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Understanding Interchange

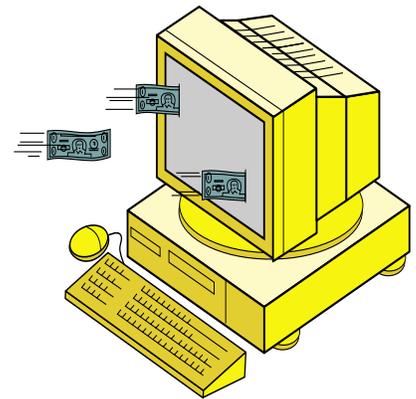
By Greg Leos
Global Payments™

What's an interchange rate? It's a question that's often heard from business owners who look at their merchants services statement and sometimes see an increase in the cost of accepting MasterCard and Visa due to something called an "interchange rate increase."

The interchange rate is basically the foundation for all pricing related to the acceptance of credit cards. Its technical definition is: A rate formulated by both MasterCard and Visa intended to reimburse credit insurers for costs related to fraud, credit losses, chargeback costs and the cost of receiving, balancing and posting transactions.

To put it in more simple terms, it's the cost of doing business set by MasterCard and Visa that all credit card processors and ISOs (Independent Sales Organizations) are forced to deal with when they provide pricing to merchants for credit card acceptance. MasterCard and Visa set this rate and use it to help defray the costs that banks encounter when they issue credit cards to consumers. Then processors and ISOs add their own costs of doing business (cost-related to credit risk, overhead, profit margin, etc.) to the interchange rate before providing merchants with pricing.

What can get confusing is that there are different interchange rates for different types of transactions. For



example, the face-to-face, card swiped transaction conducted at the point-of-sale has the lowest interchange rate because it's a transaction with the least amount of risk. The consumer presents the credit card at that time of purchase and signs a sales receipt at the conclusion of the transaction. But other transactions, like those conducted over the Internet or those with consumers paying with corporate credit cards, have different and often higher interchange rates assigned to them. Also, as costs increase for card-issuing banks, so do the costs for processors, ISOs and ultimately, merchants.

MasterCard and Visa can individually choose to increase

[Understanding Interchange continued](#)
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Seen & Noted

NACS Offers Resource Guide

What's the latest, greatest snack product for convenience stores? Looking for a consultant for price book development? Trying to find a specific product or supplier to help you with your convenience store business? The National Association of Convenience Stores (NACS) may have an answer for you.

NACS has a new service, an online guide for convenience store operators that helps them locate products, manufacturers, suppliers, business consultants and more. Nearly 1/3rd of its suppliers have updated listings with 1,100 brands listed. *NACS supplier listings contain the following information:*

- Company name and contact.
- Key contact and sales contact.
- Company website address.
- Top categories/sub-categories.
- Company description.

Elizabeth Hervey, director of NACS Supplier Relations, says, "In addition to providing convenience store sales contacts, categories and brands, suppliers are listing new products." Users can search by category, key word, brand, and new products.

The guide is available only to NACS members who must register at www.nacsonline.com.

Source: *NACS Magazine, January 2004*

Fair Credit Reporting Act Truncation Language

The reauthorization of the Fair Credit Reporting Act was signed into law on December 4, 2003, and contains the "truncation of credit card and debit card account numbers." Anyone who takes credit card or debit card payments for goods and/or services needs to know that the law prohibits the printing of more than the last five numbers of a credit or debit card number or the expiration date on a customer receipt. This provision applies only to electronically generated receipts and carries a delayed effective date. The text of the provision is listed below:

SEC. 113 TRUNCATION OF CREDIT CARD AND DEBIT CARD ACCOUNT NUMBERS.

Section 605 of the Fair Credit Reporting Act (15 U.S.C. 1681c) is amended by adding at the end of the following:

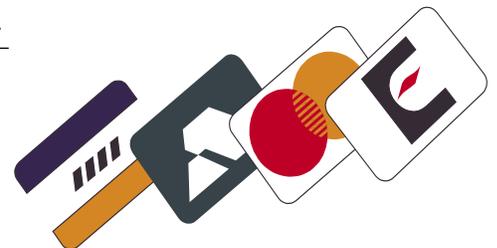
(g) TRUNCATION OF CREDIT CARD AND DEBIT CARD NUMBERS-

(1) IN GENERAL-

Except as otherwise provided in this subsection, no person who accepts credit cards or debit cards for the transaction of business shall print more than the last 5 digits of the card number or the expiration date upon any receipt provided to the cardholder at the point of the sale or transaction.

