RFID FOR LOSS PREVENTION

PLANNING GUIDE

RFID JOURNAL

Helping Retailers Grow Profitably
WHAT’S DRIVING RFID ADOPTION IN RETAIL?

The traditional success factors of reducing cost, optimizing inventory, improving shelf availability and increasing sales and margins are more crucial to retailers today than ever before. Effective inventory management is critical to retailers’ profitability.

Many retailers are adopting RFID technology to increase inventory accuracy, resulting in reduced out of stocks, reduced working capital and increased sales.

Retailers are experiencing significant benefits with RFID

### Increased Inventory Accuracy
Example shows industry average inventory accuracy

- Before: 62%
- With RFID: 95%+

### Reduced Out-of-Stocks
Example shows industry average OOS rate

- Before: 12-14%
- With RFID: 6-6%

### Increased Sales
Example shows typical integrated specialty apparel retailer

- Before: $2.5MM
- With RFID: $2.8MM

### Reduced Working Capital
Example shows typical integrated specialty apparel retailer

- Before: $800MM
- With RFID: $500MM

Additionally, retailers are increasingly leveraging RFID for its loss prevention benefits. This planning guide explains why, and how retailers can get started with RFID for LP.

WHAT’S IN THE PLANNING GUIDE?

This guide is designed to provide LP professionals with the background information to incorporate their goals in the RFID planning process, including:

- **Business Drivers for RFID LP Deployments**
- **How RFID Works for LP**
- **RFID System Components**
- **LP Adoption Paths for RFID**
- **RFID for LP Planning Checklist**
WHAT’S DRIVING RFID ADOPTION IN LP?

Loss Prevention professionals are investigating RFID for numerous reasons, including design considerations, store expansion plans, understanding and addressing patterns of theft and increasing the value of RFID inventory management initiatives.

1. **OPEN ENTRANCES:** Mall stores often have open entrances, with merchandising close to the exit door. For example, some mall stores and luxury stores want open-entrance LP solutions that are seamlessly integrated into the store design, to enhance the shopping environment. RFID-based EAS provides format and usage flexibility.

2. **ADDITIONAL INSIGHTS:** Beyond informing retailers that a theft event may have occurred, RFID can provide important information about quantity, value and description of the inventory, enabling restocking to ensure shelf availability.

3. **NEW STORES & REMODELS:** RFID-based EAS can serve as a “futureproof” technology that can accommodate new formats and information sharing down the road.

4. **ORGANIZED RETAIL CRIME:** RFID is a new tool in the fight against ORC, providing differentiated alarms for high volumes of merchandise and high-value items leaving the exit door, as well as analysis to help prevent future incidents.

5. **INVENTORY MANAGEMENT:** When a retailer uses RFID for both inventory management and loss prevention, the same tags can be used for both, delivering significant cost savings and labor savings for the organization.
RFID is a multi-modal technology that 1) can be placed at the exit door as well as throughout the store, and 2) integrates informatively and in real-time with store operations and inventory systems. It provides specific benefits for Loss Prevention, as shown in the table below.

### SOURCES OF LOSS

<table>
<thead>
<tr>
<th>SHOPLIFTING AND ORC</th>
<th>RFID-BASED DETECTION &amp; PREVENTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Protection for multiple merchandising formats – Mall Stores, Luxury Stores, and more</td>
<td></td>
</tr>
<tr>
<td>• Differentiated Alarms – by quantity, value of items stolen</td>
<td></td>
</tr>
<tr>
<td>• Item-level detail on what was stolen, enabling re-stocking to improve shelf availability</td>
<td></td>
</tr>
<tr>
<td>• Extending EAS to the dressing room and other “pre-POS” areas of the store</td>
<td></td>
</tr>
<tr>
<td>• Automated, chain-wide alerts for ORC</td>
<td></td>
</tr>
<tr>
<td>• Ability to analyze patterns of theft over time and respond</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EMPLOYEE THEFT</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Extending EAS to the dressing room and other “pre-POS” areas of the store</td>
</tr>
<tr>
<td>• Improved inventory visibility throughout the store</td>
</tr>
<tr>
<td>• Ability to analyze patterns of theft over time and respond</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ADMINISTRATIVE ERROR</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Automated cycle counting to identify anomalies and sources of shrink more quickly and easily</td>
</tr>
<tr>
<td>• Electronic proof of delivery at DC and stores</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>VENDOR FRAUD</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Electronic proof of delivery at DC and stores</td>
</tr>
</tbody>
</table>
Every RFID system has the same basic components, although the specific components differ based on the nature of each deployment. For instance, apparel retailers often use a combination of hard tags and soft tags based on the type of merchandise and loss prevention practices. Luxury retailers often select readers integrated into their store design, for a seamless customer experience.

<table>
<thead>
<tr>
<th>RFID SYSTEM COMPONENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>OPTIONS</strong></td>
</tr>
</tbody>
</table>

## TAGS
- Hard Tags
- Hang Tags
- Combo Tags

## CONSIDERATIONS
- Tagging process
- Tag cost
- Whether the tag needs to serve as a visual deterrent
- Whether the tag needs to be removed at POS, or can be used to validate returns
- Value of merchandise being tagged

## READERS
- Portal
- Overhead
- Handheld

## CONSIDERATIONS
- Aesthetics and store design
- Where the reader will be located (exit door, dressing room, back room, receiving dock)
- Whether the reader will be used for both inventory management and loss prevention
- Whether the reader needs to be integrated into the store design or merchandising plan

## SOFTWARE
- Solution Software
- Integration Software
- LP Applications

## CONSIDERATIONS
- How different readers will be configured and managed (locally, remotely, centralized mgt)
- How LP data will be used/analyzed (exit door alarms, differentiated alarms based on qty/value stolen, post-event analysis)
- Which systems need to be informed: inventory mgt, POS, CCTV, other LP systems
- How data will be centralized for chain-wide reporting

## SERVICES
- Design
- Implementation
- Integration

## CONSIDERATIONS
- Services needed for testing and deployment (system design, hardware installation, use case configuration, training, integration, ongoing support)
- Which system platforms need integration with LP data (IBM, Oracle, SAP, in-house, etc.)
The rate of RFID adoption varies by each retailer's unique needs and operations. Retailers already using RFID for inventory management can reap additional benefits...

