

tyco



Store Intelligence. Retail Excellence

source tag recirculation—
profitable today;
prepared for tomorrow

“In 2010, Tyco Retail Solutions announced the next level of EAS integration into apparel supply chains”

Executive Summary

Tyco Retail Solutions is leading Electronic Article Surveillance (EAS) into a new phase of integration and value with EAS ‘hard tags’ that are applied at the manufacturing source and recirculated from the retail store. Recirculation helps reduce store payroll costs, cut shrink, improve sales, and add consistency everywhere from store operations to merchandise displays. New Sensormatic tags, backed by a Tyco-owned network of Distribution and Recirculation centers, provide an efficient, automated, quality-controlled, and fully scalable link in your global supply chain to help you build store profitability immediately, and prepare for dual-technology (EAS/RFID) source tagging when retailers are ready.

The business logic of loss prevention

Electronic Article Surveillance (EAS) ranks high among the solutions retailers use to combat losses from theft. For more than 40 years, EAS technologies including Acousto-Magnetic (AM), Radio-Frequency (RF), and others have protected garments as visible theft deterrents and by sounding alerts when deterrence alone falls short.

For over four decades, Sensormatic EAS tagging has grown to become an integral part of global apparel supply chains. Tyco Retail Solutions—the world’s leading manufacturer of retail loss prevention, safety and security, inventory intelligence and traffic intelligence solutions—has led the way, building experience along with a string of apparel-industry firsts:

- First “source tagging” of garments, with EAS labels applied at the manufacturing source (15 years)
- First source tagging using sewn-in labels (10 years)
- First source tagging using Visible Source Tags (VST), or “hard tags”

Recirculation - the next step

In 2010, Tyco Retail Solutions announced the next level of EAS integration into apparel supply chains: recirculation of EAS hard tags all the way from manufacturing sources anywhere in the world, to retail stores and back again along fast, secure, reverse-logistics pathways. The goals of Tyco’s Hard Tag Recirculation program are twofold:

- **Improve retail profits right now**—Receive merchandise ready to sell, eliminate payroll costs from in-store tagging, and put sales associates out on the floor selling, not in the back room applying tags.
- **Prepare for integrated inventory intelligence**—Build supply-chain pathways for EAS loss-prevention solutions today and use them for dual-technology EAS/Radio-Frequency Identification (RFID) inventory visibility solutions tomorrow.

Sensormatic Visible Source Tags are already a proven loss-prevention solution; and they're ideally suited for an expanded role in retail inventory intelligence. The Tyco Hard Tag Recirculation program is building the global infrastructure needed to deliver cost-effective protection today, and unlock the full capabilities of EAS and RFID for robust protection and end-to-end inventory visibility tomorrow.

Reapplication, recycling, and recirculation

Recirculation shouldn't be confused with recycling. Tyco repurposes tags, supporting a complete recirculation solution. Using an established reverse logistics process, tags can be reapplied multiple times at the garment manufacturing location. Recycling raw tag materials are often addressed in separate initiatives. The first Sensormatic hard-tags—like many today—were applied in the stockroom by sales associates, removed at the point of sale, and reapplied within the store. The tags themselves are cost-effective and provide decades of service—but hidden costs and missed opportunities may arise from:

- **Delayed time-to-floor**—One half day's wait to tag a garment is one half-day you cannot sell it at full price, one half day closer to markdown, and a direct loss of profit.
- **Labor**—Sales associates are hired to sell, not tag. When they get busy, they may either leave merchandise untagged or leave the sales floor to tag.
- **Appearance**—Manually-tagged merchandise cannot present the uniform appearance of source tagged garments.
- **Loss**—Merchandise left in back rooms waiting to be tagged is an invitation to employee theft.
- **Duplication**—Item-level RFID is ideal for application by the manufacturer – applying a single tag carrying both EAS and RFID technologies can efficiently consolidate several store level processes.

Recirculation reduces many of the direct and indirect costs of an in-store program from:

- **Labor savings**—Fewer payroll hours at the store to apply tags, and a higher percentage of time spent on selling time and customer service.
- **Less shortage**—More tags on more items throughout the store, with 100% compliance and 100% consistency, and no merchandise left untagged in back rooms.
- **More sales**—Better speed to floor, fewer stockouts on popular items, and store associate time spent selling, not tagging.
- **Consistency**—Application in manufacturing environment, for fewer damages and a better appearance.
- **Lowest tag cost**—Overall tagging cost is reduced by selling the tag back to Tyco.

“Merchandise arrives ready to sell, accelerating both sales and inventory turns”

Stores also benefit from more appropriate alignment of financial incentives. Retailers buy only the tags they need, and receive credits promptly when they're recirculated—Tyco bears all the hard tag inventory risk. In addition, tagging costs are built into the garment, not buried in store payroll. Tags are applied as trim items at the point of assembly under quality-controlled processes, not casually in stores and distribution centers.