(2) LIMITATION-

This subsection shall apply only to receipts that are electronically printed, and shall not apply to transactions in which the sole means of recording a credit card or debit card account number is by handwriting or by an imprint or copy of the card.



(3) EFFECTIVE DATE-

This subsection shall become effective:

(A) 3 years after the date of enactment of this subsection, with respect to any cash register or other machine or device that electronically prints receipts for credit card or debit card transactions that is in use before January 1, 2005; and

(B) 1 year after the date of enactment of this subsection, with respect to any cash register or other machine or device that electronically prints receipts for credit card or debit card transactions that is first put into use on or after January 1, 2005.

RFID – What Cost to Retailers?

Radio frequency identification, or RFID, could add millions or billions of dollars to the cost of running big businesses with big inventories. No one in the supply chain will be spared. From creation to supply to final destination, everyone will share in the price tag.

RFID is a small chip used for tracking merchandise. Unlike bar codes, which facilitate scanning and tell the retailer that an item is in stock, RFID can track the item to its exact location. It can record a product's expiration date, its temperature, can be scanned from 30 feet and can even track merchandise in transit. All these goodies come at a cost, though, as Wal*Mart and the Defense Department are finding out.

Both the store and the agency announced last year that they would require a number of their suppliers to adopt RFID. Wal*Mart plans to put RFID in only three of its Dallas distribution warehouses and the stores these warehouses supply.

Suppliers have been put to the test. Not only do they need to buy the RFID tags, about 30 cents each, they have to buy the hardware and software. Many suppliers also have to redesign warehouses, packaging and business processes.

All this is good news for the tech industry. Although RFID has been around for about 15 years, it isn't widely used in the supply chain. Ranchers and automakers are the big users now. At least 40 million farm animals and keys for about 100 million cars carry RFID chips. RFID technology is advancing already, and once on the bandwagon, both suppliers and retailers may see new uses for the device, which will require

Characteristics of Direct Market Purchasers

Is there a difference between consumers who buy through direct channels and those who don't? *Direct Magazine* surveyed consumers and found certain differences. Perhaps these findings can help you determine some marketing strategies.

- 71% of direct market purchasers say they regularly multitask to save time.
- 47% of non-purchasers say they regularly multitask to save time.
- Direct marketing purchasers are more likely to buy take-out food, give up sleep and hire people to do things for them.
- 70% of direct marketing purchasers say they shop online, compared to 48% of non-purchasers.
- 27% of direct market purchasers make financial transactions over the Internet compared to 14% of non-purchasers.
- 44% of direct marketing purchasers agree it isn't safe to use a credit card to make purchases, 58% of non-purchasers say it isn't safe.

Source: "Quick Bites" by Sam Geist. 800-567-1861, <http://www.samgeist.com>.

more hardware and software, money in the bank for tech businesses.

New uses are already being released. Software supplier SAP just released a product that will store information taken from bar codes and RFIDs that can help with inventory counts. The price to retailers could be from \$50,000 to \$100,000 per location just in software to put RFID to work.

Fewer Underage Youths are Buying Tobacco

The Nevada Department of Education has confirmed that fewer underage youths are purchasing cigarettes at stores and more are being asked for ID when they try. The Department's conclusion comes from the results of the Youth Risk Behavior Survey.

The results of the survey show that

the percentage of high school students who are regular smokers and who buy their own cigarettes at a store has dropped by 41 percent since 1995. Further, the percentage of students who buy their own cigarettes and are not asked for ID when they are purchasing has fallen by 37 percent. These results confirm the Attorney General's own survey showing that underage youths are able to buy tobacco from Nevada stores only 11.2 percent of the time.

In addition, smoking and smokeless tobacco use is decreasing among Nevada's high school students. In 1995, 33 percent of Nevada high school students had smoked on one day in the last 30 days. In 2003, that dropped to 19.6 percent, a 41 percent reduction. Also in 1995, 73 percent of Nevada high school students tried smoking. By 2003, that number had dropped to 57 percent, a 21 percent

Youth Tobacco continued on page 4...

