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## **A New ROI Tool for Apparel and Footwear Retailers**

For the past few months, *RFID Journal* has been developing a calculator to enable apparel and footwear retailers to estimate the potential return on investment (ROI) they can achieve from deploying radio frequency identification technology in their stores. Real-world pilots and deployments

have shown that RFID can reduce out-of-stocks, improve inventory management, enhance customer service and ultimately boost sales—while *reducing* labor costs. Our goal is to offer retailers a tool that will help them decide whether deploying RFID in their stores is a good investment.

Apparel and footwear retail is an area in which calculating the ROI for an RFID deployment is fairly straightforward. While all stores have different layouts, product mixes and processes, the main tasks by store associates are fairly similar. All retailers have to receive goods into inventory, determine what has been sold and replenish. The RFID equipment required to accomplish these tasks is similar, so the costs can be estimated (and actual costs can be entered after you conduct a pilot).



I felt this tool was worth investing in, because I'm frustrated by the way pilots are currently being run. Retailers often spend \$30,000 to \$50,000 to determine whether tags can be read, or whether RFID can improve inventory accuracy. But when the results come back positive, the companies still have no idea whether RFID would deliver sufficient benefits to justify the cost. Our Fashion Retail ROI Calculator is designed to provide a framework for a pilot. Here's how it works:

You enter information about the average number of items on the sales floor and in the back room, as well as their average selling price and margin. You plug in the number of hours, on average, that store associates spend receiving goods into

inventory, cycle counting and replenishing. And then you provide information regarding the number of receiving doors, replenishment stations and doors there are between the back room and sales floor, so the tool can estimate the cost of hardware necessary to cover these areas.

*RFID Journal* has gathered data on pilots and deployments that have already been done, and used this information to make assumptions in the calculator: how many handheld readers a store would need based on the number of items in the store; the cost of the hardware; the labor savings that can be achieved; and the likely sales increase. We took averages from the data collected and used fairly conservative assumptions.

The calculator is valued at \$599, but we announced last week that we will give it away for free to all attendees of our RFID in Fashion event, being held Aug. 12-13 in New York (see *RFID Journal to Give Away New Retail ROI Calculator at RFID in Fashion 2009*). The calculator comes with a 5,000-word report that addresses retailers' concerns about adopting RFID technology in their stores, and details how—and why—the calculator works.

We understand, of course, that no calculator can cover all of the differences in store operations, and we've left out some of the benefits RFID can deliver, such as reducing employee theft. But the aim here is to enable retailers to conduct a pilot that either confirms or refutes the calculator's results.

Let's say your employees spend a total of 50 hours per store each month performing periodic inventory counts. The calculator assumes, based on results from other deployments, that with RFID, it would only take 5 hours. Our calculator assumes that improving inventory accuracy with more frequency cycle counts will increase sales by 5 percent (most pilots and deployments have resulted in a 5 percent to 10 percent increase, but we want to be conservative). When you run your pilot, you might find sales rose 6.5 percent and labor fell

from 50 hours to eight. This information can then be entered into the calculator to obtain a more precise ROI estimate and enable a CEO to decide whether a deployment makes sense.

I know some CEOs do not believe RFID can improve sales by 5 percent to 10 percent, even though our research suggests that has been fairly consistent in the deployments about which we've written (and in some that have yet to be made public). Some retailers refuse to believe their inventory accuracy is only at 60 percent, because their IT systems tell them it's much higher. But RFID provides data that shows you what's really going on in your store (some people, I think, just don't want to know).

I ran dozens of what-if scenarios to test the calculator, and it seems pretty clear that RFID can deliver significant benefits in a wide variety of apparel retail formats. If you spend a lot on labor to cycle-count, replenish and keep your inventory accuracy up, you will save more on labor and get less of an uptick in sales. If you spend less on labor and inventory accuracy is low, you will likely save less on labor and get a greater uptick in sales.

But it's interesting to note that either way, the cost of RFID tags doesn't have a significant impact on ROI. And our model assumes that a retailer will cover the cost of the tags, hardware, software and integration. If you can have your suppliers cover the cost of the tags and employ a hosted software solution, you can reduce the implementation cost and get an even more compelling ROI. Whichever route you choose, our ROI calculator can help you determine whether RFID is in fashion for your company.

*Mark Roberti is the founder and editor of RFID Journal. If you would like to comment on this article, click on the link below. To read more of Mark's opinions, visit the RFID Journal Blog or click here.*



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