



The Magic of Macy's: Leveraging RFID for "Pick to the Last Unit" Omni-Channel Fulfillment



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// Summary

- Industry:** Department store
- Solutions:** RFID Inventory Visibility
- Benefits:** Improved inventory accuracy & visibility
 - Inventory optimization
 - Omni-channel fulfillment
 - Increased sales & margin
 - Reduced markdowns
 - Enhanced customer experience

Macy's legacy began more than 150 years ago with the opening of a small store in New York City. Today, they have grown to be one of nation's premier omni-channel retailers with sales of over \$28B.

Macy's delivers fashion and affordable luxury to customers at nearly 800 locations in the U.S. and more than 100 international destinations through its leading online store at macys.com.

Welcome to Macy's

Established in 1858, Macy's is an iconic retailing brand with nearly 800 stores operating coast-to-coast and online at macys.com. Macy's offers powerful assortments and the best brands, tailored to each and every customer with obvious value, engaging service and unforgettable moments. Its famous flagship located at Herald Square in New York City is known as the "World's Largest Store," with over 1.1 million square feet of retail space.

Aligned with the Customer, Prepared for Growth:

Macy's corporate philosophy recognizes the customer is paramount and that all actions and omni-channel strategies must focus on providing a localized merchandise offering and shopping experience to targeted consumers through dynamic online sites. As a multi-faceted retailer with a smart combination of stores, online presence, technology, and business capabilities, Macy's is committed to helping its customers shop anywhere, anytime, and anyhow they choose, by leveraging the entire inventory of the company to satisfy demand.

To make that vision a reality, Macy's continues to execute on its corporate strategy dubbed M.O.M. – "My Macy's merchandise assortments, Omni-channel integration, and Magic Selling customer engagement." Improving inventory accuracy is a critical component of the initiative, but paramount for omni-channel fulfillment – especially as Macy's moves to deliver on an emerging "buy anywhere, fulfill anywhere" model. This approach is a tall order in today's world of sky-high consumer expectations and need-it-now mentality, but the legendary retailer relies on item-level RFID to help ensure inventory is optimized across the entire enterprise.

The Challenge

Peter Longo, Macy's President of Logistics and Operations, recently noted inventory degradation occurs at a rate of about 2-3% a month stating, "You don't want to make decisions based on bad data." Merchandise movements, administrative errors and system updates can all cause inventory distortion over time, but RFID can help to eliminate these causes, all of which

are detrimental to the fulfillment process. By working with Tyco Retail Solutions and leveraging the TrueVUE™ RFID Inventory Visibility platform, Macy's was able to establish a foundation of inventory accuracy in key replenishable product categories across all 800 stores. The success of the initial pilot program and resulting statistics empowered Macy's to explore new ways to use RFID technology in fashion areas for omni-channel fulfillment.

The Solution

Regardless of the channel, Macy's is accessing store inventory for order fulfillment in order to meet customer demand. The company realized that brick-and-mortar stores could be their greatest asset for single unit orders, essentially functioning as robust and flexible "warehouses" to utilize the full assortment of owned inventory. With item-level RFID, Macy's can focus on assortment and service while using their existing inventory to address fulfillment demands. The overall changes to inventory management in support of this omni-channel strategy have enabled Macy's to reduce \$1B of inventory from its stores.

Macy's "Pick to the Last Unit" Program

Once again demonstrating the Magic of Macy's, the retailer created a unique program based on the concept of "Pick to the Last Unit" (P2LU) for omni-channel fulfillment. P2LU attempts to ensure that the last unit of an item in any store is able to be easily located and made available for sale. Typically, retailers don't expose the last item of a SKU to online sales because they don't have enough confidence in their inventory data to make each piece available for

customer orders. When an item's on-hand quantity falls below a minimum amount, the item will be considered out of stock and not available for order or store pick-up. But that is not the case with Macy's due to the success of their P2LU strategy. The success of this strategy is possible due to the inventory accuracy and visibility enabled by RFID technology.

Macy's conducted an analysis of how much inventory exists in each store when there is only one unit left – the hardest to be found and sold. Longo noted, "About 15 to 20 percent of your inventory is accounted for by the last unit in the store. It's a massive amount of budget, either marked down or not sold, and it is curable through RFID. The confidence to sell is enhanced by RFID. That's why we are aggressively pursuing this concept of 'Pick to the Last Unit' because we know it's there."

The Results

To test the P2LU strategy, Macy's conducted a pilot project with women's dresses which yielded highly impressive results. While online sales were up, pilot stores' fulfillment sales had significantly increased compared to last year. As a result, markdowns for the test stores showed a drastic improvement versus results from other stores. Macy's now has enough confidence in its inventory accuracy that even if only one of an item is left in stock, it can leverage every unit in every store to fulfill orders. This enables Macy's to focus on assortment and service while using existing inventory to address customer demands.

The use of RFID has been a game-changer for Macy's in driving inventory accuracy which is critical to execution and omni-channel fulfillment. Macy's recognized

that leveraging single unit inventory—approximately 20% of inventory represented at the single unit level by location—can help drive sales and margin. Utilizing Tyco's RFID Inventory Visibility solution ensures a complete view of inventory in stores, online and across the supply chain to satisfy customer demand and achieve the "buy anywhere, fulfill anywhere" model. Now, Macy's is able to maximize revenue opportunity from omni-channel programs and bolster the overall customer experience to support their M.O.M. strategy. In addition to sales lift on regular and first markdowns with the rollout of RFID, Macy's has reduced inventory costs by lowering interim inventory requirements by one third. 





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