

Considerations for Evaluating EAS Source-Tagging Programs

By Walter E. Palmer, CFI, CFE, CPP

While electronic article surveillance (EAS) has become pervasive in the U.S. retail market, there are still a large number of retailers who have yet to adopt source tagging within their approach. With evolving technology and the approach of RFID, many loss prevention executives continue to evaluate the best approach for their organization in the short- and long-term.

This article attempts to identify many of the action points or steps that one should consider when evaluating if EAS source tagging is the right fit for your organization. It does not intend to be prescriptive and give you definitive direction as to what is the best course of action.

EAS Source Tagging vs. RFID

One question that many executives are asking is, "Should we wait on source tagging because of RFID?" It is a logical question since one can find articles in the media almost everyday on RFID and the promise that it holds for the retail industry. There are two primary questions to be asked in this regard.

Question 1—What is the timeline for RFID adoption in my company? Clearly, there continues to be interest and media attention to the adoption of RFID by retail companies. However, when you talk to executives at most retail companies, there are many who have not yet embarked on any type of RFID

investment beyond initial exploration. Wal-Mart is the highest profile retail company mandating RFID implementation by their top vendors over the past two years. They recently expanded the RFID pilot to an additional group of suppliers.

However, with this expansion, they still will only have about their top 300 suppliers onboard and a bit more than 1,000 locations RFID-enabled. More importantly, this pilot program is still only at the case and pallet level, not item level. Most observers maintain that case- and pallet-level RFID is a supply-chain system that improves in-stock, speeds shelf fill, and

provides improved tracking and purchase-order verification. If RFID is ever to be considered a replacement for EAS, loss prevention executives agree that tagging must be done to the item level.

No one knows if, and when, item-level RFID tagging will occur in the retail market on a wide-scale basis. RFID tag prices continue to come down and are now in the 15- to 19-cent range when purchased in bulk, but that is still quite a way from the oft-quoted threshold of a 5-cent tag that many believe would be necessary to make financial sense for mass market retail.

Additionally, item-level tagging brings many other concerns and questions to the table, including privacy group concerns, signal security, RFID virus exposures, and other issues that will not be fully known until there are more implementations to measure.

As a starting point for discussion within the organization, one might assume a four- to five-year period where item-level tagging with RFID is not foreseeable. There are some that might argue this timeline. For instance, a white paper, "Moving Forward with Item-Level Radio Frequency Identification in Apparel/Footwear," by Kurt Salmon Associates in conjunction with the Voluntary

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Inter-Industry Standards Committee (VICS) and American Apparel and Footwear Association (AAFA), urged retailers to adopt item-level tagging in the near-term to reap immediate benefits.

However, if one uses a period of four to five years until this comes into reality as the starting point, it is reasonable to question whether any other efforts at EAS source tagging should be forestalled until that time or whether, regardless of the other issues outlined in this article, there are short-term gains to be made by reducing shrinkage and improving efficiencies in the EAS arena.

Question 2—Do we believe that RFID will render the EAS process unnecessary? At the March 2006 Retail

Industry Leaders Association (RILA) loss prevention conference in Orlando, FL, Kevin Lynch, business development manager for Sensormatic, and Claude Verville, vice president of loss prevention, safety, and hazmat for Lowe's, addressed this issue and suggested that RFID and EAS are *complementary* technologies.

Citing the well-established success of EAS programs in addressing shrinkage, some of the concerns identified with RFID for the same purpose include:

- Lower detection, or "pick," rates,
- Coverage areas might not be as wide,
- RFID does not work well on items containing liquids and metals, and
- RFID tags are not built for security so they are more easily defeated.

Some of these issues stem from the standards that have been established for the RFID bandwidth spectrum. The bandwidth for RFID has been established in the 900 Mhz range. This is basically the same bandwidth that was used by first-generation, microwave EAS systems.

