

Kurt Salmon RFID in Retail Study

Abstract

Over the past two decades, many retailers and brands have implemented radio frequency identification (RFID) with reported improvements in inventory productivity. However, overall adoption remains relatively low across the soft lines industry. Kurt Salmon has seen clients' interest in this technology rise over the last year, prompting the Kurt Salmon RFID in Retail Study.

In July and August 2014, Kurt Salmon initiated a U.S. study to examine the current state of RFID adoption across the soft lines industry and surveyed 50 U.S. soft lines retailers meeting a minimum revenue threshold of \$500 million in revenue in the basics, fashion or accessories merchandise categories. The survey explored retailers' and brands' current perspective on RFID and their usage intent for the technology in the future. The study focused particular attention on the following:

1. What is the current state of RFID adoption in the soft lines industry?
2. What are the use cases and benefits reported by current RFID adopters, and how do they vary across different merchandise categories?
3. What are the future use cases for retailers with an intent to pilot?
4. What are the reported barriers to piloting RFID technology?

The Kurt Salmon RFID in Retail Study found that approximately one-third of respondents consider themselves full adopters of RFID. Use cases and benefits have largely targeted inventory management-driven ROIs through improved demand planning and replenishment execution. For those retailers not currently utilizing RFID, 20% intend to pilot within the next 12 months. The most notable change surrounding RFID is the emergence of new use cases under consideration, including support of omnichannel and interactive retailing.

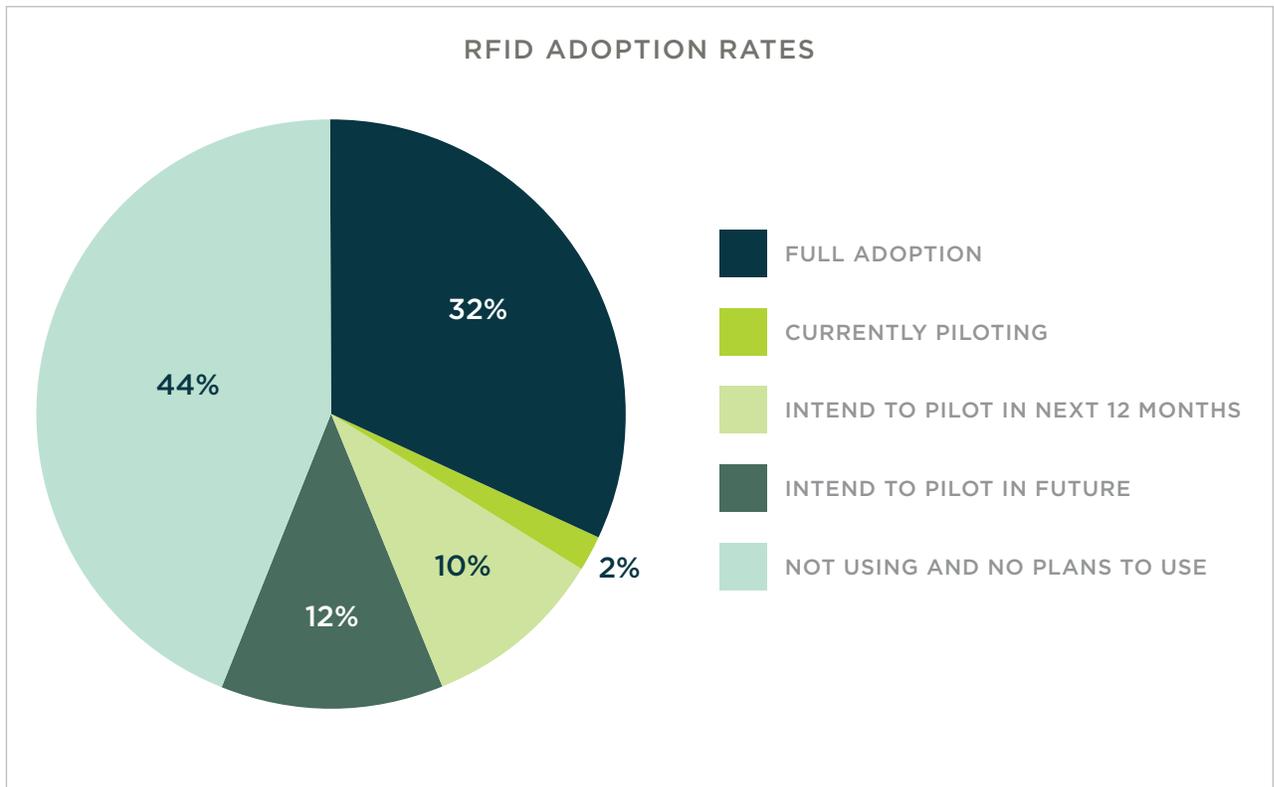
**INTRODUCTION:
RFID'S RETAIL EVOLUTION**

RFID technology dates to World War II, when the British installed transmitters on their planes to

