

AN Apparel THOUGHT-LEADERSHIP REPORT

# APPAREL RFID:



## ENHANCING THE CUSTOMER EXPERIENCE

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Retail Branding and  
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Leading apparel retailers are implementing item-level RFID solutions to optimize inventory productivity through improved accuracy and visibility, enabling an enhanced customer experience, a more efficient supply chain and improved bottom line.

**RFID** has emerged from what was thought to be a supply chain solution to a core item-level retail technology that will be essential for retailers who want to compete for savvy consumers — who can now access all types of product information before deciding what to buy, and when and where.

One of the most cited reasons to invest in RFID falls under the broad umbrella of “enhancing the customer experience.” This phrase might summon new-age images of interactive dressing rooms and the like, and those things are part of RFID’s spectrum of innovation. But in its most basic interpretation, this enhancement refers to a vital refinement of the most mission-critical retail capability. And that is making sure there is an opportunity for the customer to purchase the product he or she wants to buy.

This fundamental transaction is, of course, easier said than done in the omnichannel retail environment. Now, to keep consumers coming back for more, retailers must seamlessly link online, in-store and mobile shopping channels, not to mention social media. They must delight consumers with anywhere-anytime access to assortments.

That is why RFID is no longer a “what if” or “maybe someday” type of technology. It’s become almost as essential as the POS terminal.

### RFID ROI: Proof Positive

Apparel, including replenishment items and seasonal goods, presents a compelling RFID business case because of relatively high product prices (compared with grocery items, for example), SKU complexity, sell-through speed, seasonal buying patterns and vulnerability to theft.

Retailers are earning reliable returns from leveraging RFID to reduce out-of-stock items. “That is the payback. It is the problem that RFID is fixing,” says Raghu Das, CEO of market research firm IDTechEx. “It’s the reason why people are deploying RFID.”

And deploying it they are. RFID tag use is surging (see Figure 1), propelled by retailers’ fulfill-from-anywhere strategies.

As the old adage goes, you can’t manage what you can’t measure. Likewise, retailers can’t sell what they don’t have (or are not sure they have) in inventory.

In fact, 73 percent of consumers say they would seek a specific item at a different store if they do not find it at their original shopping destination, and one in four say they would pay more for the item at the store where they do find it, according to a Capgemini supply chain impact study.

**FIGURE 1: Apparel Retail: RFID Tag Use**

YEAR	# APPAREL RFID TAGS USED
2012	1.7 billion
2013	2.3 billion
2014*	3.0 billion
2015*	4.5 billion
2020*	19.0 billion

*\*Projections Source: IDTechEx*

The prospect of winning more full-price sales, and minimizing lost shoppers, has created RFID momentum among fashion retailers. Two out of three of the top 30 U.S. retailers are using RFID, according to Bill Hardgrave, Ph.D., dean of Auburn University’s Harbert College of Business.

“If you’re not doing it now, you’re already behind, and if that doesn’t scare you, it should,” Hardgrave said in a panel discussion at this year’s National Retail Federation convention. “To succeed in the retail and apparel industry, you’ve got to solve the fundamentals first, which means inventory accuracy, and then you can focus on enhancing the customer experience.”

Macy’s is already there. “RFID is about sales growth and improving the customer experience,” says Pam Sweeney, Macy’s senior vice president of logistics, systems and technology. Speaking on the NRF panel with Hardgrave, she shared that Macy’s is moving forward with RFID in more categories and extending its use across more operations. “The greater penetration of RFID throughout the supply chain, the greater benefits we see,” she said. “I encourage more retailers to get on board.”

While Macy’s, Wal-Mart and JCPenney are known for their RFID success, the United States certainly does not have a corner on fashion RFID. Marks & Spencer, for example, which began piloting RFID a decade ago, is expected to tag more than 400 million items this year. And in July, Inditex, parent of Zara and other fashion brands, announced plans to implement RFID in 500 stores annually. The retailer, which already has employed RFID at 700 stores, cited benefits such as improved inventory management, faster restocking, better customer service and stronger security. Other examples include the U.K.’s Tesco, which is embarking on a full RFID rollout for clothing, and Oxygene Group, a leading French sportswear retailer, that will be tagging 85 percent of apparel. ▶

## EXECUTIVE INSIGHT:

*An Interview with Francisco Melo, Vice President, Global RFID Retail Branding and Information Solutions, Avery Dennison Corp.*



**Q: RFID has many potential touch points across the retail supply chain. Where are apparel retailers focusing most of their attention and why?**

**FRANCISCO MELO:** The focus has been on ROI and the clarity of the business case. First of all, retailers are focusing on item-level tagging. They're also talking about source tagging because tagging at the source doesn't create any additional burden or cost for the retailer at the DC or store.

The primary focus is reduction of out of stocks by means of inventory accuracy and visibility in the stores. This in turn drives sales. It's about knowing exactly what they have where they have it, particularly in stores that have a backroom. Oftentimes IT systems have data about what's in the store, but they don't necessarily offer visibility into what's in the backroom vs. the front room. As a consequence the store manager or operations manager might be thinking, "We're all good. My store is all set with the right merchandise." Too often, that's not the case.

