

R.J. Calio Consulting, LLC



Helping retailers choose the right system for their store and giving them strategies to use it

FALL 2007 NEWSLETTER

The purpose of this newsletter is to identify trends and information that will be useful in helping retailers run their businesses more efficiently.

You should think of technology as an information partner in your store. If you can't articulate how a technology investment will make you more efficient, don't buy it! Innovation is not necessarily doing something new, but doing something in a new way.

PCI Compliance:

Six years after the Payment Card Industry Data Security Standards (PCI DSS) were introduced, compliance is still a major issue for all retail segments, but in particular for the independent store. Visa estimates that 70% of unauthorized access to card data involves small merchants. Credit card fraud resulted in \$1.24 billion of losses in 2006. Both Visa and MasterCard developed the PCI DSS requirements. The VISA Cardholder Information Security Program (CISP) and MasterCard Site Data Protection (SDP) programs clearly define the data that can be stored and how that data must be secured.

In spite of these rules, a recent survey determined that over 50% of businesses with fewer than 600 employees are still storing credit card data on their systems. If there is a breach, and the data is stolen, that consumer is protected. The retailer bears the cost and is liable for the losses.

Here are some simple guidelines to follow:

Storage of Cardholder data:

- Do not store the full contents from any magnetic stripe on the back of the card
- Store only the portion of the customer account information that is essential to run your business: Name account number (encrypted or masked) and expiration date
- Secure all stored data in a secure, limited access area. Password protect all data stored on your computer system.
- Destroy and purge all obsolete data
- Get a letter of verification from merchant banks, your credit processor and any other entity engaged in the processing or storage of your transaction data that they meet the PCI DSS requirements and are CISP and SDP compliant.
- Notify your bank and credit card processor of a data breach immediately.
- Audit your data storage and data security procedures on a regular basis

The interchange fees retailers pay are becoming as costly as health care costs for many tier one retailers. Are there any other payment options that might offer retailers an alternative and some relief? Recently, at a retail conference I attended, a speaker addressed this issue and offered an opinion that the online payment options like Pay Pal, Google's Checkout, Amazon and eBillme

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could become an option for brick and mortar stores. These options will have a lower cost and remove the PCI issue. More to come on this issue as it unfolds.

E Commerce:

Many retailers don't want to undertake a full e-commerce site. With shipping, tracking orders, and maintaining the items on your site, it becomes another full set of operational functions to manage a web store. Consumers still prefer going to a store rather than shopping online. However an increasing number of people like to pre-shop before visiting a store. In today's competitive environment, you should offer customers a website where they can look at your products and reserve an item for in store pickup. You not only drive traffic to your store, you also create add on and up sell opportunities.

Holiday Sales 2007:

For many retailers, holiday sales represent 25% of their annual sales. Across all retail channels holiday sales, defined as the November and December sales equals, 19.59% of annual sales. Let's look at the forecasts for this season and other useful numbers.

- Projected sales increase over 2006 – 4%
- 2006 increase over 2005- 4.6%
- Average growth per year over the last decade- 4.8%
- Holiday Gift Card sales in 2006 - \$24.8 billion (2005 \$18.48 billion)
- Holiday Gift card sales projected for 2007 - \$30 billion
- 79% of consumers purchased a gift card in 2006
- Average consumer spent \$116.51 on gift cards in 2006 up from \$88.05 in 2005
- The average person spent \$602 on holiday gifts last year
- 47% of consumers either shopped online or researched product online
- Internet sales increased by 24% in 2006
- Retailers lost \$12.8 billion due to shoplifting in 2006
- Retailers lost \$3.5 billion due to consumer fraud during the 2006 holiday season

Plan of attack:

So, what changes can you make now for the upcoming holiday season?

Ecommerce: If you don't already have a website for customers to view your product offering it is too late for this season. Put this on your to-do list for the first quarter of 2008.

Gift Cards: The sales forecast for this holiday season is for zero growth over 2006. The numbers don't lie. Gift Cards have become an integral part of consumer holiday purchases. The value added factors to the retailer selling gift cards are:

- Use of the cash
- The recipients are in many instances new customers

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- Lower post season returns. The recipient of the gift card purchases exactly what they want.
- Cards are over redeemed by an average of 22%
- Increase of post holiday sales
- Fewer Post holiday markdowns

Promote gift cards as a product. Decorate a holiday tree with gift cards. Have them displayed at all your POS stations. Promote them as the perfect gift and add-on sale.

Consumer fraud:

95 percent of retailers report that they experienced some type of consumer fraud last holiday season. The most common types of fraud are:

- Stolen merchandise being returned
- Merchandise that was purchased fraudulently being returned

Steps you can take to combat fraud:

- Track all sales against a customer name or under a customer called "Walk in" so you have way to look up a past sale.
- Barcode you sales receipts so you can quickly find the original sale
- If you don't know the customer returning an item, ask to see an ID and fill out a return merchandise form.
- Establish a policy that allows for "store credit only" for occasions when you fell obliged to take back merchandise that you not certain you sold to the customer.
- Perform an internal audit of store looking for obvious blind spots
- Place mirrors above any blind spots
- "Harden" or make expensive or easily shoplifted items inaccessible. Put them under glass or locked.

After Season sales:

Inevitably, there is always merchandise that has to be marked down at the end of the season. Markdowns can be very costly. Consider this example:

\$20 original price
20% off sale
\$16 sale price = % profit
Based on 39% operating expenses and an initial markup of 52%
25% off = 4% loss

Try this instead: 25% off- an additional 15% will be taken off at the register = 36.2%
Rather than 40%

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Webinar:

You will be receiving an invitation to join us for a WEBINAR on customer loyalty. The following will be discussed.

- Why you should care
- How to design and execute a loyalty program
- What you need to do to make it happen
- Failure points
- Enrollment forms, brochures,
- Customer security
- Rewards and offers that create up-sell and cross opportunities
- Vendor co-op

Please feel free to email me any questions.

Dick Calio