We Card Program is 8 Years Old

Eight years ago a group of national trade associations came together to create the now nationally known Coalition for Responsible Tobacco Retailing and the *We Card* program. RAN has continually worked with the Nevada Attorney General's office and *We Card* to help stop underage tobacco sales.

This year, *We Card* will offer 200 free retail classroom training sessions nationwide. They will also expand training opportunities on the www.wecard.org website, offer free *We Card* materials and information for downloading from the website (or a free CD-ROM of files and graphics) and will have new tools available such as the Age Checker,™ which serves as an electronic calendar and automatic age-calculator, complete with sale/no sale lights informing both the customer and employee of legal tobacco sales.

We Card offers training guides for store managers, quick reference materials to help clerks spot fake IDs, 3rd party sales and other age checking tools, and material such as the "We Card" window and door decals, point of purchase cards, and wall mounted signs that warn patrons that the store checks IDs for tobacco purchases.

Also available are an interactive training CD-ROM, a training video on VHS or DVD, and the Resource Kit for Responsible Tobacco Retailing on CD with information in printable format.

More information is available, at 866-216-2334 or at www.wecard.org.

Youth Tobacco

continued from page 3

reduction. The percentage of students who used chewing tobacco on one or more of the last 30 days dropped by 67 percent from 1995.

"Everyone in Nevada, the health community, the schools and retailers have partnered to reduce the problem of smoking and tobacco use by our children," says John Albrecht, senior deputy attorney general. "These results show that when we work together, we are successful."

The Department of Education surveys a range of behaviors among Nevada high school and middle school students every other year. The complete results are available on the Internet at <http://health2k.stave.nv.us/hihds/yrbs/>.

The Attorney General's office has conducted compliance checks on stores that sell tobacco since 1995, as required by federal law. Every store in Nevada is visited two to three times per year. Underage youth assist in these checks and, if asked, must tell their true age. They cannot misrepresent their age.



Nevada Ranks Second for Growth of Small Businesses

Nevada ranks second in the growth of small businesses, according to the U.S. Census Bureau's latest statistics. The state slipped from its first place showing in 2000, and held the second place in 2001 with a 4.8 percent increase in small business growth.

Nationally, small businesses make up more than 70 percent of all businesses. They may be run by one or more individuals, can range from home-based businesses to corner stores or construction contractors, and often are part-time ventures with owners operating more than one business at a time.

Four economic sectors accounted for almost 60 percent of non-employer receipts—real estate and rental and leasing, \$147.8 billion; construction,

\$112.3 billion; professional, scientific and technical services, \$91.3 billion; and retail trade, \$73.7 billion.

Some of the detailed Internet tables show the number of establishments in nearly 300 industries and their receipts for the United States, states, counties and metropolitan areas.

Small business growth includes beauty salons, up 4.8 percent; child care providers, up 4.4 percent; landscaping services up 4.2 percent; barber shops, up 3.6 percent; real estate agents, up 2.0 percent; tax preparers, up 1.8 percent and electricians, up 1.0 percent.

Overall, the number of businesses with no paid employees grew from more than 16.5 million in 2000 to almost 17.0 million in 2001, a growth rate of 2.7 percent.

Northern Nevada Posting Requirements

Following is a list of the posting requirements for Northern Nevada businesses. These are state requirements. *Employers with federal contracts may need additional posters.* *

Posters Available

Notice to Employees

(Unemployment Insurance)
Call the Dept. of Employment to request or can be printed from www.nvdetr.org.

Rules to be Observed by Employers (Abstract of NRS 608)

Workers' Compensation Poster

- Emergency Phone Numbers
- Nevada Safety & Health
- Protection on the Job
- Nevada Workplace Safety—
Your Rights & Responsibilities