identify friendly aircraft from their radar stations. RFID received its first patents in the 1970s, and in the 1990s, IBM worked with Walmart on some of the first retail pilots, which focused on improvements in inventory tracking and replenishment.

Today, emerging technology has continued to shift the retail landscape. As omnichannel and interactive retailing evolve and transform the shopping experience, the business cases for RFID have also expanded. Omnichannel-related business cases use RFID to make inventory status accurately available for real-time fulfillment of digital/mobile demand across all enterprise inventory locations (stores, backrooms, hubs, etc.). RFID can also support interactivity by providing information on what inventory customers handle in real time, allowing

Exhibit 1: Among soft lines retailers, a majority reported that they are not currently using RFID.



delivery of product-specific marketing to targeted locations (e.g., fitting rooms, store displays, mobile devices) and customers.

KEY FINDINGS

1. What is the current state of RFID adoption in the soft lines industry?

Overall, almost one-third (32%) of respondents reported that their companies had performed full adoption of RFID, 2% are piloting and two-thirds (66%) reported not using RFID at this time. These numbers were substantially the same across the basics, fashion and accessories categories. Retailers with annual revenues over \$1 billion were 4.3 times more likely to have implemented RFID (41%) than those with revenues between \$500 million and \$1 billion (17%). Ten percent of the respondents plan to pilot RFID within the next 12 months and 12% are considering RFID pilots sometime in the future.

2. What are the use cases and benefits reported by current RFID adopters, and how do they vary across different merchandise categories?

Survey results indicated that the basics, fashion and accessories categories have all seen RFID adoption, and Kurt Salmon has noted in its work with early adopters of RFID that many were companies in categories where retailers could achieve the targeted ROI through gains in inventory accuracy alone. For the most part, these are categories characterized by complex assortments (style/color/size) and low substitutability (such as denim), where RFID can enhance backroom to front-of-store inventory accuracy and replenishment.*

RFID adopters able to measure ROI have seen gross margin improvement in some cases of more than 5%. Retailers responded that the most significant benefit was through back-to-front accuracy, with 40% reporting more than a 5% improvement in gross margins. Respondents also reported use

cases including omnichannel fulfillment and shrinkage reduction, with benefits ranging from less than 1% to over 5%.

EXAMPLE

A \$1 billion vertical menswear retailer selling basics, fashion and accessories currently leverages RFID across several categories. After implementing RFID to improve backroom to front-of-store inventory accuracy and replenishment, to reduce shrinkage, and to support omnichannel fulfillment including ship-from-store, the company reported ROI of greater than 5%. In the future, they plan to expand use of RFID to support interactive store experiences.

DETAILED FINDINGS: ADOPTION BY CATEGORY

Basics Merchandise Categories

The Kurt Salmon RFID in Retail Study found “backroom to front-of-store inventory accuracy and replenishment” was the most commonly cited use case for RFID tagging in the basics, apparel and footwear categories. When shoppers look through racks and shelves, they are likely to abandon the purchase if they don’t find their specific size, fit or finish. RFID allows retailers to save the sale by ensuring that all SKUs are available on the floor.

The top cited use case for basics undergarments and intimates was to reduce out-of-stocks.

FROM PILOT TO ROLLOUT

As reported by *RFID Journal*, following a successful 25-store pilot, Kohl’s announced at the beginning of 2014 their broad RFID rollout in the strategic categories of basics, apparel, footwear and undergarments. They are also currently using RFID to experiment with smart fitting rooms.

* Back-to-front: Use of RFID tag data to determine which products, though in stock in the store, overall lacked presentation on the sales floor, triggering restock in real time from the backroom.

