

RFID and Small Business

To compete successfully in a marketplace dominated by larger corporations, small companies should deploy the right RFID solution.

Dec. 5, 2005—Reducing inventory levels and maximizing capital are fundamental to expanding profitability and achieving positive growth. This is true for any company, but it is especially critical for small businesses in their mission to do more with less. To compete successfully in a marketplace dominated by larger corporations, many progressive small companies are seeking ways to increase efficiency and customer loyalty. Keeping shelves filled and reducing out-of-stocks can greatly improve a firm's chances of success in this regard, and result in increased sales, enhanced market position and improved top and bottom lines.

Radio frequency identification offers small businesses increased supply chain and inventory visibility for greater operational efficiency, with reduced inventory and out-of-stocks. As small companies are brought under compliance requirements, they need to consider ways to harness the benefits of RFID, much as their larger counterparts are already doing. RFID is not just about compliance—it is a powerful technology capable of delivering substantial business value.

In fact, RFID technology can serve as an ally, allowing small businesses to gain favor with their retailers. Many small to midsize companies have succeeded in gaining such favor by volunteering to meet retailers' compliance standards before being required to do so. This strategy can give companies the upper hand in business, leading to better shelf positioning of their products in the retail store. Similarly, the visibility inherent in an RFID environment can help small businesses gain leverage with their retailers. It can also improve their ability to restock empty store shelves faster than a competitor without real-time visibility to their wares.

Faced with the prospect of implementing RFID to achieve compliance, small companies may be tempted to go with the easiest, lowest-cost solution. The problem with this approach is that it can waste time and money, preventing a company from achieving RFID's real value. When evaluating RFID solutions, look for a provider with a track record of success, one that participates in industry groups helping to drive RFID compliance standards. It is critical that your RFID vendor be involved to ensure you have a voice in the industry.

Take the time now to examine your long-term goals and make sure you lay a foundation that will enable you to build a future. Learn about the technology, educate yourself and leverage your investment by choosing a solution that can grow with your company—starting with retail compliance and evolving into an RFID-enabled enterprise.

While compliance is the first step, be sure to undertake RFID projects with a view toward future benefit. As the cost of the technology continues to decline, RFID—if implemented correctly—can yield a measurable return on investment for small businesses.

Key business drivers for implementing RFID include:

- Revenue growth through increased order fill rate, greater product availability and decreased retailer out-of-stocks.

- Lower costs through operational and labor efficiencies, with a decrease in shrink and nonworking inventory.
- Reduced invested capital through inventory reduction—better on-hand data decreases the need for safety stock and increased turns.
- Better utilization of fixed assets, resulting in lowered capital asset requirements.
- Gaining favor with retailers to better position products on shelves.

RFID also supplies valuable data and knowledge to small businesses that can deliver a competitive advantage such as boosting customer retention rates. From a business standpoint, RFID readers (interrogators) situated at dock doors and other choke points allow automatic product detection. This brings about increased granularity, accuracy, visibility, real-time decision making, supply chain efficiencies and responsiveness to customer demand.

The result of more granular, accurate and timely information is a much smoother and synchronized allocation of inventory to orders. Shelves stay stocked without increasing inventory levels or safety stock.

On average, retailers lose approximately 4 percent of sales to out-of-stocks. The out-of-stock impact is 50 to 100 percent higher for promotional or high-velocity items. Furthermore, 55 percent of out-of-stocks last one to three or more days (see [Retail Out-of-Stocks: A Worldwide Examination of Extent, Causes and Consumer Responses](#), by Thomas W. Gruen, of the University of Colorado, Colorado Springs; Daniel S. Corsten, University of St. Gallen, Switzerland; and Sundar Bharadwaj, Emory University).

The primary cause is a lack of visibility. The supply chain is all about matching inventory to orders. RFID enables in-store execution and visibility. A greater level of detail can be achieved with interrogators located at various places in the store, combined with other data streams from the retail environment. This increased visibility can be used to create actionable requests for store personnel.

Sharing data between you and your retailer in an open format provides the visibility required to understand why a retailer sells more of a particular product than another. RFID enables enterprise-wide EPC event management for greatly increased visibility. The RFID infrastructure provides better access to real-time data at a more granular level.

While RFID enables companies to achieve basic compliance, it is clear the technology offers much more to companies seeking to increase operational efficiency, reduce costs and strengthen service and customer loyalty. When evaluating the implementation of RFID in your company, be patient and avoid these common pitfalls:

Doing nothing.

Perform pilots in your environment to determine the optimal use of RFID and the necessary operational procedures.

Lack of internal communication.

Make sure marketing, sales and operations are on the same page, and that everyone understand RFID requirements.

Short-term thinking.

A short-term philosophy may be required for compliance, but RFID requirements will only continue to grow. Without proper long-term planning, you can never realize the full benefits it has to offer.

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