Nevada Law Prohibits Discrimination

Family & Medical Leave*
Polygraph*
Minimum Wage*

Source

Dept. of Employment, Training & Rehab

Unemployment Ins. Contributors
775-687-4545

Nevada Labor Commission

1445 Hot Springs Rd., Suite 109
Carson City, NV 89706
775-686-4850

Your Self Insured Group

If NRNSIG:
810 E. 5th St., Suite A
Carson City, NV 89701
800-859-3177

Dept. of Industrial Relations—OSHA

400 W. King
Carson City, NV
775-684-0400

4600 Kietzke Lane
Reno, NV 89502
775-688-1380

Nevada Equal Rights

2450 Wrondel Way, Suite C
Reno, NV 89502
775-688-1288

U.S. Dept of Labor Wage & Hour Division

50 S. Virginia St.
Reno, NV 89502

Hire Right the First Time

The National Association of Convenience Stores (NACS) has a tool that can help you “hire right the first time—the Employee Selection Tools.” The associate test includes 70 questions that measure the following competencies:

- Basic Skills—reading comprehension and the ability to work with numbers.
- Dependability, which includes reliability and conscientiousness—the extent to which the candidate can be counted on to do the job right.
- Work Ethic—includes integrity and the willingness to work hard.
- Commitment and caring—refers to the candidate’s sense of pride in a job well done and his or her commitment to the job and to his or her career.
- Respect for Attendance Policies—a measure of the extent to which the candidate values showing up for work on time and as scheduled.
- Focus on the Needs of Others—includes cooperation with team members, helpfulness, responsiveness and service orientation.

“The validation research we have done leaves no doubt that Employee Selection Tools is an extremely powerful tool to predict an applicant’s performance,” says Teri Richman, senior vice president of NACS Research and Development.

NACS members can buy the Tools—Associate beginning at \$8.99 per test. Discounts are available for large quantity purchases. Tests must be bought in batches of 10. For information, or to request a free product demonstration, visit www.nacsonline.com/employeeselection.

Source: NACS Magazine, January 2004

Sparks Florist Makes Great Changes for Customer Satisfaction

Sparks Florist met the new year with changes designed to add to the delightful business of flower shopping with a customer-friendly plan that emphasizes customer convenience.

The first thing a customer notices when visiting the remodeled shop located on the corner of Pyramid Way and Oddie Blvd. is the new fountain, a grouping of Basalt Water Fountains unique to the Sparks area. It offered a spectacular winter-scape to the entrance when area temperatures dipped below freezing, turning the fountain into an icy sculpture for passersby to enjoy. New landscaping also surrounds the entry.

As pleasant as the outside of the shop is, customers will enjoy the new features inside, which allow for privacy when needed, quick service and the continuing attention to detail that Sparks Florist always delivers.

For those customers who are planning weddings or dealing with a funeral, the shop offers private rooms so the customer can attend to the matter in a quiet atmosphere.

Another new feature is the 250 sq. ft. walk-in cooler that is filled with a variety of fresh arrangements. Pick and choose through fresh flowers to make your own bouquet, choose a floral arrangement already made up, or choose the flowers you want their designers to put into an arrangement for you.

Besides the Sparks location, there is another retail shop in Reno in the Smithridge Center and a Floral Design Center on Hymer Ave. in Sparks.

The 10,000 sq. ft. Hymer location is sort of the heartbeat of the operation. That's where most of the design happens. It's also the location of the phone center, the delivery department and the care and handling area of all their products. The retail stores are



Sparks Florist now has private facility for wedding planning.

created for the customers and also have floral designers available on site, says Suzanne Shepherd, director of Internal Operations for Sparks Florist.

Sparks Florist runs a number of customer-friendly programs through the year, like the Good Neighbor Day each September that it started participating in 9 years ago.

Shepherd says it's the day the florist gives away roses in bundles of 10. The idea is to keep one for yourself and spread the happiness around by giving away the other nine. "People really do what they're supposed to do and hand out the roses to other people," says Shepherd. Some people spread them around at the office, others give them to family and friends, and still others visit nursing homes and hospitals and pass them around there. Participants have the pleasure of passing out beautiful roses and creating smiles.

Another popular program Sparks Florist runs is Happy Hour Bouquets. Customers can get \$20 worth of flowers for \$9.99 between 4:00 p.m. and

6:00 p.m. each Friday. Shepherd says they've built up a regular clientele who stop by each Friday afternoon to pick up their flowers to enjoy for the next week.

If you're not exactly sure what arrangement to buy for someone, or you know someone who loves to have a house full of fresh flowers, Sparks Florist also sells gift certificates.

