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Transforming the Warehouse

Oct. 14, 2002 – \$1,124,500,000,000.

That's \$1.125 trillion. It represents the total value of business inventory held in the United States as of the end of July (the last month for which Department of Commerce data is available). Since 1998, companies have spent \$15 billion on supply chain software, and U.S. companies still have more than

a trillion dollars in goods sitting around doing nothing.

To be fair, things have been getting better. The inventory to sales ratio in the U.S. has fallen steadily, from 1.55 in 1993 to 1.35 today. That's no small achievement, and it is probably a result of improved forecasting and replenishment tools. But it's going to take something more dramatic to put a serious dent in that \$1.125 trillion dollars.

RFID has to potential to dramatically reduce the inventory to sales ratio by giving companies accurate, real-time data. But it's not simply a question of putting tags on pallets and readers on dock doors. Warehouses and distribution centers will have to be transformed into engines of efficiency.

That may sound like consultant-speak, but it's not. The distribution center is the key link between the retail store and manufacturing. To cut out of stocks while simultaneously reducing inventories, companies will have to forget the top-down supply chain approach and empower those in the distribution centers and warehouses to react to rapidly changing conditions on the ground.

That should be the long-term objective of any RFID implementation. In Part 5 of our Special Report, Low-Cost RFID: The Way Forward, Warehousing Efficiencies, we look at how companies can get there step by step. The main challenge will not be installing the equipment, or even justifying the investment. The challenges, as we stressed in the two previous installments, will be ones of culture and vision.

Senior executives need to understand that the fundamental goal of using RFID is to transform the supply chain from one in which manufacturers push products to the store to one in which the retailer pulls product with real-time information. They will need to spell out a clear vision and encourage people to go along.

It will be natural for senior supply chain executives to

resist any change that takes some of their authority and gives it to the folks lower down the chain of command. And it will be natural for workers in the supply chain to resist an even faster pace of replenishment. But these changes will be necessary if distribution centers and warehouses are going to be able to react to real-time data.

For companies around the world, there is a lot at stake. Trillions of dollars, in fact.

Correction: In our Oct. 4 article “Auto-ID Center Releases Report on Field Test,” we said that the passive RFID tags and portal readers were provided by Savi Technology. The hardware actually came from Intermec. Savi did the integration work. The story has been amended, and we regret the error.

Stephen Lambright, Savi’s VP of marketing, also pointed out – rightly – that although the read rate for the tags was only 78 percent, the system was designed to read one of two tags on a pallet. Theoretically, the system could have identified every pallet while reading only half the tags. “Given the objectives of the test,” he said, “a 97 percent identification rate for pallets was good. If we were going for 100 percent, we could have gotten it.”

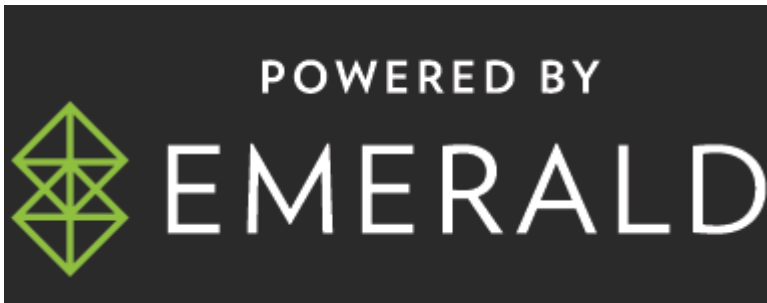
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