Understanding RFID’s ROI for Retailers

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RFID Journal
What’s Covered

• The problem for stores
  The business case for RFID in Retail and Apparel – and footwear!
• Revenue uplift vs labor savings
• Reducing shrinkage
• Other benefits
• Developing an RFID strategy
The Problem

• Too many stores
• More people shopping online
  – Global e-commerce sales rose to $26.7 trillion in 2020
  – Online sales accounted for 14% of all U.S. retail sales, up from 11 percent in 2019
• Less brand loyalty
Stores Are Failing

- Product is often out of stock
- Even if it’s in stock, no one can find it
- Shelves aren’t well organized
- Staff often aren’t very helpful (if you can find somebody)
- When you buy online and pick up in the store, the item often isn’t there
RFID Helps Improve with Execution

• Studies show RFID boosts inventory accuracy from 65% to 98%

• Ideal for items with complex SKUs (several colors and sizes)

• Can quickly find items, regardless of where they are in the store
Video
Inventory Accuracy

• Better on-shelf availability leads to an increase in sales
• Additional revenue is all profit
• What is the level of sales lift?
  – 4 percent?
  – 20 percent?
The Business Case for RFID in Retail

• It is not about reducing labor costs
• It’s about improving inventory accuracy and replenishment – *having the goods in the right place when the customer wants to buy them*
• This leads to fewer markdowns and more goods sold at a higher margin
Ladder Example: 100 Sweaters

40 are sold at full price, 20 at a 30% discount, 20 at a 40% discount, 10 at 50% off and 10 at 60% off

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<th>Selling Price</th>
<th>Unit Cost</th>
<th>Revenue</th>
<th>Cost</th>
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Better On-Shelf Availability Improves Margins

Selling 10 more sweaters at full price, 5 more at the first discount level and 5 more at the second discount level leads to a 10% increase in revenue—*all of which is profit*

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Labor Savings vs. Sales Lift

- If you spend more on labor to have higher inventory accuracy, you will save more labor.
- Sales lift will be smaller.
Retail Apparel ROI Calculator

- Enter your own costs, margins, etc.
- Test scenarios
- Explore the impact of tag costs

Reducing Shrinkage

• RFID has not been promoted as an EAS solution
• Reduction in theft is not well-documented, but . . .
• American Apparel found internal shrink declined an average of 55% in RFID-enabled stores
• In some stores it was 75%
• Marks & Spencer found the data from RFID allowed it to investigate theft more effectively
Other Benefits

• Improved customer service and customer satisfaction
• 85% reduction in receiving time
• 70% reduction in time spent looking for items
• Elimination of bi-annual inventory taking
Other Benefits

- RFID enables omnichannel retailing
- Allows retailers to improve merchandising strategies
- Enables conversion tracking
- Improves the customer experience
Developing a Strategy

• Do the basics first
• Get your inventory accuracy up
• Then consider how RFID can benefit your brand specifically
• RFID isn’t a strategy — it supports your strategy
Walmart and Prada

- Two of the first retailers to adopt RFID
- Two very different approaches
  - Prada: Wow the customer
  - Walmart: Cut costs
Some Possible Strategies

• Reduce costs to enhance competitive advantage
• Create cool, high-end customer experience
  – Interactive shelves
  – Magic mirror
  – Smart dressing rooms
• Enable omnichannel retailing to enable millennials to buy anywhere, anytime from any device
• Offer the greatest selection of product
Everything Starts with Inventory Accuracy

• You need a wholistic view of what you have and where it is — right now
• That enables improvements in the customer experience and other strategies
Start Small and Expand

- You can start with one or two categories in one store
- Expand tracking in those categories to all stores
- Add additional categories
- Focus on execution of the strategy
- Don’t forget about change management
Questions

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