SupplyChainDigest ™

Your First Stop for Supply Chain Information

Wal-Mart Finds Do-It-Yourself may be Easiest Path for RFID Enablement

Sam's Club Drops Compliance Fines for Lack of Pallet Tagging to Just 12 Cents; Did it Reach Its Own Tipping Point?

SCDigest Editorial Staff

Somewhat stunning news this week as Wal-Mart's Sam's Club division announced a dramatic drop in its compliance penalties for failure to put RFID tags on pallets sent to its distribution centers.

After Wal-Mart significantly revamped and repositioned its RFID strategy for the much larger US stores division in late 2007, the Sam's Club group announced a separate RFID strategy and compliance program at the beginning of 2008. That program called for pallet tagging of all solid SKU pallets sent to five of the 22 total DCs by the end of October of last year, and all the Sam's DCs by the end of this January. (See **As Wal-Mart Gets Tough with Sam's Club Compliance, Some Clarity, While a Few Questions Remain**.)

Initially, Sam's said that failure to meet these deadlines would result in modest "chargeback" penalties - $2.00 per pallet initially, and $3.00 per pallet in 2009.

Even at these levels, some consumer goods vendors were considering accepting the charge rather than investing in RFID tagging capabilities. The cost, some told SCDigest last year, was not in the tags itself or even the printing equipment, but the process costs and added complexity the tagging would bring what for most companies is a relatively small piece of their overall business.

Now, Sam's has dropped the penalty to a mere 12 cents per pallet, reflecting the incremental cost of adding a tag to a pallet that arrives at a DC without one.

The rational choice for manufacturers for now may be to let Sam's Club take advantage of its scale and investments and do the tagging for them at a cost few manufacturers could match. It will take a lot of 12-cent fines to add up to real money.

Sam's Club Has Reached a Tipping Point

Early in the EPC era, starting in 2003 with the founding of the EPC Global organization that has set the standards for the use of RFID in consumer goods to retail (and other sectors/applications), there were frequently discussions around a magical "tipping point." This was said to be the level of tagging at which it would be cost effective for a manufacturer to move tagging into production, where it could be done at dramatically lower costs, often in an automated way, versus the mostly manual methods used to do tagging as a function of distribution processes. The manual tagging led to very high total costs.

At some level of volume in tagging requirements, it becomes less expensive to apply the tags at a case level (the initial focus of Wal-Mart's EPC RFID program) in manufacturing than in distribution, even if the result is many cases are tagged which do not need to be tagged for a retail customer. Tagging in

Wal-Mart Finds Do-It-Yourself may be Easiest Path for RFID Enablement (Con't)

production would also provide a platform for consumer goods companies to use RFID in their own logistics operations.

But with the Wal-Mart stores program basically collapsing as it was initially defined, and no other US retailers implementing RFID programs, no manufacturers were anywhere close to reaching a "tipping point." In fact, tagging at any level dropped off dramatically, and for most the Sam's Club requirements, for now at the pallet level only, were considered a relatively minor nuisance.

But a funny thing has happened. Sam's Club has invested in RFID and related automation in its own DCs, and therefore reached a "tipping point" where it will be much cheaper for it to perform the pallet tagging than it will be for its vendors.

Sam's Club has a process today to put its own serialized bar code label, in addition to any label applied by the manufacturer, on each incoming pallet. It is not clear, but it is likely that the Sam's system uses an automated print and apply device to automate label generation and application.

That same process and another printer applicator (or standard printer) could therefore also be used to create an EPC label if one is missing. Hence, the incremental cost to Sam's Club for tagging is the cost of the label and perhaps a little overhead – which the chain has apparently

calculated at just 12 cents per pallet.

That approach clearly does not enable Sam's to use RFID as part of the DC receiving process, but the focus for the division is much more oriented towards the stores – store receiving, putaway, and inventory location. There is little or no discussion of benefits to the DCs.

So, the rational choice for manufacturers for now may be to let Sam's Club take advantage of its scale and investments and do the tagging for them at a cost few manufacturers could match. It will take a lot of 12 -ent fines to add up to real money.

The challenges will become much harder, however, if and when Sam's Club enforces its stated intention of requiring EPC tagging at the "selling unit" level, with the ultimate plan to RFID-enable the check-out process. Selling unit tagging will need to be done by the manufacturers. Sam's Club, which earlier had set some deadlines for selling unit tagging, is now saying those deadlines are "under review."