

# Suppliers Find No Incentive to Adopt RFID for Direct Store Delivery

A report issued by international trade association Global Commerce Initiative recommends suppliers and retailers initially focus instead on using RFID for products shipped to distribution centers.

By Claire Swedberg

April 14, 2008—The direct store delivery (DSD) market is not ready for RFID, according to a survey conducted by Global Commerce Initiative (GCI), an international trade association that develops standards and best practices. Consumer goods providers, the report recommends, would be best served by focusing on deployment for supply chains that include delivery to distribution centers.

The DSD industry comprises suppliers that deliver products directly to a retailer's stores, and often use their own staff to stock shelves and track inventory at those locations. Beverage companies and manufacturers of other fast-moving goods typically use this model. As described in a report entitled "Supplier and Retailer Views on EPC/RFID Technology for Direct Store Delivery (DSD)," the survey of consumer goods DSD suppliers and retailers found that 94 percent of respondents failed to see a return on investment (ROI), either currently or in the next seven years, with an RFID deployment.

"But even if EPC RFID tags and equipment were free and EPC-enabled business processes were proven to provide strong business value," the report's authors write, "significant implementation obstacles would remain. Respondents recognize these obstacles, and currently believe they will remain in place for years."

Conducted online in November and December by the GCI DSD Working Group's EPC/RFID subcommittee, and sponsored by Intermec, the survey polled 111 of GCI's members working for consumer goods suppliers and retailers, the majority of which have a global consumer base but which are mostly headquartered in North America. Of that group, 36 responded, 29 of whom worked for CPG manufacturers, six for retailers and one for businesses identified as "other."

According to the survey, retailers have a slightly less negative perception of RFID technology than suppliers do. Ninety-seven percent of suppliers indicated the lack of ROI for the technology was a prohibitive or high obstacle to adoption of EPC RFID technology in DSD operations, compared with 83 percent of retailers that felt the same way. All agreed that broad trading-partner adoption was essential for the deployment of EPC RFID technology in DSD operations, and that quality read rates would also be critical.

All retailers polled said they felt RFID has the potential to make recall orders more efficient, while only 31 percent of DSD suppliers felt the same way. The two respondent groups also disagreed on cold-chain management for DSD shipments. All retailers felt RFID offers benefits in that realm, while only 7 percent of suppliers expressed the same opinion.

Due to the overall negative response from those polled, the GCI DSD Working Group reported that DSD products and processes should be considered "EPC-challenged," meaning business value is simply not yet

present, either at present or in the near future, for DSD suppliers and retailers.

Brian Schulte, Intermec's retail industry marketing director, and cochair of the GCI DSD EPC RFID subcommittee, says the survey resulted from discussion of RFID technology among the working group. The topic came up repeatedly, he says, and the group agreed to form a subcommittee to conduct a survey to determine the industry's thoughts on implementing the technology in the DSD supply chain.

Subcommittee members include Anheuser-Busch, The Coca-Cola Company, Dean Foods, Kraft Foods, Miller Brewing, EPCglobal and PepsiCo. The results were overwhelmingly against the near-term deployment of RFID in the DSD supply chain, and few said they expected to consider it over the next few years.

Because DSD manufacturers generally have visibility all the way to the retail shelf (since their own employees handle the shelf stocking themselves), the incentive for RFID is not as great as it would be for companies that lose sight of their product when they are delivered to a distribution center operated by a retailer or some third party.

"One of the appealing things about EPC RFID is the visibility it can pass back to the supplier," Schulte states. With RFID, goods suppliers can monitor when their products left the distribution center, arrived at a store's back room and moved to the front of the store, as well as when the cartons were taken to a trash compactor. However, he says, suppliers that ship directly to stores "already know all that."

The survey also examined areas that needed to be addressed before RFID technology could be fully deployed in the DSD supply chain. The primary area of concern to survey respondents was data synchronization, in which retailers and CPG manufacturers must have the same data about a product, such as size and pricing.

"We try to be really clear that this [survey] is a snapshot of opinion in a specific time—November and December of 2007," Schulte says, noting that business conditions, as well as technology costs and performance, can rapidly change.

RELATED\_ARTICLES As a result of the survey, Schulte says, GCI subcommittee members "are encouraging retailers and CPG companies to continue to talk about EPC RFID and look at [deploying the technology at] warehouse deployments first." Many CPG vendors, he points out, have two supply chain models—some products are sold through the DSD supply chain, while others go to third-party distributors, or to warehouses and DCs operated by a retailer, and then on to the store.

"The stage we're in now," Schulte states, "is to get the results of the survey out." He adds that GCI, in cooperation with Intermec, will conduct a webinar later this spring, and may revisit the survey in a year. "Our expectation is that we will see movement in how far out companies see their obstacles," he says. The GCI report is available at the Web sites of both Intermec and GCI.

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