**SCENARIO A: RETAILERS USING RFID FOR INVENTORY MANAGEMENT**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>RFID-enabled Inventory Management</td>
</tr>
<tr>
<td>2.</td>
<td>RFID-enabled Loss Prevention</td>
</tr>
<tr>
<td>3.</td>
<td>RFID-enabled Customer Experience</td>
</tr>
<tr>
<td>4.</td>
<td>RFID-enabled Supply Chain</td>
</tr>
</tbody>
</table>

**RFID-enabled Inventory Management**
- Improve inventory accuracy
- Reduce out-of-stocks
- Reduce working capital
- Increase sales

**RFID-enabled Loss Prevention**
- Leverage single RFID tag for inventory and LP; significant cost savings
- With visibility into specific items stolen, restock to ensure merchandise availability
- Integrated LP and inventory data uncovers patterns of ORC, casual shoplifting, internal theft

**RFID-enhanced Customer Experience**
- Improve merchandise availability
- Enable additional merchandising options and enhance store layout flexibility
- Support for mobile POS, e-receipts, self-checkout
- Optimize inventory accuracy to enable omni-channel

**RFID-enabled Supply Chain**
- Source tagging reduces labor costs, improves compliance
- Extend LP protection to cargo theft, vendor fraud, counterfeiting and diversion

While retailers planning to use RFID for inventory management can start with LP and prepare for the future...

**SCENARIO B: RETAILERS PLANNING TO USE RFID FOR INVENTORY MANAGEMENT**

<table>
<thead>
<tr>
<th>Step</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>RFID-enabled Loss Prevention</td>
</tr>
<tr>
<td>2.</td>
<td>RFID-enabled Inventory Management</td>
</tr>
<tr>
<td>3.</td>
<td>RFID-enhanced Customer Experience</td>
</tr>
<tr>
<td>4.</td>
<td>RFID-enabled Supply Chain</td>
</tr>
</tbody>
</table>

**RFID-enabled Loss Prevention**
- Start with RFID for LP, functioning like traditional EAS, but “future-proof” investment for new and renovated stores
- Supports open entrance store design
- Increases alarm integrity

**RFID-enabled Inventory Management**
- When ready, integrate store operations and inventory systems for additional visibility
- Leverage single RFID tag for inventory and LP; significant cost savings
- With visibility into specific items stolen, restock to ensure merchandise availability
- Integrated LP and inventory data uncovers patterns of ORC, casual shoplifting, internal theft

**RFID-enhanced Customer Experience**
- Improve merchandise availability
- Enable additional merchandising options and enhance store layout flexibility
- Support for mobile POS, e-receipts, self-checkout
- Optimize inventory accuracy to enable omni-channel

**RFID-enabled Supply Chain**
- Source tagging reduces labor costs, improves compliance
- Extend LP protection to cargo theft, vendor fraud, counterfeiting and diversion
PLANNING YOUR RFID LP PROJECT

Loss Prevention professionals have multiple considerations for RFID deployments beyond inventory management and supply chain visibility.

**RFID for LP PLANNING CHECKLIST**

1. **What types of store formats need protection?**
   - Standalone stores
   - Mall stores with open entrances
   - Luxury or boutique store format

2. **What specific merchandise needs to be protected?**
   - All merchandise
   - High value or high-theft items only
   - Bulk shipments of merchandise

3. **What areas need to be protected?**
   - In-store exit door, displays, dressing rooms
   - Store back room, receiving area
   - DC shipping and receiving
   - Logistics operations

4. **Does the data need to be shared with existing systems/hardware?**
   - POS Systems
   - Inventory Systems
   - LP Systems (describe) _____________
   - Other__________________________

5. **What sorts of theft indicators need to be tested?**
   - False Alarms due to deactivated tags from other stores
   - Quantity, value, category of items stolen
   - Differentiated alarms and alerts
   - Other__________________________

6. **What is our practice of using RFID for inventory management?**
   - Already RFID-tagging merchandise
   - Planning to RFID-enable in the future
   - Starting RFID implementation with LP

7. **What should our cost considerations be?**
   - Current LP tag/tagging
   - Leveraging single tag for multiple benefits
ABOUT CHECKPOINT SYSTEMS

Checkpoint Systems is a global leader in shrink management, merchandise visibility and apparel labeling solutions. Checkpoint partners with retailers and their suppliers to reduce shrink, improve shelf availability and leverage real-time data to achieve operational excellence. Checkpoint solutions are built upon 40 years of RF technology expertise, diverse shrink management offerings, a broad portfolio of apparel labeling solutions, market-leading RFID applications, innovative high-theft solutions and its Web-based Check-Net data management platform.

Checkpoint's solutions enable retailers to enhance the shopping experience for consumers, and grow their business profitably.