



WG GREEN TAG

Source Tagging Leadership Profitable, Effective, Sustainable

Executive Summary

Vendor source tag recycling is the process in which a retailer contracts with an EAS tag vendor to operate a reusable hard tag recycling program. This program enables a retailer to enjoy the benefits of EAS source tagging – i.e., deterrence to theft, lower shrink, and faster time-to-sales-floor – without using capital to purchase tags or incurring the ongoing labor expense of in-store tagging. As with other sustainable programs, tag recycling provides both eco-friendly benefits and enables retailers to strengthen their image as responsible corporate citizens.

Introduction

The electronic article surveillance (EAS) industry continues to provide value to retailers with effective tagging solutions that leverage advances in super-micro technology, highly durable composites, and detection systems that integrate effectively into store environments.

In today's challenging economic and competitive environment, most retailers realize that lower shrink means higher profits. There is virtually universal consensus that tagging is a deterrent to retail theft. Tagged merchandise makes it more difficult for all would-be thieves -- from organized retail crime gangs to random shoplifters to dishonest employees -- to steal.

In studying the evolution of EAS and its benefits, WG Security believes that a vendor source tag recycling program offers a cost-effective opportunity for retailers to capitalize on their investments while improving operating expenses associated with EAS programs. In an effort to improve the ongoing ROI from tagging, WG Security is working with leading retailers to implement enterprise-wide source tag recycling solutions that contribute to significantly lower shrink, minimize the expense of tagging programs, and provide eco-friendly benefits.

This paper is intended to assist retailers in evaluating their current EAS investment and potential strategic migration to vendor source tag recycling.

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Over the past three decades, retailers and EAS suppliers have worked hard—through trial and error—to understand more fully the benefits and true costs of EAS. Three strong conclusions have emerged:

- EAS tagging is a powerful tool that retailers can use to control and reduce shrink. However, in-store tagging does have ongoing labor cost implications.
- Over time, EAS effectiveness can be impacted if program strategies are not monitored and adjusted for specific environmental changes and if program compliance is not met.
- Enterprise wide EAS installations by retailers who maintain a source tagging program receive a quicker and more consistent ROI compared with retailers who install systems based on geography and shrink threat.

While it is accepted wisdom that EAS is a critical component in retail environments, there is still debate, even confusion, about how retailers justify the ongoing expense and capitalize on their existing EAS programs while working through the complex technological, financial, and strategic implications of the available choices.

As the economic environment slowly improves, retail industry analysts report that more retailers are planning to update and/or expand existing successful stores and, after closing poor-performing stores, open new stores in higher-growth areas. In addition, retailers who were forced during the recession to reduce spending on everything from store updates to IT systems to EAS are planning a modest increase of available budget dollars.

Considering the financial challenges that retailers have encountered over the past several years, it is obvious that NOW is the time to take a fresh look at EAS tagging solutions that will support long-term growth, profitability, and branding.

Is there Still a Debate about Tagging?

From a historical perspective, the debate about tagging is over. The business case for tagging is rock solid.

Beginning with pioneering studies nearly two decades ago, it is recognized today that tagging is an effective deterrent. Retailers with robust tagging programs have less shrink as a percentage of sales than retailers without significant tagging programs. Tagging has become a necessary cost of doing retail business.

In an article published in *Loss Prevention* in 2003, Robert L. DiLonardo pointed out that it would take time for a consensus to build about the most effective tagging applications and the relative advantages of different types of tags -- paper hangtags, sewn-in fabric labels, disposable plastic tags, or reusable hard tags. He also pointed out that the appeal of emerging, and perhaps eventually cheaper, technologies – particularly radio frequency identification (RFID) -- would probably influence capital-pressed retailers to hold off on tagging.

However, DiLonardo’s critical point then—and still critical today – is that taking a “*standalone ROI*” perspective for each store is the wrong approach. “*The biggest impediment to success...is the continued reliance on the ‘old economics’ of store-by-store cost justification. Retail chains that are partially saturated with EAS are struggling with a conundrum: There can be no meaningful source tagging until EAS is cost-justified in all locations. But cost justification will not occur without the economic benefits that accrue from source tagging.*”

Initial capital expenditures and the continued operating costs for EAS must be measured across the retail enterprise in order to determine accurately the total costs and benefits to the enterprise.

Today, the debate has shifted from the store-by-store perspective on tagging to the economic benefits of tagging at the retail enterprise level. Retailers and EAS vendors are now engaging in deeper dialogue and analytics related to:

- The economics and relative effectiveness of *reusable* tags, in which ink is a typical feature, versus *disposable* tags, in which ink is not available.
- The relative economic, aesthetic, and customer satisfaction aspects of *hard tags* removed by the sales associate, versus *sewn-in tags* removed by the customer.
- The economic benefits of a truly “floor ready” tagging program – i.e., applying tags *at the source of manufacturing versus at stores*.
- The feasibility, economic benefits, and sustainability of *source tag recycling in partnership with the tag vendor*.