THE ROI OF RFID

	ROI your company has achieved from using RFID to improve backroom to front-of-store inventory accuracy and replenishment	ROI your company has achieved from using RFID to support omnichannel fulfillment, including ship-from-store and pick up from store	Describe the shrinkage improvement your company has achieved from using RFID
ROI NOT YET BEEN DETERMINED	27%	43%	36%
0%-1% INCREASE IN GROSS MARGIN	13%	14%	14%
1%-3% INCREASE IN GROSS MARGIN	13%	7%	21%
3%-5% INCREASE IN GROSS MARGIN	7%	14%	7%
GREATER THAN 5% INCREASE IN GROSS MARGIN	40%	21%	21%

* Percentages represent the percentage of respondents self-reporting ROI in these ranges.

Exhibit 2: Self-reported ROI rates vary by use case, but a majority of retailers who have adopted RFID have been able to track increases in gross margin.

Fashion Merchandise Categories

As with basics, “backroom to front-of-store inventory accuracy and replenishment” was the top cited use case for RFID in the fashion apparel and footwear categories. Fashion retailers place high priority on inventory accuracy since they often hold fewer products on the floor and may miss sales opportunities when replacements are in the back. In addition, fashion products have much shorter seasons, so accuracy is key in the reduction of markdowns. Reducing out-of-stocks was the top use case cited for the fashion undergarments and intimates categories.

FAST FASHION, FAST ROLLOUT

In the summer of 2014, Retail TouchPoints reported that Zara’s parent company, Inditex, announced plans to partner with Tyco Retail Solutions to implement RFID in 2,000 stores, with 1,000 stores integrated by year end. While fast fashion has less demand for better replenishment, Zara’s move will test the additional benefits in this category, including reduced shrinkage and an improved customer experience.

Accessories Merchandise Categories

Reducing shrinkage has traditionally been a motivator for RFID use in the accessories category, but retailers selling accessories noted a number of other benefits as well.

- » The small leather goods and jewelry categories reported omnichannel fulfillment support as their most cited use case.
- » Inventory accuracy and reducing out-of-stocks were the most cited use cases for brands in watches, handbags and eyewear lines. Cosmetics and fragrances appear to have slightly lower RFID adoption rates.

Nearly all basics and fashion brands who have adopted RFID have implemented the technology across every product category. Slightly fewer (about four in five) accessories brands say they have rolled out RFID across their entire product line. (See Prioritized Product Lines below.)

Similar to basics merchandise, accessories brands report that “backroom to front-of-store inventory accuracy and replenishment” was the most cited use case for RFID in the accessories category. But this category also cited benefits from interactive store experiences that make recommendations for complementary products, and omnichannel extended product availability since limited quantities are kept in stores.

PRIORITIZED PRODUCT LINES

Following a two-year pilot, Saks announced in July that it would roll out RFID in all stores by the first quarter of 2015. The brand is executing the rollout in stages, with accessories falling in the final stage in February. While the benefits for basics and fashion products are clear, the brand notes they are “continuing to assess the feasibility of implementing RFID in areas including jewelry, cosmetics, fragrances, shoes, handbags, and home and gifts.”

3. What are the future use cases for retailers with an intent to pilot?

Of the 66% of respondents who have not adopted RFID, 20% indicated a desire to pilot RFID within the next 12 months. These companies reported that the following use cases drove their interest:

- » Reduce time and labor costs via automated inventory reports (68%)
- » Reduce shrinkage (64%)
- » Support of omnichannel fulfillment (ship-from-store and pick up from store) (64%)
- » Improve back-to-front replenishment (61%)
- » Reduce store out-of-stocks (54%)

Future use cases are likely to lead to increased intent to pilot

Several retail segments, including department stores and specialty brands, are experimenting with interactive retail strategies. Tools like smart fitting rooms and magic mirrors that read products and deliver targeted and supportive media content mimic an online shopping experience—with personalized recommendations and coupons—in stores. By providing personal recommendations, showcased reviews and links to products available only online, retailers can create an endless aisle of merchandise.

Coupled with same-day delivery models, these “future retailing” use cases support broader investments in RFID beyond just inventory accuracy and fulfillment. RFID is often considered just one more foundational component within larger technology systems that measure benefits in terms of improvements in net promoter scores, store traffic, conversion rates and basket size. As the responsive digital retail experience moves from flagship and innovation labs/stores to mainline stores, the case for RFID tagging to support interactive retailing may become more compelling for wholesale brands.

