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AN INDEPENDENT REPORT ON

RFID Meets Promotions Management

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- ▶ **What are the value propositions of RFID-based promotions management?**
- ▶ **Why do companies struggle with promotions execution?**
- ▶ **Which companies are using RFID-based promotions management solutions?**
- ▶ **How can retailers, suppliers, and consumers all benefit?**

Real-time promotion execution (RPE) is an RFID-centric business process that can help consumer product goods (CPG) manufacturers and retailers dramatically increase promotion effectiveness. RPE may result in increased promotional sales, decreased execution costs, and elevated shopper satisfaction. RPE uses RFID-tagged displays and promotion product cases to measure in-store promotion execution by tracking where and when the displays and promotion inventory are in the store. Manufacturers and retailers can track when the items reach the store, when they are moved to the sales floor, and how long they are there — all in near-real time. This information is then integrated across many stores and manipulated with powerful analytic tools. RFID-based promotions have the potential to enable a new business process that is cost-effective and dramatically increases promotion sell-through, corrects poor in-store execution and promotion intelligence, and lowers the cost of promotions management.

RFID-Enabled Promotions

Simply stated, CPG companies spend a lot of money on promotions and promotions tracking — a budget item, representing 12% to 15% of sales for most companies. Unfortunately, historical analysis and the day-to-day experiences of CPG manufacturers and retailers show that the returns on trade promotions are far less than satisfactory.

Revenue generated by these promotions ranges from 30% to 45% but, despite their importance, promotion out-of-stock (OOS) levels range from about 15% to 35% of sales, of which about 65% to 75% translate into lost sales. For a hypothetical \$3 billion CPG manufacturer, promotion OOS can translate

into \$31 million in lost sales annually. Given that more than half of out-of-stocks take from one to three days to correct, a single promotion OOS instance could cost a CPG manufacturer about \$1 million per day in lost sales.

New product introductions and promotions (NPI&P) are critical because they are key drivers to growth for CPG companies. Therefore, successful new product launches are essential to bottom-line health. However, historical analysis reveals that 70% of new products fail in the first year, most during their launch periods. Successful launches need to drive early consumer adoption, and managing repeat demand is contingent on coordinated and effective execution to help meet shopper needs. Promotions, like new product introductions, need to be well executed and on time to avoid OOS situations. Also, promotions have short implementation life cycles, making it necessary to have products and displays available.

And, there are some key barriers to a successful new product launch. For example, products must be in stock at target levels by the time consumer and trade promotions are executed. Last-minute efforts to correct distribution and product placement can be costly and pull resources away from other critical steps in the launch. Many new product failures are due to a lack of visibility into the key milestones during the launch process. Companies that traditionally benchmark well in introducing new products have a rigorous product tracking process.

Given their critical importance, promotion execution and tracking have emerged as some of the most fruitful RFID-enabled business processes in the manufacturer-to-retailer supply chain. However, despite the size of the promotion management spend, both empirical

and anecdotal evidence suggests that it generates poor ROI within current models and practices. It is a widely recognized inefficiency that is ripe for business process improvement.

The Dark Secrets Of Promotion Management

The dark secret among CPG manufacturers, however, is that while trade promotions are a big and growing expense, running into the hundreds of millions of dollars for large manufacturers, they do not have a good handle on how these dollars drive new sales. The visibility provided by RFID is a powerful new asset that CPG manufacturers can now leverage in order to gain insight into what is happening with their in-store promotions and to understand how to best allocate these funds to get the highest sales lift possible.

Given the dollars and efforts expended, the returns yielded by promotions consistently remain below expectations. One key reason: a lack of retailer follow-through. The core problem is store-level resource constraints, including both people and processes. These constraints limit the ability of retailers to efficiently get goods from the back room and onto promotional displays. Retailers also struggle with synchronizing product availability with promotional campaign timing and feedback that helps suppliers measure campaign effectiveness.

A common problem is simply that retailer personnel working the floor do not put out some promotional displays at all. By being able to track when products have reached the store, when they have moved from the back room to the sales floor, and finally, when they have been sold, a manufacturer can understand in real time how well a current promotion is performing.

down to a particular store. Such visibility is unprecedented and expected to result in far more value from costly promotional spends.

