

## HOW LULULEMON AND ADIDAS USE RFID TO SET THE STAGE FOR OMNICHANNEL

By Jessica Binns, Senior Editor

**“I**f you walk into our stores and said you’re going to take RFID away, our associates would probably kill you.”

That’s how Jonathan Aitken, **lululemon athletica’s** director IT, store technology operations and RFID program director, described how passionate the company’s store employees are about the game-changing technology that was rolled out in 2014.

And for good reason: RFID adoption is accelerating as retailers discover its potential to address major challenges such as inventory accuracy, says Dr. Bill Hardgrave, dean of the College of Business at Auburn University and former director of the **RFID Research Center**. Across retailers, average inventory accuracy hovers around 60 percent to 65 percent, and some laggards are as bad as 28 percent. “And they’re still in business, remarkably,” he says.

The Center’s most recent June snapshot documenting RFID activity found that 30 percent of retailers are in the proof-of-concept stage, 25 percent of piloting and about 40 percent have deployed RFID fully or in phases. After years of talk, the industry finally is taking action.

Lululemon’s primary objective for RFID was elevating the customer experience. “The best way to make customers happy is to give them as many choices as possible,” Aitken says. At the beginning of the rollout, the company found that it typically had about 250



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SKUs out of its 15,000 SKUs in store that were in the stockroom and not available on the shop floor. Restocking used to be a manual “eyeball process” with an associate on the phone describing which products she did or didn’t have. And once customers began trickling in, the restocking would come to a halt as associates switched into customer-service mode. Today, with RFID fully enabled the number of SKUs languishing in the stockroom stands at about 25 — roughly a 90 percent improvement.

Store employees use handhelds plus an endless aisle app to check inventory without leaving the customer’s side, and lululemon also offers an app that enables customers to look up inventory information themselves. Getting early RFID buy-in from employees was key.

“We’re fortunate that our employees are mostly Millennials and iPod savvy, so the devices are not difficult for them to use. They got the concept really well,” says Aitken.

The deployment uncovered some unfortunate truths about what really was going on in brick and mortar. “We were surprised by how much really old inventory we had in store,” Aitken notes, describing an incident that turned up shorts from five years prior. “RFID shines a spotlight on the processes in your stores. We realized how bad some of our receiving and shipping processes were.”

According to Aitken, the company’s goal with RFID always was to prepare for omnichannel. At NRF two years ago, lululemon’s CEO sent all of the IT direc-

tors out into New York City to attempt transactions such as buy online, pick-up in store (BOPIS) or ship-from-store, which Hardgrave describes as “fundamental pillars of omnichannel.” The results were not encouraging, to put it mildly: 70 percent of those transactions failed. Stores couldn’t find products the lululemon executives wanted to order, or items were ordered for next-day pick-up, only to be cancelled two hours later. “I thought it was mind-blowing,” Aitken says. “That’s a terrible experience.”

Eighty of lululemon’s North American stores have omnichannel capabilities today and on a bad week, the order cancellation rate might be 4 percent. On a good week, Aitken says it’s less than 1 percent. “Retailers that do omnichannel without RFID have cancellation rates between 20 percent to 30 percent,” he explains.

When deploying RFID it’s important to just spend the first year working out the kinks and then setting your omnichannel strategy and capabilities in year two, adds Aitken. RFID isn’t in and of itself a differentiator; it’s what you do with your new inventory accuracy that matters.

“If you have high inventory accuracy but don’t enable processes or use it to execute better in your stores or enable BOPIS, you’re not going to see a lot of inherent value from that,” notes Hardgrave.

While many retailers still balk at the cost of deploying RFID, the return on investment is worth it. The challenge may be convincing your CFO and head of financial planning and analysis that an extra \$0.05 per tag per item is a good idea, especially for retailers with large store fleets. An extra \$8,000 to \$20,000 per store is “not an insignificant amount,” Aitken says. However, he estimates that lululemon paid for its RFID deployment in just one season and the technology was a major factor in its great holiday sales in 2015 and 2016. “A lot of it was having enough product on the floor for people to buy rather than having it hidden in the back,” he adds.

Indeed, product availability is a significant omnichannel pain point sans RFID. To compensate, Hardgrave says retailers use artificial buffers to shield some inventory from consumers simply because they lack confidence in their accuracy. For example, there might be five of high-turn product available in store but a retailer shows a customer shopping on ecommerce that there are zero available. “They don’t trust their own inventory,” explains Hardgrave. “They don’t want to send the customer into the store and disappoint them. They’re building artificially high buffers and losing out on all the benefits of omnichannel.”

Hardgrave gives the example of one particular retailer that used a buffer of two when displaying inventory to shoppers, meaning that a SKU with two or fewer items available would not be shown to consumers. With that buffer in place, only 60 percent of inventory was revealed to shoppers. When the buffer was changed to one, another 20 percent of SKUs was revealed. And when all buffers were removed, 100 percent of inventory was shown to customers.

Such buffers compound the lost-sales problem. Beyond missing out on the omnichannel transaction itself, retailers could also be forgoing the additional unplanned purchases that 25 percent of BOPIS customers make on their trip to the store, a number that was as high as about 40 percent for J. C. Penney over the holidays, Hardgrave notes.

Ship from store transactions are unwieldy without RFID as well. According to Hardgrave, the average pick rate for these orders is just 35 percent, so for a three-item order, only one product on average is found in stores. That means the order has to be sent off to another store to fulfill the remaining items, increasing the time to get the order to the customer, potentially dinging the retailer’s Net Promoter Score (NPS).

**Adidas** deployed RFID in 450 Russian stores over nine months, focusing first on “fixing the basics” of stock accuracy and on-floor availability before

rolling out omnichannel capabilities, which has had a positive impact on NPS, says Tobias Steinhoff, senior director, business solutions, global sales, direct to channel and franchise for the adidas Group. The company had discovered over the years certain “detracting factors” that kept customers from recommending the store to others, including assortment width and depth, and slow customer service. RFID has helped get the NPS score up. “On-floor availability is directly correlated with size availability,” Steinhoff notes. “Speed of service is faster with RFID integrated into POS.”

Looking to the near-term future, Aitken hopes that RFID analytics becomes a reality. “There’s a lot of people selling analytics today, but no one’s really talking about RFID analytics,” he says. The real power potentially lies in combining data from the RFID-tagged products with the MAC address from a beacon or WiFi sensor so you know who’s in your stores, how often, and which products they’re looking at. Data such as which products went into fitting rooms but ended up back on the store shelf or how many times an item was purchased but returned would be invaluable, Aitken explains.

Beyond that, content is incredibly important when RFID is being used to create digital experiences such as Rebecca Minkoff’s “magic mirror” in fitting rooms, adds Aitken. He worked on a pilot bringing RFID-tagged products into the fitting room to “tell more of a story” with photos and videos, but the challenge is getting operations and other groups to buy in, especially when your product is changing constantly.

Overall, the industry is close to shifting how it approaches RFID. “I think in a few years, we’re not going to be talking about inventory accuracy because if you don’t have that, you’re going to be in a world of hurt,” says Hardgrave. “That’s just table stakes.”

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