



Falabella Tries Motorola RFID on for Size (and Finds a Perfect Fit)



Company overview

The Falabella Group is a retail giant in Latin America, operating department stores, home improvement stores and supermarkets in Chile, Peru, Argentina and Colombia. The 118-year-old corporation employs more than 59,000 people in 175 locations and aspires to become the region's largest, most successful retailer by combining quality and world-class management with a commitment to local communities.

As a major retailer with aggressive regional expansion plans, the Falabella Group recognized early on that RFID had the potential to dramatically streamline their business processes.

The challenge: improve business processes to support regional growth

Already an established regional retail leader, the Falabella Group is investing heavily in aggressive expansion in South America, opening 32 new stores in 2007 alone. With this growth, Falabella's executives recognize that continued expansion will place ever heavier demands on the company's business processes, from the development of brands and products, to systems, logistics, marketing, store designs, technologies and customer service methodologies. So, together with their commitment to expansion, they have made a similar commitment to improving process management and increasing customer satisfaction.

To that end, the potential benefits of adopting RFID caught management's attention early on. Being quite deliberate and methodical on new technologies that might require business change, Falabella's team followed the analyst reports and tracked the technology as it matured. In order to outperform their peers over a sustained time, across business cycles and industry disruptions, Falabella believes in carefully balancing today's needs with investment in tomorrow's drivers of change.

Meanwhile, today's needs were becoming more pressing. Increasing labor demands in both busy new stores and established flagships meant that store inventories were being conducted monthly at best, but often no more than quarterly. Inventory discrepancies were averaging 20% across the company. The resulting inadequate stock visibility translated directly into potential lost sales.

When the second generation of RFID (the Gen 2 RFID Standard) demonstrated high reliability, Falabella was ready to begin planning their own pilot RFID deployment program. Their objectives were clearly defined and tightly aligned to their present business needs:

- Perform daily inventory cycle counts.
- Maintain over 98% RFID reading accuracy.
- Identify and measure the cost and benefits of RFID.

Customer Profile



Company

Falabella

Location

Santiago, Chile

Industry

Retail

Motorola Products

Motorola MC9090-G handheld readers

Motorola XR440 fixed readers with AN400 antennas

Application

OATSystems, Foundation Suite

Partners

Integration and Business Process Consulting

IBM

Software

OATSystems

RFID Tags

Paxar (Avery Dennison)

Benefits

- Faster, more accurate and more frequent inventory cycle counts
- 98.4% accuracy of RFID reading for inventory counts
- Increased stock visibility for reduced stock outs, improved customer service, higher customer satisfaction and improved sales
- Reduction in labor involvement and human errors associated with inventory control for lower operation costs



RFID tags were affixed to two popular lines of men's apparel, including tailored garments, pants, shirts, sweaters and other items perceived to have high value to the store's customers.

The pilot: one store, one overriding goal – accurate inventory

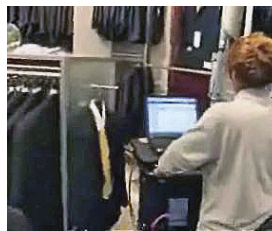
Falabella planned a four-month pilot program in one of its Santiago department stores, close to corporate headquarters. To ensure careful monitoring and control of the test program and to ensure project buy-in across distinct business operations, the retailer had committed to weekly RFID pilot project meetings between the technology integration group and business/store operations.

The first challenge was finding the right solution providers to help launch the pilot. After months of interviewing, Falabella was frustrated to discover that most of the vendors they spoke with had little to no actual experience in RFID deployment. Ultimately, however, they put together a world-class team of RFID experts that had experience in deploying RFID in retail environments. IBM served as RFID business process consultant and as the lead technology integrator for the project. Falabella selected Motorola's MC9090-G handheld RFID readers for the receiving process and built two battery-powered mobile carts that used RFID readers and antennas for inventory counting. The retailer purchased its RFID tags from Paxar (Avery Dennison), and chose OATSystems for the RFID software.

For the pilot, the retailer limited RFID tagging to two popular lines of men's apparel, including tailored garments, pants, shirts, sweaters and other higher value items. Some 7,000 items would be tagged and 2,500 on-hand items would be inventoried daily.

RFID was incorporated into several business operation segments during the pilot:

- At **Receiving**, precoded RFID tags were affixed to each item to be tracked. A Motorola handheld RFID reader with barcode scanner was used to validate each tag and enter the item into inventory.
- For **Inventory**, a Motorola reader on a mobile cart was guided by a single associate along a predetermined path each morning before the store opened. This provided a daily basis inventory count for both the backroom and the sales floor.
- At **Check-out**, RFID tags were removed at the point of sale and a Motorola handheld reader changed the item's inventory status to "sold."
- For **Restocking**, daily basis cycle counts and sold item lists were consolidated twice daily to identify understocked items. A Motorola handheld reader was then used to reassign stock location from store rooms to the sales floor.



With RFID, a single Falabella associate pushing a mobile reader cart can complete an inventory that previously required as many as 50 employees working over two full nights.

