Feature Story

Increase Your Payment Processing Potential

Aligning with an integrated services provider enabled $8 billion Family Dollar to expand its payment processing capabilities and implement an ongoing technology refresh program.

by Erin Harris

No matter how your business is weathering the recession, your IT department needs all the muscle it can muster in 2010. And, so it goes with Family Dollar. While the cash-and-carry discount retailer increased comparable store sales by 7%, its IT department has a strenuous workload that involves nearly 7,000 stores. Indeed, Family Dollar needed to upgrade its POS technologies (i.e. software, peripherals, etc.) in use throughout its chain, as additional functionality was critical to expand customers' payment options and accommodate federal food assistance programs. But, that's just the beginning. Family Dollar opens approximately 200 stores a year, all of which need POS systems and payment processing capabilities. And, the retailer maintains a standard technology refresh cycle program involving more than 1,000 stores a year. Such frequent activity puts a great deal of strain on the IT department, which Family Dollar wanted to alleviate. Therefore, Joshua Jewett, CIO at Family Dollar, opted for an outsourced team to tackle both the initial POS rollout and the ongoing technology refresh cycles.

Expand Payment Processing Capabilities, Meet PCI DSS Guidelines

Family Dollar sought to upgrade its existing POS technology to incorporate credit cards, debit cards, food stamps, and other forms of government-sponsored tender (i.e. EBT [electronic benefits transfer]) into its payment options. "As we evolved our business strategy, we tailored our merchandise and services to our customers," says Jewett. "Food became a large part of our merchandise portfolio. Selling a broad range of everyday consumer basics, particularly food, challenges retailers catering to the value-minded or discount consumer." That's because retailers that accept EBT cards need to have POS technology that accommodates the requirements associated with food assistance programs. In addition, Payment Card Industry Data Security Standard (PCI DSS) applies to all merchants, regardless of size or number of transactions, that accept, transmit, or store any cardholder data on payment applications. The term "payment application" has a very broad meaning in PCI; it is anything that stores, processes, or transmits card data electronically. "Technically, food stamp processing is not addressed by the PCI Council guidelines," explains Jewett. "However, we treat all customer transactional data with considerable care. As such, we do not differentiate the ongoing management of food stamp tender type from any other tender type that collects customer data."

The complicated programming logic associated with food stamp processing surpassed the retailer's legacy POS system capabilities. The federal government gears the money toward certain categories of food. Each store needs to be certified that it meets operating guidelines, the most substantive of which is that it can consistently remain in stock on seven key categories of merchandise eligible for the program. The retailer's POS system must be able to segregate the items eligible for food stamp tender as tax-free, while the balance of items in the transaction are subject to the tax guidelines of the state or municipality in which the store operates. During the tendering activities of the transaction, the POS system must validate that the food stamp recipient has sufficient funds to pay for some or all of the food stamp-eligible items in the transaction. The customer determines how much of their available funds they wish to apply to the payment. The balance of funds owed by the customer requires tax to be recalculated and a new net amount due for the customer. The customer can then select additional forms of tender to complete the transaction. The register receipt needs to

show all the details regarding the math of the transaction.

Outsource Your Peripheral Needs

Family Dollar operates SAP POS software, which was configured to handle the intricacies associated with payment processing choices. Toshiba supplies the retailer's POS hardware terminals. But, the intricate POS transactions coupled with PCI DSS complexities led Jewett to outsource the provisioning process for Family Dollar's peripheral (i.e. credit card terminal) devices. "There are numerous competing manufacturers in the POS payment processing space," explains Jewett. "Not to mention that POS peripherals endure severe wear and tear and damage. Layer PCI concerns for our nearly 15,000 credit card terminals on top of that, and that creates a headache, because you have to manage the encryption keys that are loaded on the payment terminal. We wanted to work with a company that knew the payment terminal space well — one that was on top of latest developments of the major manufacturers and was capable of handling PCI challenges." Family Dollar chose Direct Source, an installation, integration, and custom software development services. Several years ago, Direct Source had already helped select, config-

Last year's October/November issue of *Integrated Solutions For Retailers* featured Family Dollar's success with MegaPath's MPLS (multiprotocol label switching) VPN (virtual private network) service to improve chainwide high-speed bandwidth. Concurrent with the MPLS VPN backbone deployment, the retailer also upgraded its POS technology.

ure, and deploy Family Dollar's first fleet of PIN pads to allow for the acceptance of debit cards. After testing, Family Dollar deployed the PIN pads to its chain in five weeks.

The Importance Of Technology Refresh Cycles

Direct Source may have begun its relationship with Family Dollar by successfully purchasing and integrating peripherals on Family Dollar's behalf, but, within one year, it was sourcing, receiving, integrating, staging, testing, and shipping all of Family Dollar's payment terminals, mobile inventory and price management data terminals, price validation devices, and POS scanning technology for nearly 7,000 stores.