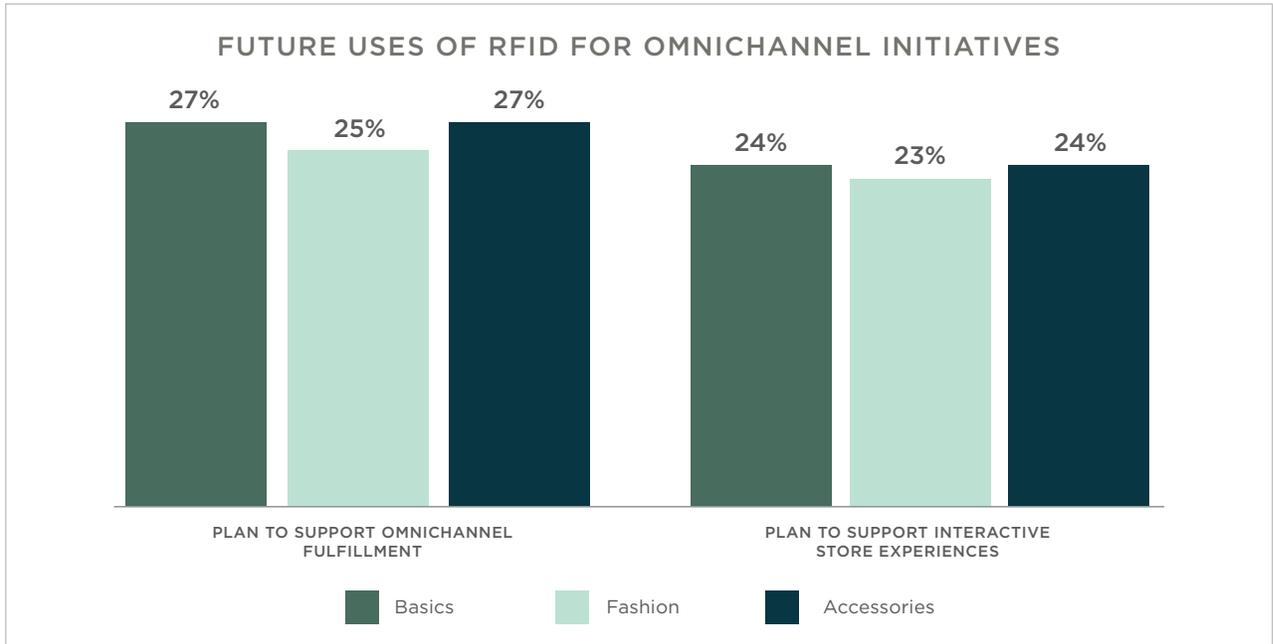


Exhibit 3: Percentage of all respondents by category who said they planned to use RFID in the future to support omnichannel fulfillment and interactive store experiences.

When both current adopters and those planning an investment in RFID were asked about their future plans to use RFID:

- » Respondents already using RFID said their future plans are consistent with current uses.
- » Seventy-five percent of current adopters also plan to use RFID to support interactive store experiences.

4. What are the reported barriers to piloting RFID technology?

Respondents who have not implemented RFID cited these primary deterrents:

- » Management focused on other priorities (47%)
- » Prohibitive cost (18%)
- » Using their own inventory management system (18%)

While the noted barriers to RFID adoption were largely consistent across categories, among retailers with revenues between \$500 million and \$1 billion, two-thirds (67%) said that the primary deterrent has been management’s focus on other priorities. Among retailers with revenues over \$1 billion, another deterrent bubbled to the surface: privacy. Sixteen percent said the primary reason they have not piloted RFID was management’s concerns about customers’ reactions and privacy issues.

