

Wal-Mart, Suppliers Affirm RFID Benefits

The retailer and several of its leading suppliers say they see benefits in using EPC RFID today, which they expect to increase over time.

By Mark Roberti

Feb. 22, 2007—Wal-Mart Stores remains fully committed to its use of radio frequency identification in its supply chain, and is already seeing quantifiable benefits, says Simon Langford, Wal-Mart's director of transportation and RFID. Several of the retailer's leading suppliers also say they are achieving benefits from tagging pallets, cases and promotional displays shipped to Wal-Mart.

"If you look at the activity within Wal-Mart, we're foot down and full speed ahead," says Langford. "If nothing else, we're starting to accelerate our rollout."

A recent report in the *Wall Street Journal* characterized Wal-Mart's EPC RFID initiative as "fizzling." The article pointed out that Wal-Mart had planned to install RFID systems in 12 distribution centers by the end of January, but has, in fact, RFID-enabled only five so far. However, Langford explains that the goal of being in 12 distribution centers was part of Wal-Mart's initial RFID announcements, just as the first RFID installations went live in April 2004. After the pilot and early rollout stages, Wal-Mart refined its focus to deploy RFID at stores instead, where a more immediate ROI can be achieved and where the technology helps improve the on-shelf availability of products. This benefits Wal-Mart, its customers and its suppliers.

Wal-Mart had initially planned to be in 1,000 stores by the end of January, but now says it won't achieve that target until April. Langford attributed the slight slippage to the fact that Wal-Mart's policy is to avoid rolling out new technology during the October-to-December holiday season, when customer traffic and sales peak and installations could be disruptive to store operations.

According to Langford, Wal-Mart expects to continue RFID-enabling roughly 400 to 500 stores a year, its typical pace for the past two years. He adds that the number of suppliers tagging merchandise, and the number of stock-keeping units they tag, would likely continue to rise at the current pace or faster.

Some RFID tag vendors have complained that most suppliers are doing the minimum to comply with the retailer's tagging requirement, preventing the volume of tags sold from greatly increasing and making it difficult to make money in the market. Langford, however, says the number of tagged cases continues to rise. World Kitchen, for instance, will increase the number of tagged cases it ships this year to 2 million, up from 100,000 in 2006.

Langford says the pace and direction of the rollout will be driven by the businesspeople in charge of operations, not by the IT RFID team. Wal-Mart handed the RFID initiative off to the operational side of the business in 2006. Rather than have the IT RFID team work with suppliers on what to tag and when, the retailer is having its merchandise-buying teams talk to suppliers about this question, making sure fast-moving goods and promotional items are in stock. "They are reviewing the items that we need tagged," says Langford, "to drive sales through better on-shelf availability."

The RFID team is not being disbanded, Langford explains, but is instead playing a supporting role. "The core team is still here and is interacting with operations to ensure that the knowledge that we've gained over the past five years is passed on to operations as they create the roadmap for where they would like to see this initiative taken," he says. "We are identifying lots of new opportunities and are prioritizing those. The operational side has dedicated teams to step up and deliver the process changes enabled by the technology to the stores. So we are working on the same priorities in lockstep."

The *Wall Street Journal* article deemed the RFID effort a failure because it hasn't reduced costs. However, Langford points out that the focus of the retailer's RFID efforts has been on improving on-shelf availability and creating value not just for Wal-Mart, but also for customers, who benefit from finding the items they want to buy, and suppliers, who benefit from the increase in sales.

"We've really been focused on changing the service we give to our customers and driving value for suppliers and ourselves," he says. "That's been our primary goal—to focus on collaborative benefits right from the outset, rather than focus only on internal efficiencies. We understand that there are some suppliers out there, if you go looking for them, that don't understand our vision, but that's just an educational process."

Wal-Mart is seeing some inventory reductions due to EPC RFID. Manual orders are down 10 to 15 percent in stores utilizing RFID, which means that staff are not overriding the system and ordering goods that might, in fact, be in the back of the store. But the real benefits will likely come as more cases are tagged and more data is available. Working together, Wal-Mart and its suppliers can use the data to improve replenishment based on the improved visibility RFID provides.

Wal-Mart is sending data from RFID-enabled stores back to each of its 600 suppliers tagging pallets, cases and promotional displays within 30 minutes of a tag being read. This data has enabled such suppliers as [Campbell Soup Co.](#), [Kimberly-Clark](#) and [Procter & Gamble](#) (P&G) to measure the execution of promotions and boost sales.

"We're already seeing value," says Campbell Soup CIO Doreen Wright. "It's hard to dispute the value of this technology." She says Campbell Soup has been tagging displays for large-scale promotions, analyzing the data it gets back from Wal-Mart to determine which stores are executing properly, then working with Wal-Mart to get displays out to the floor at those stores that haven't gotten them out on time.

With RFID data, Campbell knows, for the first time, what's happening within individual stores. The firm can tell if a store has not put a display out on time, or if sales in the first few days of a promotion are exceeding expectations. This ability enables it to react, either by working with Wal-Mart to get the display out, or by replenishing stock more quickly.

"Promotions can last for a couple of weeks or even a month, so if you see the product is not out on the floor when it's supposed to be there, you have the opportunity to take action and still affect the sale of that item," she says. "The stores not putting it out on time have maybe a 25 percent lower sell-through, so there is a lot of incentive to get this right."

Wright disagreed with commentators suggesting suppliers are opposed to the use of RFID and are only doing it because Wal-Mart requires it. "Despite what has been said, they don't want any company to do something that doesn't make economic sense for that company," she says. "They are not pushing for anything unreasonable. They have been very collaborative; they share their learnings. This is something we are doing together, and I feel it's strengthened our relationship because we are working so closely to get this right."

Tim Smucker, chairman and co-CEO of The J.M. Smucker Co., agrees. "EPC RFID has opened a dialogue

between trading partners," he says. "Some of it is positive and some [of the discussion] is focused on where improvements need to be made—and that's great. We are always eager to work with our supply chain partners to improve execution."

By using data supplied by Wal-Mart and other supply chain partners, the company can tell where its products are in the supply chain. "That will provide efficiencies when you are receiving the product at a distribution center, picking it and shipping it to the retailer, and finally it reduces out-of-stocks at retail, so the product is there when the consumer wants to buy it."

RELATED_ARTICLES According to Smucker, although his company has reaped long-term benefits from being able to see the location of products in the supply chain, it is taking a long-term view of EPC RFID. "We were one of the first companies that supported the bar code way back when," he says. "It took 10 years, really, to have that implemented throughout the U.S. and then the world, but it has enabled trade around the world. This is another step in that evolution of the supply chain. It's about visibility."

The prospect of better serving customers, however, is what excites Smucker the most. "Everything we do is focused on benefiting the consumer," he says. "If the consumer benefits, then we benefit and Wal-Mart and our other customers benefit. No question about it."

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