Sparks Florist's first location was on B Street where it opened in 1960. It moved to the Pyramid Way/Oddie Blvd. corner in 1970. The remodel of this location was completed in early December. The design center and Reno store were added in later years.

Sparks Florist President and CEO Tony Fiannaca says the remodel of the Sparks store had been planned for several years, and he was pleased to present it to the public on December 4, 2003. "We are proud to be celebrating our 43 years in business here in Sparks, and we take pride in what we have accomplished over the years," Fiannaca says.

NACDS Creates Retail Opportunity at 2004 Marketplace

The 2004 Marketplace Conference is headed for San Diego, CA, this year with plans to bring together the largest convergence of drug, food, mass, club and value retailing in the United States.

The National Association of Chain Drug Stores (NACDS) presents this opportunity each year for retail and manufacturing senior management from sales, marketing and merchandising category managers, buyers and brokers to come together in one space.

The Marketplace presents products and services, category by category, which gives retailers the opportunity for one-stop shopping to compare products, programs and pricing—providing exhibitors with a timely and efficient assessment of their impact in the marketplace.

The Marketplace also is where new products debut and where

merchandising starts.

NACDS says the 2004 Marketplace will focus on the best opportunities for finding new products and new vendors during the “Meet the Market” session. It will also focus on the heightened success in pursuit of business-building initiatives and resolution of trade issues. It’s an opportunity to explore by category, in sit-down, face-to-face meetings, as well as to learn about new merchandising trends, line extension, new packaging and competitive opportunities.

The show also offers opportunities for retailers and exhibitors to network in informal venues, build alliances and close deals. Everything about Marketplace is orchestrated to enhance each participant’s business environment and opportunities.

NACDS 2004 Marketplace runs from June 21 - 24, 2004.

Global Payments

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interchange rates for a variety of different types of transactions, and when this occurs, a processor or ISO typically passes the increase directly to its merchants. An interchange increase can happen as often as twice a year but usually only occurs once every few years. The amount of each increase should be fully disclosed on your monthly statement at least one month in advance of the change. As always, if you’re ever confused about any increase to your pricing, contact your processor or ISO immediately.

Global Payments is the endorsed credit card processor and check service provider for the Retail Association of Nevada. To learn more about how we can help your business, contact Tim Jensen at 800-719-5002. Also, feel free to visit Global Payments’ website at www.globalpaymentsinc.com.

Global Payments offers payment solutions designed for the retail industry including processing for credit/debit cards and check services. As the endorsed processor for the Retail Association of Nevada, Global Payments offers special pricing exclusively to RAN members. **Call Tim Jensen at 800-719-5002 or email him at tim.jensen@globalpay.com.**

Greg Leos is the Regional Manager, Northwest, for Global Payments.

• Seminars •

April – 2004

IMRA Loss Prevention, Auditing & Safety Conference

April 13 - 16, 2004

Dallas, TX

Contact: rasher@imra.org

NACDS Annual Meeting

April 17 - 21, 2004

Scottsdale, AZ

Contact: www.nacds.org

NACS Category Management

April 28 - 29, 2004

Chicago, IL

Contact: 703-684-3600

May – 2004

NRF CRMretail: Customer Relationship Management Conference

May 11 - 12, 2004

Orlando, FL

Contact: 800-MRF-HOW2

NACS Tech 2004

May 17 - 19, 2004

Grapevine, TX

Contact: 703-684-3600

FMI Financial Executive Conference

May 23 - 26, 2004

Orlando, FL

Contact: pshinko@fmi.org or call 202-220-0705

NRF Washington Leadership Conference

May 26 - 27, 2004

Washington, DC

Contact: 800-NRF-HOW2

June – 2004

NACDS MARKETPLACE 2004

June 21 - 24, 2004

San Diego, CA

Contact: www.nacds.org

Abbreviations

FMI • Food Marketing Institute

IMRA • International Mass Retail Assn.

NACDS • Nat’l Assn. of Chain Drug Stores

NACS • Nat’l Assn. of Convenience Stores

NRF • National Retail Federation

The New Feudal Society

By Sanford Kahn

Part 2 of two. Part 1 of this series, "The Gathering Economic Tsunami," appeared in **RAN Nevada News** January 2004 issue. The opinions expressed in the following guest article is solely that of the author and not that of the Retail Association of Nevada.

