

Understanding the Wal-Mart Reality

The truth is more interesting than a much-quoted Wall Street Journal article.

Feb. 26, 2007—As I was researching my article on Wal-Mart last week (see [Wal-Mart, Suppliers Affirm RFID Benefits](#)), I learned two things in particular that I found extremely interesting. Neither was mentioned in the recent *Wall Street Journal* article that got a lot of attention because it claimed Wal-Mart's RFID effort was "fizzling."

First, Simon Langford, Wal-Mart's director of transportation and RFID, said it is now the retailer's buying teams that are working with suppliers on what stock-keeping units (SKUs) to tag. Second, some suppliers are excited about cooperating with Wal-Mart to use RFID data to increase sales. Let me explain why I think each of these things is significant.

In the early stages of Wal-Mart's RFID rollout, the RFID team within Wal-Mart's IT department would meet with suppliers, explain the RFID vision and work with them on tagging one or more SKUs as a start. Some suppliers picked products that were RF-friendly and would be easy to tag—such as paper towels or cartons of jeans. Others decided to tag difficult products to try to learn as much as they could about the physics of RFID. Now, those within Wal-Mart who are responsible for ordering products from suppliers are telling those suppliers what they'd like tagged, based on Wal-Mart's ability to use the tag to improve on-shelf availability. In other words, it's business benefits that will drive what's tagged from now on.

There's a part, frankly, that wishes Wal-Mart would require all of its suppliers to tag all SKUs going to RFID-enabled stores or distribution centers. That would drive up volumes and help vendors that produce RFID chips, tags and interrogators make money. These companies have invested considerable sums in developing newer and better hardware, and they are struggling to make those investments pay off because they aren't yet selling hardware in huge volumes.

Wal-Mart isn't taking that approach. Instead of having suppliers tag just for the sake of tagging, it's having them tag where it makes good business sense. The buying teams will ask suppliers to tag products that are often out of stock, so that both Wal-Mart and the supplier get a benefit—an increase in sales. The volume of tags consumed won't ramp up as quickly in the short term with this approach, but more suppliers are going to buy in and, therefore, adoption will be faster in the mid- to long-term.

That brings me to the second point. The Wal-Mart suppliers actively engaged in leveraging RFID to drive value today are very excited to work with Wal-Mart to use RFID data to increase sales. There are still suppliers who see the tagging requirement as an additional cost with no return in sight, but those are the ones that aren't leveraging the RFID data they are getting back from Wal-Mart.

I spoke to a Campbell's Soup executive two years ago, who said: "We're not Gillette; we sell low-value products that aren't out of stock a lot. We're not going to get any value out of this."

Today, Campbell's Soup knows it can get the same benefits Gillette (now Procter & Gamble) is getting from tracking promotions. Campbell's Soup CIO Doreen Wright said that her company is seeing sales rise when it

works with Wal-Mart to track promotions in RFID-enabled stores. And Wright says that Campbell's values the collaboration on supply-chain execution. Tim Smucker, chairman and co-CEO of The J.M. Smucker Co., said the same thing, and I've heard it from other suppliers speaking off the record as well.

RELATED_ARTICLES The fact is, Wal-Mart has opened its kimono and given suppliers visibility into what's happening to their products inside RFID-enabled stores. And Wal-Mart is saying, "Hey, we know our execution isn't always perfect, but let's work together and fix the problems. We'll both benefit." This is a great opportunity for suppliers, and the smart ones are very pleased about it. I've heard a lot of talk about supply chain collaboration during my years as a journalist. This is the first time I'm really seeing it.

I'm not suggesting we're entering a new age of retail-supplier nirvana. I don't expect executives from Wal-Mart and their suppliers to sit around a campfire singing "Kumbaya." It's Wal-Mart's fiduciary duty to try to buy goods from suppliers at the lowest cost possible. And it's the supplier's fiduciary duty to try to sell at the highest price possible. So there will always be some tension in the relationship. But when it comes to supply-chain execution, it's clear to both Wal-Mart and its leading suppliers that closer collaboration really is—I hate to use this cliché—a win-win scenario.

Mark Roberti is the founder and editor of RFID Journal. If you would like to comment on this article, click on the link below.

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