CONCLUSION

To date, the soft lines retail environment has yet to realize the full potential of RFID. While the technology has been available to stores since the late 1990s, only one-third of soft lines retailers and brands currently leverage it—mostly for improving inventory accuracy and replenishment. As retail-

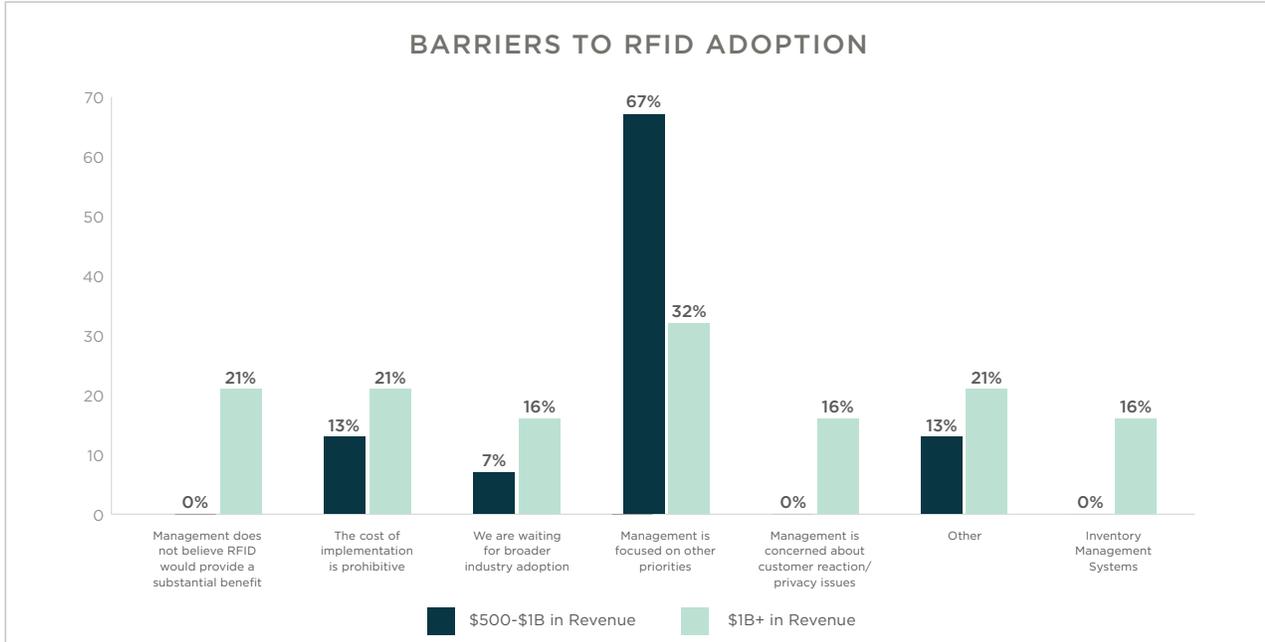


Exhibit 4: While the noted barriers to RFID adoption were largely consistent across categories, among retailers with revenues between \$500 million and \$1 billion, two-thirds said that the primary deterrent has been management’s focus on other priorities.

ers continue to pilot the technology, they are still determining ROI, but among those who have been able to calculate returns, some have seen gross margin increases of more than 5%. Future plans for RFID uses were largely consistent with current uses, another sign of positive ROI.

Retailers will likely leverage RFID technology to support their omnichannel transformations. As they push omnichannel initiatives like enterprise selling and ship-from-store, where allocation requires an accurate view and maintenance of perpetual inventory in stores and backrooms, RFID pilots will target anticipated benefits of sales lift and margin improvements driven by increased full-price sell-through.

Kurt Salmon found RFID pilots and the RFID in Retail Study results compelling, particularly among retailers who have a diverse product assortment,

fast-turning products, and significant omnichannel and interactive retail initiatives underway. We expect to see heightened interest in the piloting of RFID technology.

METHODOLOGY

During July and August 2014, Kurt Salmon conducted phone interviews with 50 U.S. soft lines retailers. Thirty-six percent of companies included have annual revenues between \$500 million and \$1 billion, and 64% have annual revenues over \$1 billion. The distribution of the retailers’ core business is as follows: 62% have a category focus on fashion apparel, 20% on footwear and accessories, and 18% focus on basics. The results of this survey were analyzed and are reported in aggregate in this study. ❖

Kurt Salmon

Success for what's next

Kurt Salmon is a global management consulting firm dedicated to building the market leaders of tomorrow. More than just partnering with our clients, we ally with them, integrating ourselves seamlessly into their organizations in order to develop innovative, customized solutions for their 21st-century business issues.

Succeeding in today's increasingly complex, consumer-driven environment is an enormous challenge.

But companies need to look beyond today; they need to position themselves for continued success in the even more uncertain future. That's where Kurt Salmon comes in.

We call it delivering "success for what's next." The results are transformative.

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