention in loyalty programs

EXPANSION & NEW STORE FORMATS

Growth is great, but stepping into the unknown—whether expanding into a new country or just opening stores in a new region—can be fraught with unexpected issues.

How Diebold Nixdorf can help:

- More efficient speed-to-market
- Language requirements and country knowledge
- Resource availability
- Fast response times for service calls

OPERATIONAL EXCELLENCE & ROI

Day-to-day operational efficiency, process optimization and productivity issues often end up at the bottom of the priority list—yet there are many opportunities to wring out costs and simplify processes.

How Diebold Nixdorf can help:

- SPOC philosophy ensures 24/7 expert care and offers end-to-end service capabilities
- We act as a collaborative partner, able to listen and communicate with the appropriate stakeholders across an organization, and provide tailored solutions
- A service portfolio that includes consulting, deployment and implementation, maintenance, availability services, store lifecycle management and more
- Presence in more than 130 countries, with more than 15 years of experience in providing solutions to retailers of all sizes
- World-leading hardware, software and security solutions

DIEBOLD NIXDORF

From central and decentral store-IT operations to solutions for cash management and payment solutions, we offer a portfolio of services that increase efficiency, improve transparency and enable your organization to spend more time and resources focusing on driving deeper customer engagement and relationships. With a presence in more than 130 countries around the globe, and decades of experience in end-to-end service delivery, we are a collaborative partner in your quest for operational excellence.

**FOR MORE INFORMATION, VISIT DIEBOLDNIXDORF.COM OR
CONTACT YOUR DIEBOLD NIXDORF REPRESENTATIVE TODAY.**