Even more important than foregone costs are the benefits: merchandise arrives ready to sell, accelerating both sales and inventory turns. A leading global specialty apparel retailer switched from in-store to source tagging, and moved 30% to 50% more merchandise to the sales floor per hour. And when RFID technology joins EAS source tags, retailers will enjoy the added benefits of advanced inventory intelligence¹ from end to end of a secure global supply chain. Having an established EAS recirculation path will be a tremendous advantage as your chain migrates to item level inventory solutions.

Hard tag recirculation—a systems approach

Tyco's Hard Tag Recirculation program has been designed, tested, and proven as a complete system, fully integrated with modern apparel supply chains. Compared to the false starts and half-measures of alternative approaches, the Tyco process is:

- **Global**—Distribution centers are located around the world to minimize duties, shipping costs, and delays of merchandise, tags, or information.
- **Automated**—Machine processing is faster, cheaper, more consistent, and collects and distributes more reliable information. Manual programs are slow, add new costs, and just relocate the risks and costs.
- **Quality-controlled**—ISO certified manufacturing and recirculation centers provide strict manufacturing-level quality controls.
- **Scalable**—Programs deliver more efficiency as they grow, supported by a solid logistics infrastructure and a global sales and support team.

¹ [Reference Tyco Inventory Intelligence, Unlocking Omnichannel Retailing and the Future of the Store, May 2011]

The Tyco Hard Tag Recirculation program is designed to meet the same high standards you insist on from every one of your suppliers.

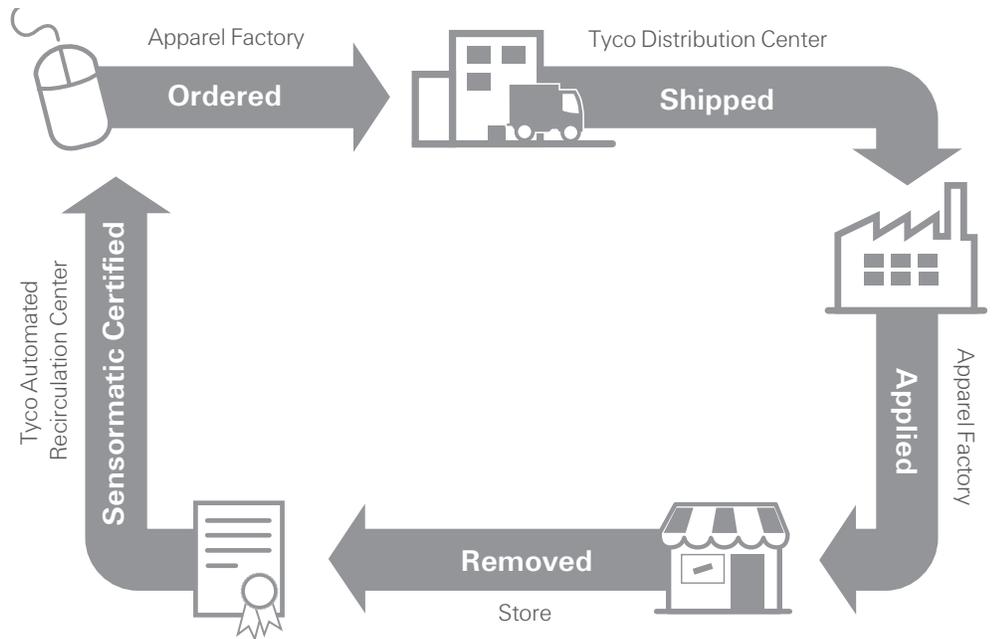


Figure 1: Tyco Retail Solutions Hard Tag Recirculation program—merchandise, tag, and information flows.

Manufacturer

Manufacturers order Sensormatic Certified hard tags through a secure online portal, and receive them from the same Tyco Distribution Centers that service their accounts today—no third-party contractors are involved anywhere in the process. Tyco’s presence in apparel manufacturing centers around the world gives manufacturers operational support in the local language and hours of operation. Additionally, Tyco carries local hard tag inventory to help manufacturers absorb demand shocks without shipping and customs delays, enabling an economical distribution program.

Manufacturers apply the tags and ship the tagged merchandise to retailers. Tyco’s patented recirculated hard tag works with a full range of apparel from leather coats to silk scarves. Lightweight tags won’t tilt the hangers of even sheer items, or wear holes in fabrics even after weeks of vibration during overseas shipment.

Retailer

Retailers receive tagged merchandise and move it immediately to the sales floor. Tags are reclaimed at the point of sale, and then shipped to the nearest Tyco Recirculation Center.

Tyco Hard Tag Recirculation has its greatest operational and financial impact here at the store. Hard tag recirculation removes the costs, delays and risks associated with in-store tag application. Merchandise looks better on shelves and hangars, and there's one less non-value-added process to pull associates off the sales floor. Retailers are able to experience increased sales and lower shrink.