As a result, Gartner Research, one of the leading firms in the RFID arena, has said that "RFID tags are not suitable for loss prevention because the tags are easily defeatable...All that is required to prevent an RFID read in a UHF system is to put a piece of foil over the tag." It goes on to say, "Retail loss prevention systems are much better choices than conventional RFID tags." Finally, the report also notes that RSA blockers can create interference and false alarms rendering the system unreliable for loss prevention purposes.

Why Do You Want to Source Tag?

This rudimentary question can be an important one that is often overlooked. For some readers, the answer might be obvious—to reduce shrinkage. This would almost certainly be part of the equation for a retailer who does not have an existing EAS program.

For a retailer who does have an existing EAS program in place, the reasoning for a further reduction in shrinkage from source tagging might include:

- Greater tagging compliance and
- The ability to tag items that could not previously be tagged with existing tags such as hard tags.

However, there may be a number of additional benefits to be considered such as the following:

- Payroll savings or reallocation of labor currently used for store-level tagging,
- Reduction in damages related to the use of hard tags or pins on delicate fabrics or garments,
- Support a corporate initiative such as "open selling" of merchandise that might previously have been secured or stocked behind the counter,
- Reduce lag time from receipt of goods at the dock door to "floor ready" status by eliminating the in-store tagging process, and
- Improvement of the customer store experience, for example, when trying on garments.

This “why” question will help you determine the greatest driver for the potential program and may cause your organization to justify adoption of source tagging on more than a simple shrink reduction return-on-investment.

What Is the Financial Impact?

The normal starting point for consideration for looking at EAS source tagging is from the financial view. There are two phases involved in looking at the financial impact.

The first phase is a simple top-level review that looks at such things as estimated costs of tags, numbers of tags, reduction in current labor costs, and impact on shrinkage. The goal of this phase is simply to determine if there is enough of a chance that source tagging will yield a positive return on investment that one is justified in putting together a project plan to have an in-depth look at the issue.

If that is the case, the next step in the sequence will be to examine all of the other issues outlined in this article to get a better understanding of the true costs, benefits, metrics, and efforts involved in implementing EAS source tagging. Once those steps are taken, the second phase of the financial impact analysis is to construct a business case based on the new, better-informed data.

How Does My Supply Chain Work?

It is often easy to fall into the trap of simply finding out what price the tag would cost, how many units you stock in a year, and building a financial analysis around that data. However, those LP executives who have been through the source-tagging evaluation process say one of the most important steps is to get an in-depth, detailed understanding of how your supply chain works all the way back to the production line.

During a recent discussion with a loss prevention executive for a national chain, he said, “One of the benefits of this process (looking at a source tagging program) for me has been how much I’ve learned about our sourcing, production, and distribution networks. When you start talking about introducing another process into the production line, you find that it can affect a lot of different people.”

If you manufacture your own goods, like many apparel retailers, you have to understand how the sewing line in the factory actually works. Also, you will need to understand the geographical location of where the factory is located and the product lead time, which can be up to several months both for the production of the circuits and the labels in addition to the garment manufacture.

Consider these types of questions:

- Is it part of the trim process? For example, does the tag get attached with the extra buttons or labels?
- Is there a needle-detection process (where garments are examined for safety purpose) and, if so, when does it occur?
- Do the garments get washed after assembly?

If you sell primarily packaged goods, your questions may be different. Are there any aspects about the product itself that

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need to be accounted for? For instance:

- Does the product have a high metal or liquid content that might interfere with the EAS signal?
- Is it possible to place the label within the product itself?
- If not, can it be placed inside the packaging?
- Or, does it have to be applied to the outside of the package?

Each of those options may have a different implication, cost, and effectiveness. Since you don't own the production process itself, there is also the question of whether you can get the supplier to agree to tag the items you desire. If you are Wal-Mart, you may simply mandate your requirements to the supplier. However, smaller retailers may find more of a "give and take" necessary since the source-tagging requirement to the manufacturer has significant implications to them, as well.

