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# The Marriage of Kiosks & VARs

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**A new POS form factor holds promise for sales, service and support**

Kiosks are made up of components such as receipt printers, touchscreens and point-of-purchase software. They're often found in retail and hospitality. And increasingly, they're fueled with data from other on-premise systems.

So why don't POS VARs dominate the kiosk business?

The answer is thus, say industry pundits: kiosks have traditionally been informational, not transactional. They're costly to build and almost always require custom software. Kiosks have long been a specialty pursuit.

But there are signs of opportunity opening up for store system and hospitality VARs. As kiosks increasingly integrate with other on-premise systems, kiosk integrators may need to partner with VARs who know those systems intimately. Gaps in service mean VARs may be able to get in on installation, maintenance and service work. And as kiosks migrate toward transactional models, POS VARs interested in pursuing this line of business will be on more solid ground.

A whopping 90 percent of kiosk owners responding to a 2001 study by Kiosk Business describe them as POS devices, and 61 percent said kiosks' role in developing revenue streams was extremely important. "As time goes on, more and more transaction-based applications will be rolled out," says Tim Kearns, director of marketing for MontegoNet, a kiosk solutions integrator.

## WHAT'S IN A NAME?

Although retailers have been experimenting with kiosks for 15 years, the market is still young. "People are still trying to figure out what they want kiosks to do," says Mike Englehart, product manager for IEE.

But they're honing in. "In retail, kiosks are moving to critical mass acceptance," contends Greig Spidle, president of TouchSystems. "There is also acceptance and knowledge in the general public."

Increasingly end-users look to kiosks not just to provide information, but to close the deal, influencing and even processing transactions. With the failure of the fund-through-advertising model, operators need kiosks to impact the bottom line. "We're seeing better business models, and that means ROI for kiosks," says John Gomersall, OEM regional sales manager for Telpar.

"The industry understanding is that the line needs to be blurred between the categories of kiosks," notes Ken Keating, manager, IBM Retail Store Solutions Strategy and Business Development. While 90 percent of users in the Kiosk Business study called their units POS kiosks, 55 percent also checked informational, reflecting their dual roles.

ROI is key. Operators want kiosks to bring in money, and ending in a transaction is the surest way to get there. Typical payback is six months to a year, from increased sales and productivity, reduced labor, and improved customer services. Generating traffic can be enough. A kiosk "can save money and build the relationship with the customer," observes Ben Wheeler, director of marketing for Arral Industries.

Popular applications in retail include line extension-successful for chains such as Staples and Office Max-as well as special orders, gift registry, film drop-off, and customer loyalty. Hotel applications remain more informational, though some end-users are experimenting with check-in/checkout. Major fast-food outlets are testing order-entry kiosks.

## OUT OF THE BOX

When kiosks were born, custom was the only choice and many players contributed to each project. Later, manufacturers such as IBM, KIS and NCR introduced standard kiosk models and began selling them through distribution, and some vendors became nearly one-stop shops for kiosk customers. Some ISVs now act as integrators, for example, and touchscreen maker Touch Systems is about to debut cabinetry.

According to the Kiosk Business survey, vendors providing packaged, kiosk-in-a-box solutions sold 43 percent of users their solutions. ISVs sold 18 percent, and 17 percent were in-house projects. VARs and systems integrators sold 14.3 percent of kiosk solutions.

According to Gomersall of Telpar, the kiosk vendor market is "still pretty fragile. A lot of companies that I would have predicted a year ago would have done wonderfully are gone."

Retail and hospitality represent kiosks' biggest markets. Fortunately for VARs, industry participants see kiosk deployments in operations of all sizes. The Kiosk Business study surmised that many deployers are in small to mid-size chains. Verticals are also widely represented.

The difference can be, however, that while large retailers already have the infrastructure, such as Internet connectivity, to support kiosks, for smaller retailers this expense can become part of the kiosk project, boosting already high costs.

With the dip in the economy, vendors saw kiosk projects get scaled back or delayed, but not cancelled. "In the past we saw some high volume applications, such as 25 units in a pilot," says Telpar's Gomersall. "That doesn't happen anymore. Everyone is being very cautious."

## SELF-CHECKOUT

Add security and product measurement technology to the mix, and a kiosk morphs into a self-checkout terminal. Self-checkout is finally taking off in environments such as grocery stores, mass merchants and home centers, but until recently it's been a direct business sold by market leaders NCR and Optimal Robotics as well as Productivity Solutions, PSC, and Symbol with its handheld models.

The success is due to productivity improvements; 15 to 40 percent of a store's users go through the lanes, saving labor since just one worker can monitor four lanes, according to a new study by IHL Consulting. And although studies show for more than 12 items it actually takes longer, customers perceive it to be a service that speeds their visit and offers shorter lines.