Tyco Recirculation Center

Tyco Recirculation Centers—new facilities created exclusively for this program—assume and extend the tag recirculation role formerly taken by stores. But in these centers, requalification steps are conducted according to a highly automated, multi-step manufacturing process:

- **Receive, sort, and count**—Arriving tags are separated from buttons, coins, and other extraneous items.
- **Clean**—Using automated equipment, the tags are dry-brushed to eliminate dirt on tags.
- **Functional test and certify**—Each tag is tested individually and either Sensormatic Certified or discarded, triggering:
- **Ship certified tags to Tyco Distribution Center**

Each recirculation machine automatically processes 32 million tags annually, with the opportunity to expand capacity to meet market demand.



Figure 2: Tyco Hard Tag Distribution and Recirculation Centers—locations and coverage are optimized across time zones, business languages, shipping routes, and expansion opportunities.

Tyco Distribution Center

Clean, certified Sensormatic tags are ready to deliver another round of value through the apparel supply chain. Each of eight Tyco Distribution Centers (see Figure 2 above) stocks enough inventory to buffer regional shipping and customs delays and absorb manufacturers’ production shocks, so they can effectively coordinate orders and shipments. Also, the Distribution Centers provide training, program design, and other services to manufacturers through the largest worldwide sales and services team dedicated exclusively to the Recirculation program.

Distributing material, information, and incentives

From the beginning, Tyco designed its Recirculation program to optimize the flow of useful information as well as the hard tags themselves. The focus on information stems partly from Tyco’s long-standing practice of integrating retail systems. The Hard Tag Recirculation program provides insights on tags ordered, tags returned, and the tag buy-back process through the online reporting portal. But the most important reason Tyco created an information infrastructure equal in sophistication to its material-handling capabilities is future-preparedness. Traditional EAS loss-prevention solutions are being enhanced and extended by the inventory intelligence

capabilities of RFID technologies. Retailers who adopt RFID will find that unlike regional and single-technology alternatives, Tyco's global commitment to both technologies assures that their transition to full RFID inventory intelligence is operationally smooth and financially rewarding.

A similar amount of thought has gone into designing the incentive structure for Tyco's retail clients. For example, the recirculated tag itself is built into the cost of the garment—not disguised as a store operational expense. And because the recirculation credit is issued to the retailer, program compliance and return rates are high—which helps keep costs down.

Technology roadmap

The Tyco Hard Tag Recirculation program already covers Sensormatic AM EAS tags—and our high-capacity automated recirculation technologies are fully forward-compatible with next-generation tags:

Sensormatic Acousto-Magnetic tags use a rugged bias-resonator design for consistent exit performance, in a patented housing that can withstand 80 pounds (32 kg) of pull-force. Tyco will add magnetic hard tags to its recirculation program.

Dual-technology EAS/RFID tags will soon join the recirculation program, delivering end-to-end inventory intelligence capabilities and effective loss-prevention in the same lightweight tag.

Performance to date

Launched in April, 2010, Tyco's Hard Tag Recirculation program is operating at only a fraction of its design capacity—and performance has already exceeded projections. Tyco has already achieved a projection of 1.2 billion items secured in only its second year of operation—offering a clear picture of Tyco's ambitions for hard tag recirculation and our industry's demand for it.

Conclusion

Source-tagging with recirculation is a sound financial and operational decision for virtually any vertically-integrated Retailer. Rare exceptions are limited to:

- Retail chains whose labor rate for sales associates is low enough to overcome the efficiencies of source tagging.
- Retailers whose shrink problem is focused in a specific region, line of merchandise, or brand, who may be able to apply a more local solution than global tagging.

Long-term benefits of dual-technology (EAS/RFID) source tags probably tip the scales toward source tagging even in these cases: 1) It is expected retailers will see immediate and sustained improvements in both operational efficiency and profit margins; 2) It is possible to see complete payback of initial program costs in less than a year. Your sales representative can work with your store operations, loss prevention, and finance organizations, with comprehensive details and tools for estimating payback and Return on Investment from your own recirculation program. Call today.



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Leverage our strength and experience

Tyco Retail Solutions, a unit of Tyco International, is a leading global provider of integrated retail performance and security solutions, deployed today at more than 80 percent of the world's top 200 retailers ranging from single-store boutiques to global retail enterprises. Operating in more than 70 countries worldwide, Tyco Retail Solutions provides retailers with real-time visibility to their inventory and assets to improve operations, optimize profitability and create memorable shopper experiences.

The Tyco Retail Solutions portfolio for retailers is sold through ADT and authorized business partners around the world. For more information, please visit www.tycoretailsolutions.com.

**Tyco Retail Solutions—
responsible solutions for our environment**

As a leading manufacturer of end-to-end retail solutions for loss prevention, safety and security, inventory intelligence and traffic intelligence solutions, Tyco Retail Solutions offers not just state-of-the-art point solutions, but global environmentally-responsible system solutions, such as our pioneering source-tag recirculation program, integrated loss-prevention and store traffic management, and remote and local service options.

Today's shopper cares about protecting our environment. When you include Tyco Retail Solutions in your Green Retailing or Sustainability initiatives, it makes a strong statement about your own environmental commitment. And Tyco Retail Solution's environmentally responsible, industry-leading suite of products and services are a solid investment in your business future.