

Kurt Salmon ✨

Department Stores' New Reality—RFID



Ron Johnson's recent announcement that JC Penney plans to implement radio frequency identification (RFID) in every store is actually one of the least radical changes he's proposed since he's taken the helm.

In fact, with RFID implementations being considered or already underway at major department stores like Macy's, Saks and Lord & Taylor, it appears that RFID's time has finally arrived.

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But why now? Many point to falling costs, but we believe that's only part of the equation. RFID is suddenly garnering so much attention because it is a fundamental building block for omnichannel retailing. Retailers want to enable the same terrific selling and promotional features on mobile devices and in physical stores that exist on the web today (such as personalized recommendations and promotions based on basket contents and location). However, to do so, they need to know exactly what inventory they have in which locations. As more and more department stores implement RFID, it goes from being a competitive advantage to a strategic imperative. The question is not the cost of implementing, but the risk of losing market share by not being able to support new retail shopping experiences when others in your markets do.

As we all know, brick-and-mortar sales are shifting from stores to online sites—both those operated by department stores and those run by their online pure-play competitors. U.S. online sales hit a record \$202 billion in 2011, and Forrester Research predicts that figure will jump 62% by 2016. Department stores are not immune to the trend: Macy's online sales increased 40% in 2011, while Kohl's grew 37% and Nordstrom's increased 30%.

Clearly, with same-store sales remaining mostly stagnant, omnichannel is an incredible opportunity for growth, especially as more and more sales begin far outside a retailer's website on social media sites like Facebook, Twitter and Pinterest.

But the online channel can also present a significant challenge for traditional brick-and-mortar retailers. Online-only players generally have a 99+% accurate picture of their inventory, since it is all stored within their distribution centers. Brick-and-mortar retailers, on the other hand, have much of their inventory in stores, resulting in less individual item-level accuracy, often below 80%. So, from the start, online-only players have a leg up on providing a better customer experience by knowing exactly how many units remain of each SKU, reducing the likelihood of disappointing a customer by cancelling their order days after it was placed.

Creating personalized, connected shopping experiences in terms of compelling customized recommendations and promotions is a department store's best weapon to fight back against the online pure-play competitors who provide such experiences to the consumer. It's no surprise that Amazon's conversion rate is nearly double the department store average—4% versus 2.4%, according to comScore—or that Amazon sees 78% of its customers return to make another purchase within the same year, while only 54% of department store customers do.

Clear visibility to exactly what inventory is available and where is a fundamental but missing capability in the modern department store and is a central first step to enabling these dynamic store experiences. As such, it is a key driver for the rush to implement item-level RFID now.

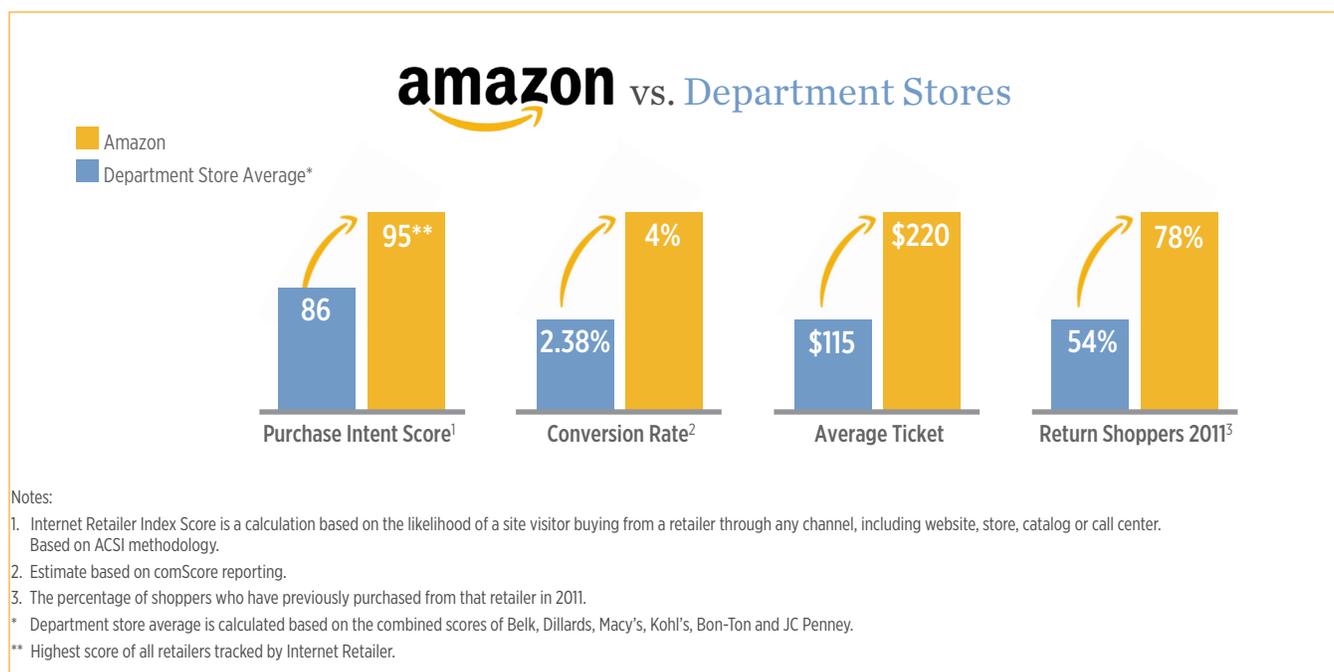
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In addition to these omnichannel fulfillment benefits, retailers will see additional benefits from implementing item-level RFID, including:

- » Improved sales by reducing out-of-stocks via increased inventory accuracy. Inaccurate inventory data leads to delays in restocking product in the store, which in turn leads to disappointed customers and lost sales. RFID allows retailers to instantly know when a product is out of stock and quickly replenish it or ship it directly to a customer's home from another store or DC.
- » Improved customer engagement and loyalty. RFID frees up store labor from transaction-based tasks (such as inventory counts) and enables an increased focus on customer service. Sales associates can spend more time not only helping recommend specific products to a customer, but will also know exactly where that product is available. Value-added customer interactions like this increase the likelihood that the consumer will return to that retailer for future purchases.

Retailers have already begun to share the significant results of their early testing. Macy's is implementing RFID, with plans to officially roll it out starting in August with its Herald Square flagship's shoe department. In pilots, Macy's saw a 50% higher growth rate for products tagged with RFID. But perhaps even more significant, sales for non-pilot product grew at a much slower rate in the same geography.

Clearly, RFID can have a significant impact on sales while improving the overall customer experience and encouraging customer loyalty. And it's only one of many changes customers will start to see in the near future. Mobile point of sale, social media, and location-aware offers and services are already impacting the way customers shop. RFID is a solid platform on which to build these types of mobile and social offers—ensuring that the products offered through these new touchpoints are always in stock and easily accessed by the customer. ❖



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Kurt Salmon is the leading global management consulting firm specializing in the retail and consumer products industry. We leverage our unparalleled industry expertise to help business leaders make strategic, operational and technology decisions that achieve tangible and meaningful results. For more information, go to www.kurtsalmon.com.

The logo for Kurt Salmon, featuring the name "Kurt Salmon" in a stylized, handwritten script font.