Perhaps the most challenging part of getting an ROI from RPE will be integrating the new EPC (electronic product code) data flows with CPG companies' legacy and proprietary systems (i.e. supply chain management, logistics applications, enterprise resource planning packages) and retooling warehouse and shipping processes to be more in line with the real-time demands of RFID. The danger for CPG manufacturers employing slap-and-ship strategies that have no clear integration plans or actionable data analysis is that RFID implementations will become islands of technology and information. In that scenario, RFID becomes yet another addition to the unintegrated landscape of enterprise systems. For RFID data to join the mainland, companies are going to have to include RFID as part of their future enterprise architecture plans.

Real-Time Promotion Execution On Display

Many solution providers, CPG manufacturers, and retailers agree that RFID technology can contribute to better promotion effectiveness. In fact, Procter & Gamble has been a strong and vocal proponent of RPE, incorporating it into a proprietary, tiered approach called EPC Advantaged Strategy that the company uses to determine what it tags. Improving display execution is a cornerstone of Procter & Gamble's EPC Advantaged Strategy that was initiated earlier this year based on pilot experience with retail partners. In addition, retail pharmacy giant Walgreens strongly endorsed the concept late last year when it announced plans to roll out the RFID promotions-tracking system from Goliath Solutions across its

5,000 locations.

Through pilots, tests, and trials, CPG companies are discovering that they can use RFID data coming from their own facilities and their retail outlets to uncover flaws in the implementation of promotions that were previously difficult to detect. For example, it can be determined when promotion products arrived at a store too early and if the store staff raided the promotional inventory to restock shelves, thereby leaving that inventory short during the promotional period. RFID data can also show that the product leaving regular shelves was not counted as promotional consumption, thus distorting the promotion's results.

The use of promotions as an RFID test bed was originally demonstrated by Wal-Mart and two of its largest suppliers, Procter & Gamble's Gillette unit and Kimberly Clark. Gillette, for instance, ran numerous promotions through Wal-Mart stores monitoring the movement of tagged promotional displays through the supply chain (from the distribution center to the store back room and onto the store floor). During one of its RFID pilots, Gillette reportedly used RFID-retrieved EPC data to discover that 33% of stores it supplied failed to move its Venus razor displays from the back room to the floors when the company's Venus promotion started. Stores that got the displays onto the floors on time sold 19% more razors than stores that did not. According to Gillette's analysis, a 19% sales increase in 1/3 of the retailer's stores would represent an overall sales improvement of 6.3% for any given promotion. Gillette also found that placing single tags on promotional display cardboard proved to require little time and labor and yielded better than 97% read accuracy rates.

This is but one example of the use of RFID for promotions manage-

ment. There is a host of solutions providers offering RFID-based RPE solutions and a collection of enterprise end users embracing them. Many RPE offerings are being developed by application software vendors that specialize in data management and analytics such as T3Ci, TR3, and TrueDemand, with each actively involved in pilots. In addition, Infosys has launched an SAP-enabled NPI&P solution, and OATSystems, ADT, and Intel have released a partner-based, collaborative RPE solution that is part of a six-month program designed to validate the ROI from standards-based RFID-enabled promotions and demonstrate its value.

Suppliers spend a significant amount of time and money to plan and execute successful product promotions. Promotions can substantially increase profits for both retailers and CPG suppliers by bringing more customers into stores — customers who are likely to buy not only the promotional item but other products as well. However, out-of-stocks are more prevalent during promotions, translating into loss of opportunity for suppliers and retailers. EPC data combined with applications provides new tools that suppliers and retailers can use to improve the performance of their promotions and increase profitability.

RFID-enabled promotional display execution is a "win, win, win" for the retailer, the manufacturer, and, most importantly, the shopper because it meets the expectation of having the right product in the right place at the right time. A standards-based approach to RPE will ensure that CPG companies and retailers deliver the right product solutions to the shopper at the right time — increasing the success of product promotions.



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