Retail loss prevention executives and tag vendors need to work together to understand the relative economics and effectiveness of available tagging solutions. They must focus on fully answering the questions and concerns of key constituents in the EAS tagging decision making process:

- CFOs are more interested than ever in limiting capital investment in EAS and reducing in-store costs, including the time, labor, and back-room floor space required for applying tags to newly arrived merchandise.
- Chief Merchants and Stores Operations executives are concerned about moving merchandise rapidly from distribution centers and back rooms to the selling floor.
- CEOs and Boards are interested in improving profitability through reducing shrink and increasing inventory turns.

Retailers expect high standards from their EAS investment – including extremely high reliability of EAS devices and effectiveness of detection and deactivation systems. They expect not only an early, significant reduction in shrink after implementing tagging, but also the ability to translate those results into a credible, positive return on the investment of capital.

Disposable Source Tags vs. Reusable Source Tags

While there are thousands of EAS products and systems on the market, there are basically three categories of EAS source tagging:

Disposable Source Tags

The appeal of disposable, single-use EAS tags, as with most disposable items, is simplicity and efficiency. Whether the disposable tags are attached at the point of manufacture or in stores, the easy removal and discarding of the device is a perceived value. There is an industry consensus that while the effectiveness of disposable tags is improving, they have not reached parity with best-in-class reusable tags.

Sewn-in Source Tags

A soft plastic case or pouch containing an EAS label that is deactivated at the point of sale offers the same simplicity and convenience as disposable tags. However, sewn-in tags offer no visible deterrent. Retailers must deal with issues of dead tags and lower detection rates. Customer reaction to having to cut off or cut out the device at home is mixed. As with disposable plastic tags, sewn-in tags tend to have higher defeat rates and can be removed by determined shoplifters.

Reusable Tags

Reusable hard tags offer a stronger, more complex value proposition. Whether applied at the manufacturing source or in the store, reusable hard tags offer numerous choices and combinations of features, including ink. The acquisition cost of reusable tags and the expense of tag application, removal, and re-application are higher than the other options. It can be argued that re-using tags is not quite as simple as re-using hangers.

Retailers who implement a reusable tag program must invest in a process and infrastructure for tag collecting, testing, cleaning, and reapplication to new merchandise. They must also purchase an added inventory of tags as some will always be in transit. On the other hand, multiple reuses and overall longer useful life of the reusable tags allows retailers to recoup their capital investment.

The Vendor Source Tag Recycling Solution

EAS source tag recycling is the most cost effective and environmentally sound method of source tagging available to retailers today.

When retailers look to their source tag vendors to handle the recycling of tags, they receive enormous additional value:

- Merchandise is received floor ready at the store from the manufacturer with a fully operational EAS tag attached consistently in the proper location. This significantly accelerates the delivery of merchandise to the selling floor.
- Retailers do not need to purchase tags! The tag vendor owns the tags. Retailers no longer must use their capital to acquire an inventory of tags. The manufacturer simply pays a fixed fee to the tag vendor based on the actual use of each tag that is circulating in the system. Tag recycling also offers some immunity to the impact of frequent and sometimes unpredictable increases in the prices of plastics and other materials used in the tags.
- Tag recycling dramatically extends the useful life of the tags – from 10 to 15 turns of inventory, compared to just a single turn of inventory for disposable tags.
- The retailer and tag vendor work together to track and predict the volume of tags the retailer will need. Planning can easily reflect seasonal peaks, economic trends at a retailer's locations, introduction of new products, and the planned opening and closing of stores.
- The retailer avoids the fully loaded labor costs of in-store tagging – including the checking, cleaning, and re-attachment of tags to newly arrived merchandise. These costs are transferred to the manufacturer which is generally cheaper.
- Hard-tag recycling is less expensive than the purchase and attachment of disposable tags. Tags with a multi-year life cycle cost less per use.
- Hard plastic tags offer a higher level of security than sewn-in security labels and disposable plastic tags.
- Recycling is flexible and extensible. Retailers can include their existing tag inventories – including ink tags - into the recycling program.
- Environmental issues are minimized compared with disposable tags. As with the recycling of other items and materials, source tag recycling demonstrates a retailer's commitment to a healthier and more sustainable environment.