There is an old saying that goes something like this—what goes around comes around. This saying is plausible, but not entirely correct. What goes around does come around, but in a different shape and form. To appreciate more fully this new "feudal society" we will be entering, we must first examine where we have been and the consequences flowing from that time and place.

The period from about 1995 to 2000 was a very unique interval in our economic/business history. The economic events that occurred in this time period happen, at most, twice in a century. This period of time is called a founders' economy, and the years 1995 to 2000 comprised the first stage of this founders' economy. It's a time of fundamental and rapid technological and economic transformation of society. The transformation is permanent, and it seems to defy the laws of economic gravity. The last such period occurred in the 1920's, which resulted from the confluence of the rapid electrification of the U.S. along with the mass introduction of the automobile.

The first stage of a founders' economy ends in a bubble that pops. When it pops, the second stage is called the "blood in the streets" phase. We are in that phase now, and it will dictate our new social and economic environment.

The term "blood in the streets" does not necessarily imply actual corporal fighting. Instead, it means an intense period of business competition. This stage can easily last 15 to 20

years. It continues until the weak business enterprises are filtered out. The difference now, compared to the previous founders' economy, is that not only do you have intense business competition within our national borders but also internationally. The Internet, along with inexpensive communication and transportation costs, has helped to transform the international marketplace. In this second phase, how companies compete and price their goods and services will give rise to the new business serfs and lords—the new feudal business society.

From the end of World War II until the late 1990's, companies more often than not used the cost-driven model to price their product or service. In this model a company added up all their costs to produce a product or service and then tacked on a competitive profit margin. This, then, determined the price at which to sell their product or service. For the majority of times it worked.

It is in this second stage of intense business competition that the traditional cost-driven model breaks down. Competition is intense because dramatic worldwide increases in productivity have led to too many goods chasing too little demand. Companies now have very little pricing power.

Companies now have to use a price-driven model of pricing. This model answers the question, "What price will cause my firm's product or service to clear the market?" In other words, what price will give me a



competitive advantage? It is usually a lower price than the cost-driven price, but with that comes less competition.

Once you determine the price of your product or service with the price-driven model, you do everything in your power to slash all costs. This includes labor, medical, inventory, material, and any other expense that can be cut. No cost is sacred. In this second phase, you have to reduce all expenses to stay competitive.

It is this second phase of the founders' economy that will give rise to the new business "lords" and "surfs." The new lords will be those business people who can quickly discern, adapt to, and exploit the unpredictable movement in the turbulent flow of life. The new lords will be those business people who have as their target the goal of growing the **free cash flow** of their business. This cash flow represents the means for those shrewd business people to take advantage of opportunities and events that present themselves. By

New Feudal Society continued on
next page...

New Feudal Society

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so growing the free cash flow of a business, not only do you increase its value, but also you provide it with the means to maintain its market share and possibly increase it. On the other hand, the new surfs are those businesses that are mired in debt and illiquidity. If they stay this way, they will travel down the road to extinction.

I place major emphasis on building free cash flow primarily because you could be the smartest business manager alive, but without the free cash flow (the financial means), it will be difficult to capitalize on opportunities in this second phase. Having an ample free cash flow allows you the opportunity to take business risks and survive the possibility of failure. It also allows you to hire the talent necessary to grow your business and expand your market share.

In the old feudal society (circa 1200 AD), everything was rather constant. If you were born a surf, that is where you stayed. If you were born a lord, that is where you belonged. In the new feudal society, nothing is constant. Through luck, change of management focus and acquisitions, it is very possible that business surfs can become lords. Conversely, if business lords should lose their focus and become complacent in this extremely competitive phase, they could stumble down the path toward serfdom.

Lastly, one must keep in mind that the novel conditions with which businesses now have to deal to remain viable entities in the coming decades will have a seismic impact on the social order and the expectations

prevailing among the individuals who make it up. The future belongs to those individuals (lords) who have the intellectual acumen to anticipate and the wherewithal and flexibility to take advantage of developing opportunities. The surfs are maladroitness and floundering in debt. It will be difficult for them to seize opportunities.

The new surfs are those businesses that are mired in debt and illiquidity. If they stay this way, they will travel down the road to extinction.