**Q: Why is RFID so essential to omnichannel retailing?**

**MELO:** There are two layers. One is linked to inventory accuracy. I know what I have and where I have it. Many retailers have huge amounts of merchandise in stores, and if they can't offer that merchandise online, they lose a unique opportunity for sell-through. Sometimes it's forgotten in the store, and no one even knows it's there. It just sits there until someone does their half-year or full-year updates, finds it and decides to do something, usually marking it down.

The other point is that you reap the real benefit of RFID when you have total store enablement. Total store enablement is when you are able to have your full store assortment also available online. You are going beyond using RFID only for replenishment items. Total store enablement really has two prongs: There is the omnichannel piece, increasing the odds of selling the merchandise,

and there is greater in-store efficiency and improved customer experience that comes from standardization of procedures.

**Q: Reflecting on your customers' RFID implementations, what do successful RFID rollouts have in common?**

**MELO:** The first one is source tagging because they are not burdening the store staff or the DC. Then RFID can do what it's supposed to do — simplify life and free store associates to do what they were meant to do, which is to sell and to be with customers and support them in every way they can. They shouldn't have to be in the back room searching for items and taking lists of merchandise and making sure it's there.

Retailers who have successfully rolled out RFID also choose to focus on obtaining one benefit. You have to focus on one because if you focus on many, the complexity oftentimes takes your attention away from the details. Focus on what you are trying to achieve ... on what's going to pay the bills. Once that's stabilized, then you can layer in new cases and possibilities. Successful retailers don't overburden the store with RFID. They keep it simple, they make it simple to use, and they make it really clear in terms of their single return-on-investment focus.

**Q: So retailers can revolutionize their businesses while getting a relatively quick payback on their RFID investment?**

**MELO:** I firmly believe RFID is a transformational technology, yet in itself, it's quite basic. It is simpler to deploy than people might think. Of course it requires an investment. But it's transformational. It drives benefits for retailers that are way beyond what most expect in terms of visibility and accuracy. We've seen more and more customers realize that. They all start with clarity on one use case. Simplicity. And then they scale from there.





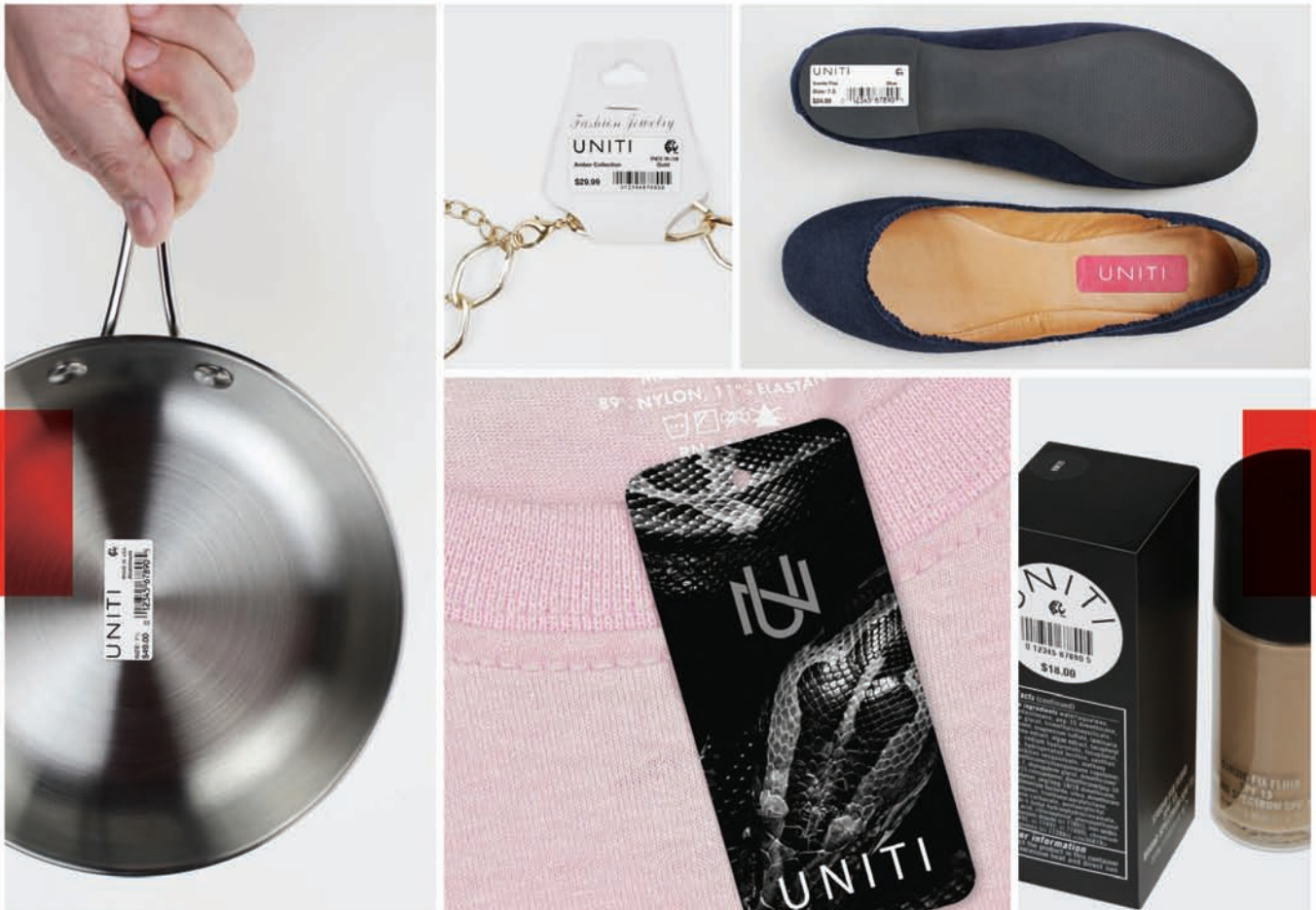
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## Profitable Rollout for Quick Payback