How Do I Get the Merchants and Production Teams to Support the Program?

The production teams and merchants have to be involved in the process of looking at source tagging. You are going to be asking *their* vendors to meet new requirements. You will likely be affecting their gross margin or IMU (initial mark-up) because the tag costs and the processing costs will now become part of the cost of goods sold. This is not usually greeted with great excitement on their part.

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What must be done is to educate them on the benefits that could derive from source tagging and understand their concerns. Another corporate loss prevention executive who has recently gone through this process said, "Our relationship with the

merchants was really solidified through this process. We walked away with a much better understanding of their issues and their view of source tagging changed dramatically when they understood the full impact it can have for the organization."

Among the benefits that may interest the merchants are:

- Reduced shortage in their merchandise categories, especially on items where it was not previously feasible to protect with other tags,
- Improved in-stock position due to lower theft,
- Fewer markdowns where financial adjustments are based on unit or perpetual inventories,
- Better presentation of their product especially on high-end, fashion, or intimate items, and
- Reduction in damages due to pin holes and hard tag issues.

What Will the Impact Be on Store Operations?

This is probably an area where most loss prevention executives do make sure they understand the issues that must be addressed and considered when putting together a source-tagging program. Oftentimes, there are significant savings for in-store operations where tagging was previously done after receipt of goods at the dock door. This payroll savings can be reallocated to other, sales-oriented tasks.

But, there may be new demands. For instance, store staff must be trained and ready for an increased number of alarms that are possible from the greater penetration and consistency in tagging that should accrue from source tagging. If this increase in alarm activations is not responded to, the impact on shrinkage could be negative.

The store-level impact will also be considered when deciding on whether to pursue a "sewn in" solution versus a hard tag. Many LP executives are wary that the replacement of a visible, hard tag with a concealed sewn-in tag results in greater shoplifting due to a lower deterrent effect. Objective data to support or confirm this concern is hard to find, but the theory reiterates the importance of store staff reacting to the expected increase in alarms that would result from the underpinnings of this theory.

In recent years, vendors have introduced relatively low-cost, disposable hard tags that could be used to source tag. If accepted by the retail loss prevention market place, this could combine the benefits of source tagging with the deterrent impact of the visible, hard tag. However, there is the question of how to dispose of the used tags.

- Will they be recycled? If so, by who?
- What are the labor cost implications?
- What would be the environmental impact of simply throwing them away?

As of this writing, there are only a few retailers that have implemented this type of process, most notably, the European retailer Zara. However, there are not clear answers to these questions and, as a result, the "sewn in" solution is the more common implementation option.

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What Are Some of the Other Issues to Be Addressed?

In speaking with retail loss prevention executives who have looked at source tagging, one immediately finds there are many issues that need to be considered and each retailer has a unique slate of questions that arise out of their context and environment.

For instance, in addition to the functions and departments already mentioned, a source-tagging program can impact the store design group. Depending on the technology chosen, the amount of "bleed" or "tag pollution" around the pedestals may necessitate moving in-store displays. If new or different pedestals have to be installed, store construction and their contractors and integrators have to be involved and understand the nuances of cutting everything from concrete slab to high-end tile.

The legal team will obviously be involved in contractual issues with vendors and manufacturers, but also need to understand

the operational and process impacts, any environmental issues, and potential liabilities or risks.

And still other implications:

- Does your replenishment or allocation department need to maintain separate inventory flows or will all stores/divisions participate in the same source tagging process?
- What impact will there be, if any, on your distribution group?
- Are there special considerations that need to be made to address any organized retail theft issues you have in your organization?

The list of issues and concerns discussed here is not comprehensive and may raise as many issues as it answers. If you have looked at source tagging in your organization, contribute to the industry and share what you've learned, regardless of whether you adopted source tagging or not. Please email your reaction, comments, and learnings to us at editor@losspreventionmagazine.com. ■



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