PERSPECTIVE
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PULLING THE TRIGGER ON RFID IN APPAREL RETAIL

Few would dispute that the major opportunity for Radio Frequency Identification (RFID)-enabled processes to drive improvements in the apparel supply chain lies at the item level, and not at the case or pallet level. Yet there is a misperception that sizeable benefits will only be attained once shelf readers become ubiquitous and individual garments are tagged in mass quantities.

Retailers can create immediate benefit today, however, by deploying handheld RFID readers in store environments, tracking as little as one or two high-priority SKUs. With nearly 75% of retail out-of-stocks attributable to deficient store ordering, shelving, and forecasting, there is plenty of opportunity for RFID to quickly make its mark on the apparel sales floor.

To date, retail-driven RFID initiatives have focused predominantly on consumer packaged goods (CPG) products, following the standard CPG migration path from pallet- to case- to item-level tagging. RFID tagging of apparel presents a different set of opportunities and challenges.

KSA poses the following questions to help apparel retailers and suppliers clarify their RFID vision.

1. Why do the migration paths for RFID adoption differ for apparel and CPG?
2. How will adoption differ for specialty, discount, and department store retailers?
3. Where can apparel retailers achieve benefits most readily?
4. What should companies be doing to prepare for RFID technology and related process changes?

MIGRATION PATH

Unlike high-value, high-theft items like pharmaceuticals and consumer electronics, most CPG products cannot readily support item-level tagging at current hardware prices. Merchandise price points and gross margins for apparel, by contrast, are generally much higher than for most CPG products. Additionally, many garments are seasonal items and must be "at the right place, at the right time," lest they land on the clearance rack.

The fact that garments are produced in an array of colors, styles, and sizes creates a business case for RFID-enabled item location tools that simply does not exist for cans of soup. Apparel customers leave store displays in disarray as they hunt for styles and sizes, and they are not shy about directing store associates to search the back room if required. Supermarket stocking personnel, on the rare occasion they are asked to locate products in the back room, typically search for cases or pallets, not single items.

Finally, unlike CPG distribution facilities, where pallet and case picking is more

prevalent, most apparel distribution centers (DCs) operate as "pick and pack" operations. These apparel facilities have optimized their operations on bar code technology. RFID brings comparatively little incremental efficiency to an apparel DC relative to a CPG DC. When cross-docking is employed for fashion apparel, cases normally contain a mixture of SKUs — unlike CPG, where cross-dock items are more often straight SKUs, requiring less auditing for accuracy.

As a result, apparel retailers will typically start equipping their stores with RFID technology before gradually extending into upstream points of distribution. Item-level tagging will become common, with case- and pallet-level tracking being adopted where appropriate. The CPG industry has an opposite migration path, with broad initial deployment at the pallet and case levels, driven primarily by the cost of individual RFID tags.

Apparel retailers will have the ability to easily identify garments throughout the store and determine their appropriate location. In doing so, garments will be located where customers expect to find them, thus increasing sell-through performance of RFID-tagged items. CPG retailers working at the case level must, by contrast, rely on programmed logic and intricate assumptions to improve store-level execution. It will be difficult for them to match the performance improvements experienced by apparel retailers.

FORMAT-SPECIFIC EXECUTION CONSIDERATIONS

DISCOUNTERS: BROAD BUT SHALLOW

The mandates of Wal-Mart and Target are well documented. These retailers have mobilized large groups of suppliers spanning multiple product categories, of which apparel is but one. Garments are being tracked at pallet and case levels. The sheer velocity of sell-through allows these retailers to use intelligent algorithms to trigger out-of-stock alerts and deliver automated pick lists to store associates. The multi-category nature of their stores and their lean staffing models make it difficult to execute item-level applications on narrow sets of tagged garments. Instead, these retailers will focus on breadth, expanding their programs to include an increasing number of apparel SKUs. As tag prices drop and tagging at source becomes more commonplace for garment manufacturers, item-level tracking will become increasingly feasible for discounters.

SPECIALTY STORES: NARROW BUT DEEP

Specialty retailers are positioned perfectly to begin capitalizing on item-level RFID tracking. Their store footprints, staffing models, and price points lend themselves well to the introduction of item-level tagging of high-priority SKUs. One U.S. specialty retailer recently elected to focus its chain-wide roll-out on just a single high-value SKU. A store associate can effortlessly wave a handheld reader in the vicinity of specified store fixtures once or twice per day, dramatically

increasing the integrity of "perpetual inventory" data and, in turn, on-shelf availability. Additional SKUs can easily be added to this regimen with very little incremental labor.