—Sanford Kahn

The second phase of the founders' economy will be more turbulent than that which preceded it. But, therein lie the opportunities for those who can and wish to be lords. Out of turbulence comes the potential for growth.

To paraphrase Mel Brooks, it is good to be a business lord.

Sanford Kahn is a business author/speaker. For more information about his programs, please see his web page at www.businessspeaker.biz. You may also call him at 562-434-4695 or email him at sanford16@yahoo.com.

Focus on Your Strongest Selling Point—How You Sell, Not What You Sell

If you're in the food business, what's your strongest selling point? You might say the food, but maybe you're forgetting the real focus—how you sell, not what you sell.

Customers can buy a can of Hunt's tomato sauce or a loaf of Wonder Bread at any store. What brings that customer to your store rather than to your competitors? Are your employees your best ambassadors to the customer, or do you need to start paying attention to some different ideas?

Michael Sansolo, contributor to FMI's *Independent's Edge* online report, says a keynote speaker at a recent FMI Human Resources Conference emphasized some aspects of employee relations that might change conventional wisdom. The speaker shared these thoughts:

- Too often we focus on retention first, she said, forgetting that we really want to retain our top performers. For that reason, boosting performance is far more important than simply boosting retention so that you have workers you really want to keep.
- The key to improving employee performance is providing fair and accurate feedback and not letting informal impressions distort the picture. Also, employees want a culture that permits them to take risks in the name of improving business. If risk is only punished, everyone stops trying new things.
- Make sure employees understand that performance is the most important measure of success. They need to know what you expect and—they say this clearly—most times the expectations are a mystery.
- Emphasizing performance strengths drives improvements for all workers, from the CEO to an entry-level clerk. Too often, we emphasize the negative and get the wrong results. We need all managers to understand this.
- A manager has the biggest impact in enabling workers to find solutions, not in solving problems for them.

TAKE CONTROL OF YOUR WORKERS' COMP COST

- X Greater management control that cuts overhead costs
- X Pre-employment screening at a small co-pay for NRN members only
- X Team Safety/Loss Control Program for all members
- X Investigation and defense of claims
- X Direct savings that give members greater incentive to control losses

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The Retail Association of Nevada
1007 N. Nevada Street
Carson City, NV 89703-3937

• Membership in RAN Required •

Important information for SIG members

The NRS governing self insured groups requires notifying members of all new members to the Group. New members for NRNSIG from Dec. 31, 2003 to Feb. 13, 2004, are listed below. For a complete member list, please call RAN at 775-882-1700. Due to the many new members added each month to NRNSIG, we are unable to list the entire membership on this page.

NRNSIG

7-eleven 33022
24-7 Express
Advanced Vital Care
American Assay Labs
American Caregivers
American High Voltage
Arco AM/PM
Big O Tires 28854
Big O Tires 28851
Big O Tires 28850
Boy Scouts of America
Budget Solar Screens
C & L Mini Storage
Carson Horseshoe Club
CV Golf Course
Comforts of Home
Consolidated Laboratory
Crowbar

DiBella Flowers
Dairy Queen of Gator Valley
Disability Resources
Edward Malik
Fremont Street Experience
G & G Nursery
Gilcrease Nature Sanctuary
Golden Nugget Automotive
Green Valley OB/GYN
Hendrickson Cutler
Home Care Plus
Jackson & Farmer
John's Auto Center
KFC Elko
Laser Align
Leonard's Machine Shop
Liberty Lock & Safe
Luv' N Kare - NW
Luv' N Kare - NE

Luv' N Kare - SE
Luv' N Kare - CTC
Mesquite Tire
Murry Springs Bottling
Nandi AM/PM
Nevada Forest Products
Peter Barbiera Therapy
Pueblo Primary Care
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Losing Control

Researcher Discovers a Surprising Effect When Changes are Introduced

By James Larsen, Ph.D.

Supervisors are hiding something from their managers. They're hiding deliberate violations of operational procedures by their employees. This happens when employees are asked to follow procedures they find awkward or inefficient. They don't want to follow them, and if you ask them why, they will complain about managers devising procedures for employees to follow that they don't have to follow themselves. So, employees devise their own procedures, and the work gets done.