“With this pilot, we developed a lot of confidence in RFID, what it can do, and what we can do with it.”

Andrés Arancibia
Falabella's R&D chief



Their pilot program convinced Falabella that RFID can dramatically improve inventory accuracy and on-hand stock visibility while simultaneously reducing the associated labor costs and cycle counting times.

The results: beyond expectations

Falabella's pilot RFID system quickly proved to deliver 98.4 percent inventory accuracy, enabling staff to count up to 9,000 items in one hour using the mobile cart. During the trial, the store saw a 25 percent reduction in out-of-stock occurrences among the tagged items.

Inventory had previously been a monthly or even quarterly process, requiring as many as 50 employees working over two full nights while the store was closed. With RFID, a single associate walks the floor pushing an RFID-enabled mobile cart before store opening each day. The captured inventory data is then read into the OATSystems software for inventory reconciliation and report generation. Hundreds of man-hours were reduced to a few hours, with greater accuracy.

The speedy capture of accurate daily data yielded additional process improvements. Routine daily reports gave store managers the data needed to set new key performance indicators (KPIs) on issues such as shrinkage, promotions effectiveness and the dwell-time of merchandise in the backroom, on the sales floor or in-transit between the two.

The benefits

Falabella was most interested in making a business case for RFID. In their competitive and cost-sensitive industry, they focus on customer satisfaction and inventory visibility as crucial elements for continued profit and growth.

As a result of this pilot, Falabella identified a number of key benefits of introducing RFID to their business processes:

- **Inventory management:** RFID improved on-hand inventory availability, visibility and accuracy, while reducing the cost and labor of inventory tracking. More visible inventory is ultimately available to sell and manage.
- **Store efficiency:** RFID provides significant value in automating front-of-store management at the item level, significantly reducing the time and cost of visual/manual shelf-level management of stock.

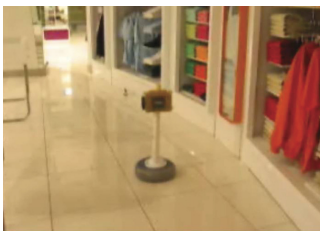
- **Customer experience:** RFID makes merchandise more visible and available, so customers can more easily help themselves, interacting with merchandise, rather than staff. They are happier with their experience and staffing needs are reduced.
- **Loss prevention:** RFID improves shrink management by enforcing tighter control of on-hand inventory and the movement of that inventory. Easy location of product can also help add security to store operations, reducing both customer and employee theft.

Next step: rollout

Based on the success of its pilot program, Falabella is currently working on a plan for larger-scale RFID implementation. The goal is to move from 2,500 to more than 10,000 products per store, focusing on integration with suppliers and a uniform operation between stores.

Eventually, the company intends to move beyond standalone store systems to integrate the data collected through RFID enabled items into back-end operations and enterprise-wide information systems.

For more information about how Motorola's RFID solutions can help your company achieve competitive advantage, contact your Motorola representative or visit www.motorola.com/rfid.



A Motorola RFID reader is attached to a robotic vacuum cleaner. While this technological curiosity was not actually used in the pilot, the idea hints at the potential of incorporating RFID in other automated processes.



About our partner

IBM is executing an end-to-end RFID Solution Strategy from business case to pilots, implementation and rollout. Their comprehensive solution framework is designed to deliver rapid ROI while providing a roadmap for the future. For over a decade they have been a leader in RFID technology innovation.

IBM has provided business case development, as well as pilot implementation services to many pioneering RFID technology adopters in the consumer products and retail industries. Their experience has enabled them to develop an implementation roadmap for transforming the way manufacturers and retailers collaborate. The RFID solution is part of a comprehensive strategy which allows in-store data to be used for multiple business processes including merchandising, pricing, promotion, inventory management and replenishment.



About our partner

OATSystems, Inc. is a recognized RFID solution leader with software that empowers businesses to achieve competitive advantage and ROI from radio-frequency identification (RFID) enabled applications. As a pioneer in developing RFID technology, OAT has been setting the standards in RFID for over half a decade and is responsible for industry firsts that include the largest scale and largest scope of deployments, as well as the most innovative approaches to providing enterprise-wide RFID solutions. OAT's multinational client base consists of over 100 customers in retail, CPG, consumer electronics, manufacturing, life sciences, aerospace and defense. OAT is headquartered in Waltham, MA, and has a development office in Bangalore and various direct sales offices and resellers around the globe. To learn more about the company's latest developments, visit www.oatsystems.com.



About our partner

Thanks to their expertise in advanced research, electronics and roll-to-roll manufacturing, Avery Dennison was the first to develop a high-volume, high-yield process for delivering RFID inlays. This process typically yields throughputs 10 times higher than conventional assembly techniques.

The company's experience includes developing orientation-insensitive designs – where the device must work regardless of its position in the RF field – to designs that work in the proximity of, or even under, water. Avery Dennison produces antennas from aluminum and copper – even printed silver. In addition, their high-speed proprietary assembly technology combines antennas with silicon RFID chips to make functional devices. Other capabilities include in-line testing and infrastructure support.



www.motorola.com/rfid

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