

# Wal-Mart Suppliers Discuss RFID

During a panel discussion at the recent Retail Systems event in Chicago, four of Wal-Mart's top 100 suppliers discussed the challenges they face in achieving RFID compliance.

By Mark Roberti

May 24, 2004—There has been a lot of news lately about the problems manufacturers face in complying with Wal-Mart's requirement that all pallets and cases shipped to the retailer's distribution center be equipped with RFID tags and that the tags be read 100 percent of the time as pallets go through dock doors and as cases move at up to 540 feet per minute on conveyors. Four of Wal-Mart's top 100 suppliers sat on a panel at the recent Retail Systems event in Chicago to discuss the challenges they are facing to meet this mandate. The cost of compliance came up early. "In the business case work we've done, tag cost is a significant hurdle," said Simon Ellis, supply chain futurist at Unilever. "Tag costs are lower than a year ago, but they are higher than they need to be."

Ellis said that the performance of the system is a significant issue. "Our products contain a lot of water and a fair amount of metal," he said. "Readability rates are low [when reading cases stacked on a pallet], and tracking cases along conveyors is not at 100 percent. I view the technology, at least in the applications we're looking at in the consumer packaged goods industry, as immature."

Wal-Mart says it is not expecting to read all the cases on a pallet as the pallet arrives at its distribution center, but manufacturers would like to be able to read all the cases on a pallet before they ship the goods. That way they would be able to confirm that they have delivered exactly what the retailer ordered and that the tags on the cases match the numbers supplied to a retailer in an advance shipping notice.

But reading cases of shampoo in the middle of a pallet is next to impossible. "We're nowhere near 100 percent on the pallet," Ellis said. "We may need to do some packaging redesigns."

Mike O'Shea, director of corporate auto-ID/RFID strategies and technology for Kimberly-Clark, said his company was reading 85 to 94 percent of the cases on a pallet (Kimberly-Clark has many paper-based products that are RF-friendly). "We can live with that," he said. "But for us to achieve internal benefits, we want 100 percent reads on pallets. We aren't there yet and probably won't be there in 2005, but we will get there."

Don Mowery, director of e-business and supply chain at Nestlé Purina Petcare, said his company is looking to replace bar code scans with RFID, but there's a big difference between bar codes and RFID: You know when you failed to scan a bar code, but you don't always know it with RFID.

"As we envision RFID operating in a hands-free mode, that presents a challenge," Mowery said. "If the case goes by, and I don't know I didn't scan it, I'm worse off than I am today [using bar codes]."

Many end users have quietly complained that the failure rate on RFID labels is very high. In some cases, 15 to 20 percent of labels are defective and can't be read. Mowery said the issue is a concern: "Even if we achieve a

failure rate of 1 percent, that means there are 1,000 pallets a day that I can't scan."

Nevertheless, all four panelists said that Wal-Mart's mandate was generally a good thing for the retail-CPG industry at large. "It galvanized people to action," said Milan Turk, director of global customer e-business for Procter & Gamble. "It's a standards-based initiative, which is very important."

"It provided the traction we needed to move ahead, and it gave us something to shoot for," said O'Shea. "You could spend years discussing how to do this internally. It also helps that retailers have focused on the pallet and case and not gone off in different directions."

Turk said that although manufacturers were facing challenges in meeting the mandates, "you can't sit on your hands and do nothing. You have to identify the work processes and business opportunities that you can address now. You have to try to make the return on investment somewhat more attractive."

Kimberly-Clark's O'Shea agreed that waiting is not a good option. "It's been said that we're on the bleeding edge," he said. "I have news for you, everyone one in the room will be hemorrhaging soon. It's a question of bleeding now and learning from those efforts or waiting until it is too late. This is not plug-and-play technology, so we are developing a knowledge base in our company and we will tap into best-in-class solutions providers out there when we need to."

Despite the obstacles companies face in deploying RFID systems, O'Shea said he thinks adoption of RFID for tracking pallets and cases in the supply chain will reach critical mass in 2007.

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