Supervisors see this occurring, yet they assure their managers that proper procedures are being followed. But even as they are giving these assurances, they are supervising employees who are following different procedures. It's a deception, and it occurs in most employment settings. Things run smoothly, sometimes for years, but occasionally, something goes terribly wrong. People get hurt and businesses lose money. Investigators quickly assign blame—proper procedures weren't followed. But often, they also note that important changes in the work place occurred just prior to the catastrophic event. They note it, but they can't explain how such changes may have contributed to the problem.

The curious presence of change attracted the attention of Rangaraj Ramanujam, from Purdue University, who wondered if change was a contributing cause of business disasters. However, it was a difficult research question to answer, so he framed his research around a different question, the influence of change on the occurrence of deliberate violations of procedures, the other contributing factor often noted by investigators.

Ramanujam found a large financial services firm that had an ongoing program of internal audits of company units. One factor they rated was deliberate procedural errors. They called them "latent" or "hidden" errors.

Ramanujam collected 80 of these audits and then noted the presence of three kinds of change occurring just before the audits: 1) organizational structure changes (reporting relationships and consolidating functions), 2) a new unit manager, and 3) a change in technology such as new software. These were deliberate changes, often intended to improve operations. He also noted the risk in the unit's work, the potential for harm if things go poorly.

Ramanujam found that low risk units with little change revealed no

Ramanujam believes managers should augment the shared memory in their units...

increase in hidden errors in their audits. High-risk units with little change revealed even fewer hidden errors. In the absence of change, few errors were detected, but things were dramatically different when change had occurred.

High-risk units with the most change revealed four times as many hidden errors as low risk units experiencing change. This was a steep increase over past audits. They were powder kegs waiting for a spark. They were out of control, and it was change that caused the problem.

Ramanujam believes two things happen when change occurs. 1) people withdraw attention from routine operations to implement

the change, and 2) units lose shared memory that helps prevent unauthorized procedures from turning out badly.

Shared memory involves the collective knowledge of everyone in a unit about the routine procedures they follow. It's like your spouse reminding you to lock the dead bolt on the door when you leave because she knows you don't like to do it. If you remove the spouse or occupy her with other activities, you won't get reminded and the door will stay unlocked. Probably, nothing will happen unless a burglar tries your door that day.

Four high-risk units that experienced much change survived their audits with no hidden errors at all. Ramanujam investigated to learn more.

He found that the managers of these error-free units acted to stimulate and preserve the shared memory of their people about their routine operations. Managers did this even as they introduced significant changes. They actively involved themselves in these routine operations. They read the reports they received, and they knew what they said.

Ramanujam believes that managers should copy this example when they introduce change, especially if the work is risky. He also believes they should augment the shared memory in their units by assigning people to monitor routine operations during change and by conducting audits that look for deviations from policy.

*Reference: Ramanujam, Rangaraj (2003) "The Effects of Discontinuous Change on Latent Errors in Organizations: The Moderating Role of Risk." **Academy of Management Journal**, 46 (5), 608-17. C 2004 Management Resources*

Washington Watch



New Weights & Measures

Proposal Defeated—Changes to weights and measures regulations are stopped at this time, but the Food Marketing Institute (FMI) says it could come up again next year.

FMI submitted comments on the proposal to the National Conference on Weights and Measures (NCWM), the organization that drafts model laws for adoption by state and federal agencies to regulate industries that use weights and measures.

The NCWM proposal would have required all cash register and computer monitors used at checkout to have customer displays, which could mean expensive equipment changes, says FMI.

The proposal, which would be added to § 6.2 Handbook 130

Examination Procedure for Price Verification, stated:

(x) A cash register or computer monitor used to list and total customer purchases must be positioned so that its indications may be observed from a reasonable customer location and/or have a remote indicator display so that its indications may be observed from a reasonable customer location.

The proposal was defeated in the National Committee, but a regional association can send a new proposal back to the NCWM next year or at any time in the future.

NCWM's membership includes state regulators, federal regulators and industry. To find out more about the organization, go to <http://www.ncwm.net>.

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Nevada News is an official publication of the Retail Association of Nevada.

Retail Association of Nevada is a nonpartisan, nonprofit corporation founded in 1969 representing the Retail Community, the Chain Drug Council and the Grocery Industry Council.



Nevada News

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