Based on the success of the POS rollout, Family Dollar expanded its relationship with Direct Source to include the cyclical refresh schedule of its store sys-

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tems technologies (see sidebar). "It all started with POS, because cash registers have more peripheral devices connected to them than Batman's utility belt," explains Jewett. "But, no sooner did we complete the POS rollout than we had to focus on replacing and refreshing the oldest hardware that was implemented at the start of that rollout. In addition to making standard repairs, we also want to keep our gear current. In order to maintain a standard refresh cycle, we end up replacing various hardware devices in more than 1,000 stores a year."

Technology spikes, increasing security standards, and maintaining business productivity are some of the drivers that influence the need for a technology refresh in order for Family Dollar to remain optimally configured to meet the needs of its customers.

Family Dollar negotiates and maintains the contracts with its manufacturers of choice (Honeywell, Toshiba, VeriFone,

Demand Full Disclosure From Outsourced Partners

Family Dollar, a retailer known for its self-serve, cash-and-carry neighborhood discount store concept in low- to middle-income neighborhoods, needed to conduct an enterprisewide POS upgrade while maintaining an ongoing technology refresh cycle. But, counting solely on the retailer's IT department to complete the tasks was not an option. Joshua Jewett, the retailer's CIO, turned to Direct Source, a technology solutions provider for aid.
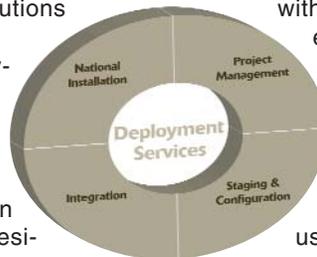
Based on Family Dollar's POS and payment processing needs, Direct Source suggested products that offered expandability and durability. "Because we're independent, and we don't manufacture the products we suggest to retailers, we can afford to be candid," states Brad Fick, president of Direct Source. "In fact, we've had a few candid conversations with Family Dollar about how certain products wear and tear and could break down within a year. Family Dollar relies on us to be honest about our technology recommendations." When making product suggestions, Direct Source presents Family Dollar a minimum of two form factors, but usually offers four or five. The product data is also available via an electronic analysis grid. The retailer can add proprietary information to the analysis grid that it doesn't want the vendor to see.

With technicians in every state, Direct Source can be

Family Dollar uses Direct Source's deployment services, including integration planning, integration, project management, and staging and configuration, for its POS and payment processing needs.

where Family Dollar's IT team can't. "There are companies that will bring Rolodexes of mobile contractors to the table to perform services as opposed to dedicated full-time employees who are the technicians who support your business," says Jewett. "Everyone uses a contractor now and then for their business. But, generally speaking, the model that we prefer to align ourselves with is the one where the vendor has dedicated teams that handle an entire group of stores in a particular week." When it comes to peripheral and payments technology, Direct Source offers advice and guidance on technology options through its experience with other retailers. In 2009, 255 Direct Source technicians were used for 4,635 Family Dollar site projects. From January to May 2010, 119 Direct Source technicians performed 2,353 Family Dollar site projects. "Every client's different, but in Family Dollar's case, we categorize stores by region," says Fick. "We designed a week-by-week installation schedule with Family Dollar. Following a one-week technician training process on the particular installation, the technicians begin the projects in locations all over the country."

For More Information On Direct Source Go To www.directsource.com

Zebra). But, it's Direct Source that receives, stages, inventories, packs, and ships the tools to the stores. Direct Source also handles integrations, installations, and ongoing asset management. The company also ships the hardware back to the supplier if warranty issues arise. "For example, we wanted to do signature capture on our payment terminals," says Jewett. "Consider the pen used at the payment terminal. When you accommodate many shoppers, the pens don't hold up, nor do the screens. If you don't choose a durable device, the total

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cost of ownership won't be favorable, because you have to replace screens, buttons, or pens. When the pen's out of commission, the device can be out of commission. Our IT team doesn't have the time to focus on the upkeep of these devices. And, we're not involved in numerous retail markets like Direct Source. Therefore, Direct Source researches, pilots, and installs the new devices." Family Dollar's refresh plans go beyond POS. Future technology refresh plans include an enterprise-wide update of the retailer's DVR technology.

Incorporating more payment options and maintaining a technology refresh cycle has positively affected Family Dollar's bottom line. The retailer reported that net sales for the quarter ending May 29, 2010 increased 5.6% to $1.9 billion from $1.8 billion in the same quarter last year. Also, comparable store sales for that quarter increased 7%. By outsourcing projects such as chain-wide technology upgrades, you can manage the scalability of

whatever maintenance challenges you will inevitably face, enabling your IT team to focus on other value-added tasks. ■

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