RFID can be implemented and used efficiently with a predictable return. Keeping rollouts simple-yet-scalable is the key. In RFID's earliest years, retailers tended to take on too many applications of the technology at once. Some sought to establish elaborate RFID linkages throughout their supply chains. "They were trying to do a lot of different things. That called for a lot of capital investment in terms of tags, readers and equipment ... and it caused barrier after barrier to make it work," says Das.

More recently, retailers have found strong payback by focusing on a single application, he says. For example, one such application would be to reduce out-of-stock levels at a particular store. To accomplish this, the retailer might need only two or three handheld readers, one fixed reader and analytical software to leverage all the data they need from their RFID-tagged apparel. "The infrastructure setup is relatively simple within stores to allow them to roll it out quickly," Das says.

This type of basic installation would enable store sales associates to capture a quick and accurate read on inventory with a few passes of the readers vs. the traditional process of manually scanning every barcode.

The ability for RFID to speed inventory counts, improve their accuracy, reduce out-of-stocks and, most importantly, boost sales, is well-proven (see Figure 2).

RFID's footprint will be different for every apparel retailer, depending on the intricacies of each business model. To build a business case for RFID, one retailer might opt to trial the technology to optimize all denim goods inventory, pushing it onto the selling floor more quickly as units are sold. Another might want to first see if RFID can boost profits in the shoe department.

While RFID is not a one-size-fits-all solution, there is common ground in best practices. One is source tagging. By applying RFID tags to garments at the production source, brands and retailers eliminate the need for higher-wage personnel to attach the tags. By some estimates, source tagging reduces the cost of RFID by three to four times compared with what costs would be if tags were applied in the United States or other high-wage countries.

Another best practice for fashion RFID is to tag most or all garments. This approach is necessary for total store enablement, a key ingredient in omnichannel retailing. Some retailers limit RFID tagging — and therefore cross-channel selling opportunities — to replenishment styles. By tagging more SKUs, the retailer multiplies its sales prospects.

## FIGURE 2: Quantifiable RFID Benefits

- 99+% real-time/perpetual inventory accuracy<sup>1</sup>
- 60% to 80% reduction in out-of-stocks
- 75% to 92% faster counts
- 2% to 8% sales lift
- 10% shrink reduction
- 80% improvement shipping/packing accuracy
- 90% reduction in receiving time

<sup>1</sup>Note that RFID (the technology) can deliver 99+% accuracy. When implemented at retail, that accuracy may degrade due to variables such as human interaction, environmental interference, etc.

Source: Avery Dennison Retail Branding and Information Solutions

## Supply Chain, Loss Prevention Perks

In-store apparel RFID, with its well-proven ROI, is today's retail darling. But that doesn't mean the payback potential ends there. Integrating the technology into distribution centers will further hone the holistic inventory view needed for cross-channel commerce.

Also, having already invested in tags and software, retailers can more readily implement RFID deeper in the supply chain. That extension of the technology brings better control of in-transit inventory, helping them protect their brands, heading off diversion and fraud. Greater shipping accuracy and faster receiving time are among other big benefits.

RFID also provides a sophisticated solution to address loss prevention in stores. Unlike traditional anti-theft systems, RFID does not rely on alarms to notify store management of stolen items. With real-time RFID inventory updates, retailers know immediately when a garment has been stolen. In addition to addressing the theft itself, the retailer knows to replenish the stolen item right away.

As implementations mature and become widespread, RFID technology also will deliver strong marketing insights and the ability to engage with consumers more interactively. With more consumers opting to digitally connect with their favorite brands, they open the door to receive product recommendations, customized coupons and rich details about potential purchases.

In conclusion, RFID is a game changer, a transformational technology that gives fashion retailers hyper-accurate store-level inventory and product visibility. That knowledge enables them to take the next step of making their inventory productive, positioning it where consumers want it, when they want it — with the potential to further engage shoppers in a highly personal and profitable way. ■