

RTG Newsletter

Published quarterly by The Retail Technology Group
November, 2004

FROM THE PRINCIPAL'S OFFICE

Long-time associate and frequent contributor Frank Dell wrote the piece for this issue. The article illustrates one aspect of the acceptance and cost-effectiveness of RFID. Enjoy!

Bob Amster - Principal, RTG

THE RETAIL FOOD INDUSTRY AND RFID

BY W. FRANK DELL II - PRESIDENT, DELLMART & COMPANY

Radio Frequency Identification (RFID) is being widely promoted as the next great solution for the retail food industry. Much of this hype is the result of the largest mass retailer requiring RFID tagged product from their largest suppliers. The conclusion being if the largest mass retailer demands this technology it must be good for food retailers.

RFID is purely and simply a data or information collection approach. The promise is that it collects data for computers faster, easier and with improved accuracy. RFID has wide retailer application possibilities including all inventory movement, inventory taking, manifesting, shrink reduction, product rotation and as a replacement for Electronic Article Security (EAS). Implementing RFID requires significant capital investment in hardware (readers, antennæ, etc.) and software. Additionally, it requires significant re-engineering of methods and procedures coupled with associate education.

Dellmart & Company, a management-consulting firm with over 15 years experience assisting the Food and Consumer Products industry, and a strategic partner of RTG, decided to research the following questions:

1. Will the largest retailer gain additional competitive advantage by implementing RFID at the case and pallet levels?
2. What operational improvements can food retailers expect by implementing RFID at the case and pallet levels?
3. What is the estimated payback both food and mass retailers can expect from their RFID investment on cases and pallets?

To answer these questions, Dellmart & Company used its priority data bank of food and non-food retailer operations. The scope

RTG Newsletter

Published quarterly by The Retail Technology Group
November, 2004

was limited to direct labor within a typical distribution center. Labor models were built for both food and mass operations. Secondary research was performed for investment costs. A truckload containing 26 pallets with 55 cases per pallet was used as a volume proxy. Cases were assumed to be one cubic foot in size and weighed eighteen pounds. Following is a table showing the direct labor minutes to process our truckload through the distribution center:

	Method	Rec.	P. A.	Repl.	Pick	Load	Total
Grocery							
	Delivered	22	95	74	426	43	660
RFID	Delivered	10	92	72	426	43	643
	Backhaul	62	95	74	426	43	700
RFID	Backhaul	50	92	72	426	43	683
Mass							
	Post Label	345	0	0	0	283	628
RFID	Pre Label	218	0	0	0	281	499

Dellmart & Company's findings the questions are:

1. The largest retailer is estimated to save 129 direct labor minutes per truckload by implementing RFID. This increases their competitive advantage from 32 to 144 direct labor minutes per truckload.
2. Retail food is estimated to save 17 direct labor minutes per truckload by implementing RFID.
3. Incorporating door utilization, labor rate differences and two shift receiving operations the largest retailer achieves payback in 1.3 years while it takes the food retailer 3.3 years. A one shift receiving operation for the food retailer requires 6.6 years.

These results do not preclude implementing RFID in the retail food industry; they beg answers to more questions.

1. What are realistic, possible cost savings other than direct labor?

RTG Newsletter

Published quarterly by The Retail Technology Group
November, 2004

2. What are the implications for cross-docking considering recent field test failures?
3. How best to proceed with RFID considering:
 - i. High cost and low return?
 - ii. Limited supplier participation?
 - iii. What time frame should be considered?
4. What savings and operational improvements are realistically achievable in the store?
 - i. Without item tagging?
 - ii. With item tagging?
5. Are their supplier savings and benefits?

WHAT'S NEW

Visit our Web site!

Obtain more information about us at www.RetailTechnologyGroup.com.

Terminology

We would like to coin a couple of new terms. (Everyone else does, we can too.)

In working on a store systems software project recently, we decided that PLU (Price Look Up) is getting outdated and the physical price look-up file is actually becoming an Item Look Up file (ILU), wherein there is more information than just price.

During the same project we decided that the technology is now enabling the expanded use of a Customer Look Up file, or CLU which store based applications increasingly reference and, therefore, deserves an acronym of its own.

Both of these files can be store resident, centrally available, or both.

rue21

RTG provided package evaluation and selection services to this retailer of trendy clothing for guys and girls, based in Warrandale, PA. The project consisted of evaluating Merchandise Management systems to run on the company's AS400 platform.

RTG Newsletter

Published quarterly by The Retail Technology Group
May, 2004

The Retail Technology Group:
www.retailtechnologygroup.com
is located at:
761 Rock Rimmon Road
Stamford, CT 06903-1216
Telephone 203 329-2621
bamster@retailtechgroup.com