For VARs serving the right markets, self-checkout has become viable. But those customers need to be able to front $25,000 a lane before they get their ROI, usually in nine to 12 months. Greg Buzek, president of IHL, says hard goods operators with low average tickets are the best fit, but vendors contend they also sell into soft goods and high-ticket environments. Overall market penetration is less than 10 percent, says PSC, but half of grocery chains are trying it.

NCR uses VARs for self-checkout and even offers its units through ScanSource. PSI, focused on grocery, has begun to use a channel, and PSC has a few large systems integrator relationships. Optimal Robotics has no channel plans.

Fujitsu Transaction Solutions used Retail Data Systems, Eden Prairie, MN, to integrate and install self-checkout POS systems at Knowlan's Super Markets Inc., a six-store independent grocery chain based in Vadnais Heights, MN. The system combines Productivity Solutions Inc.'s self-checkout system with Fujitsu's ISS45 POS software and hardware.

> Margins "are a little lower" than for POS, "but not low enough that it causes us not to be interested in marketing these," says Ron Allnock, VP for Retalix USA. The sale is challenging, but getting easier thanks to big-chain adoption, Allnock adds.

## DEBATE RAGES

Where the POS VAR might fit in is a subject of debate.

Few expect kiosk applications to become as standardized as POS anytime soon; they require a good bit of customization. Kiosks are often developed by firms with e-commerce capabilities, which by no coincidence also design the Websites that retailers extend into the store via kiosks.

Certainly, given the similarities in product and market, taking on kiosks would not be a huge leap for a POS or hospitality VAR. But kiosk experts assert that kiosk is still a specialty, and that VARs accustomed to simply pulling together third-party components would need a fair amount of skill-building.

"I could see it happening if kiosks were more a mass product," says Paula Janco, marketing manager for Telpar. "But because kiosks are so project-oriented," it would be a difficult transition for a VAR.

A better role, then, might be as partners. VARs hold the keys to long-standing customer relationships that kiosk developers typically lack. They've also installed the systems that kiosks more often need to tap into: inventory, customer loyalty, POS.

Also, POS VARs have long-standing relationships with many of the vendors and technologies involved, since many leading retail OEM suppliers have targeted the kiosk industry. Foremost among them are suppliers of touchscreen technology (such as 3M Touch Systems and Elo TouchSystems) and receipt printers (such as Epson, Axiohm, Star and Citizen). Other POS peripheral vendors target this market as well, including IEE (displays), Symbol Technologies (scanners) and Preh (keyboards).

"Subject matter expertise is required to modify store systems, and retailers don't want to go anywhere else" but their trusted VAR, says IBM's Keating. "We do have traditional POS ISVs such as InfoGenesis recognizing the linkage and beginning to work with traditional kiosk ISVs."

"We work with whoever to ensure a tie into existing systems," confirms MontegoNet's Kearns.

POS ISVs have yet to embrace the kiosk market. Just a handful, including 360Commerce and Tomax, have developed kiosk applications. "I'm not sure if POS companies are afraid it's still in early adoption or if they've not taken the initiative to pursue it," says Barry Wise, president of Wise Retail Consultants.

## ENTRY POINTS

Installation and service represent other opportunities. Although factors such as more robust operating systems, better user interfaces, faster chips, improved ruggedness, larger paper capacity and improved networks have boosted kiosk reliability, problems persist. Nearly 64 percent of study respondents said printer failure was a frequent or extremely frequent problem, trailed closely by system failure and poor maintenance.

Many vendors use third-party service firms such as Rpop.com for field service. These employ remote monitoring and diagnostics to push out changes, detect problems and track usage. But that means a separate maintenance contract from POS. POS VARs are also accustomed to the rapid response demanded of mission-critical systems, and as they become transactional, kiosks will become closer to this category. Which are retailers likely to prefer?

The "you know me" argument does carry weight. For Virgin Megastores, the tight integration of the kiosk application with the other store applications, all tied to one backend server, as well as one-call support, were major factors in the retailer's kiosk vendor selection.

There are some caveats to bear in mind for VARs considering the leap:

- kiosk sales cycles last six months to two years.
- specialized kiosk training is required, not just in technology, but in helping customers develop workable kiosk strategies.
- most applications are highly customized.
- while kiosks prices have dropped given the custom development project price tags, they are considerably larger than for POS. "Kiosk applications take more time and effort for the VAR, and many times retailers only install one to two lanes per store," says Wise. "There is not as much opportunity for profit."

Despite the slowing of industry growth following the dot-com failures and September 11, many in the industry are bullish on kiosks' expected growth. Summit Research Associates predicts a slow 2002, then a growth spurt, with a Compound Annual Growth Rate (CAGR) of 19.9 percent during the next four years.

An "uptick in all forms of kiosk will be significant in the next five years," says IBM's Keating. For VARs, "I recommend seriously looking into devising a strategy to play in this market."

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