Vertically integrated retailers stand to benefit the most from item-level RFID. These retailers can most easily drive their internal merchandise planning activities off of RFID-generated product flow data. If the RFID tag is applied at source — and no class of retailer is better positioned to obtain source-tagged product — specialty retailers can track the item across the entire value chain without the burden of descending into the politics of data sharing, as required in traditional retailer/supplier relationships.

DEPARTMENT STORES: A HYBRID APPROACH

Department store retailers can follow the lead of specialty retailers and initiate item-level tagging of selected SKUs. However, rather than tag merely one or two SKUs, they are more apt to RFID-enable entire product categories, as European retailer Marks & Spencer is set to do. The vertically integrated UK department store is rolling out item-level tracking to 53 stores. It will track men's suits, jackets, and formal trousers, and women's suits, skirts/trousers, and lingerie. Every garment in these six departments will bear an RFID tag. Non-vertical department stores may opt instead to tag all garments from one or more suppliers within a specific department (e.g., all men's designer jeans). This hybrid adoption model exhibits greater breadth than specialty, covering more SKUs, and greater depth than the discounter approach, since it advances beyond pallet- and case-level tracking (see Figure 1).

HOW CAN RFID IMPACT FINANCIAL PERFORMANCE?

SITUATION: Retailer X is a $1 billion specialty apparel retailer. Approximately 10% of its SKUs are high-priority SKUs, based on velocity and margin contribution. These SKUs generate 40% of total revenue and 45% of gross margin. High-priority SKUs experience an out-of-stock — defined as any instance the customer is unable to locate the precise size, color, or style on the shelf or rack —20% of the time. Retailer X elects to use RFID to maintain 100% in-stock performance at shelf level for this group of high-priority SKUs.

RESULT: Increasing in-stock position to 100% — a 25% improvement over the initial 80% performance level — yields a 15% increase in sales of these SKUs (net of minor cannibalization of other SKUs). Sales increase from $400 million to $460 million, growing the company's total revenue from $1 billion to $1.06 billion or 6%. Since these SKUs yield above-average profit contribution, gross margin increases by nearly 7% and Retailer X's storewide sales conversion rate improves by almost 3%.

IMPLICATION: Even tactical deployment of RFID can yield significant financial improvement. Merchants should begin identifying SKUs that merit this new level of on-shelf visibility.

CHANGING DYNAMICS

The picture can and will change once the industry's major participants become more assertive in pursuit of their objectives. Once a discounter moves into item-level tracking, it will be difficult for competitors to remain idle. Once a market-leading department store chain mandates item-level tagging (perhaps after piloting with its own private label merchandise) it will be difficult for suppliers of branded apparel to resist the new requirement. Therefore, it is important to recognize that the migration paths outlined above merely describe logical scenarios for initial RFID adoption.

PREPARING FOR RFID

Apparel suppliers should engage their largest customers in dialogue and discuss their respective timetables for item-level RFID adoption. There is an opportunity for suppliers to be proactive, volunteering their clothing lines for collaborative RFID pilots. In return, suppliers can request improved access to data (RFID and non-RFID). Forward-thinking suppliers should view this as an opportunity to strengthen account relationships, marginalize competitors, and drive revenue. Improved shelf conditions and in-stock positions make winners out of suppliers and retailers alike.

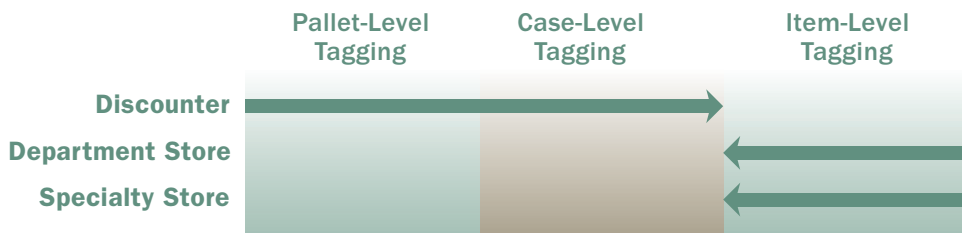
Apparel retailers should look inwards before looking outwards. Rather than accelerate RFID plans solely as a competitive response to rivals' tagging initiatives, retailers must uncover internal opportunities to improve merchandise flow. Attention to store operations metrics, point-of-sale (POS) data, and item profitability results will highlight items worthy of early attention.

To get started:

1. Form cross-functional RFID core teams.
2. Develop the internal business case for item-level RFID tagging.
3. Create guidelines and communication policies that address consumer privacy.
4. Join cross-industry working groups.
5. Discuss RFID with key trading partners.

For more information about how KSA can help you create immediate benefit through RFID, or to request additional copies of this Perspective, *e-mail publications@kurt-salmon.com.*

FIGURE 1 — RFID MIGRATION PATH BY RETAIL FORMAT



Source: KSA Analysis