Benefits of a Hard Source Tag Recycling Program

Benefits	LP	Store Ops	Chief Merchant	CFO	CEO
Lower tag defeat rates <i>Reusable hard-tags are stronger.</i>	X				
Increased backroom productivity <i>Lower labor costs – achieved by eliminating the time and labor expenses imposed on the stores.</i>		X		X	X
Improving “time to floor” <i>Merchandise arrives floor-ready, has a positive impact on inventory turns, and reduces the rate and extent of markdowns.</i>		X	X		X
Reduced EAS tag removal failures <i>Directly related to tagging consistency as associates become familiar with tag placements.</i>	X	X			
Proper, consistent hard-tag placement <i>Visual appearance of the merchandise displayed on fixtures is improved.</i>		X	X		X
Reduced shrink <i>Tagging compliance is 100% and all merchandise is protected.</i>	X			X	X
Increased POS associate productivity <i>A more positive customer experience due to improved speed of purchase transaction.</i>		X			X

The Chief Merchant’s Perspective on Tag Recycling

Looking at source tagging from the related, but distinctly different, perspectives of loss prevention, stores operations, merchandising, finance, and the CEO provides insight into the dynamics of the EAS tagging investment.

While each department head has a unique perspective and departmental benefit related to source tagged product, all agree that the objective is to reduce shrink and increase profits.

It is through the eyes of the Chief Merchant that the multiple benefits of source tagging most sharply come into focus.

The Chief Merchant's view of additional cost can be justified if that cost offers a distinct, measurable value.

Improving the speed of merchandise arriving on the sales floor is a huge advantage for the merchandising organization. Getting merchandise to the selling floor improves its sell-through, which means that less merchandise will require a markdown later. The result is improved sales and expense dollars saved by the avoidance of repeated markdowns.

Chief Merchants tend to look at the cost of tags relative to the cost of the construction of a garment. A manufacturer will most likely absorb the cost of tagging if the cost of tagging does not exceed one basis point of the garment's construction cost -- i.e., if a garment costs \$15 to make, then the manufacturer may absorb a \$0.15 tagging cost.

Chief Merchants are especially interested in anything that improves speed to the selling floor. With fashion merchandise, an extra day or two faster to the selling floor can have a strong positive impact, particularly if the merchandise arrives at the store on a Thursday and is on the selling floor in time for a busy weekend. Holiday merchandise, such as sweaters, has a short selling opportunity on the floor before repeated markdowns are taken.

Framework of a Vendor Source Tag Recycling Program

The framework of a successful vendor source tag recycling program is straightforward.

This framework is ideal for both specialty and department store retailers to work with their EAS tag vendor and merchandise manufacturers. This "alignment" of business partners is designed to help the retailer use tagging and tag recycling to support its loss prevention, merchandising, and financial goals.

The program leverages the tag vendor's manufacturing and distribution infrastructure as well as its merchandise manufacturers' work force and distribution capability. It is scalable and flexible in accommodating business trends and strategic changes in the company.

How it Works:

- The retailer issues tagging specifications to its garment suppliers, identifying the specifics under "trim" requirements. The specifications include the type of tag to be purchased from the EAS tag vendor and the specific placement of the tags on the merchandise.
- The garment manufacturer orders the EAS tags from the tag vendor, who in-turn ships the tags directly to the supplier for application during the production process. This additional production step is negligible to the garment manufacturer and is virtually no different than adding an extra button. However, the benefit to the retailer is that garments are received fully tagged and floor ready.

- With source tagging, there is no delay upon receipt of merchandise, unlike with in-store or distribution-center tagging. New merchandise received by the stores can be placed immediately on the sales floor, ready for purchase.
- When the tagged merchandise is purchased, sales associates know exactly where to find the tag and remove it. This improves overall customer satisfaction and reduces the potential for embarrassing alarms at the door.
- After removal, the sales associate places the tag and pin in the appropriately designated boxes or bins, supplied by the tag vendor. When the boxes are filled to the designated level, the stores prepare them for shipment back to the tag vendor using the prepared shipping labels provided by the tag vendor.
- Upon receipt of the returned tags, the tag vendor credits the return to the retailer. The tag vendor sorts, cleans, and tests the tags to assure they are in “like new” condition and ready to be repackaged for shipment to the garment manufacturers for the next order. This completes one full cycle.
- In order to account for all tags in the merchandising cycle, the tag vendor maintains an accounting log of tags shipped to the retail suppliers and of tags and pins returned from the stores. An accurate accounting process is invaluable in assuring that the retailer is billed for only the tags used, credited for the returned tags, and, most importantly, that the garment suppliers are fulfilling the required tagging compliance. In addition, this log is used to monitor the overall function of the recycling process and identify compliance issues at any point in the process.

Sustainability, Environmental Factors, & Advantages of Being Green

Green is here to stay and for good reason.

There will be an increasing imperative for retailers to demonstrate their commitment to being green. Retailers who are “early movers” in adopting eco-friendly supply and stocking practices are recognizing that they have a powerful new means of positively differentiating themselves.

Environmental sustainability is fast becoming as much financial and marketing issues as social and political issues. Like the manufacture of all products that include plastic, EAS tag manufacturing requires the use of energy and then the eventual recycling, regrinding, and melting of the component materials.

Extending the lifecycle of tags through tag recycling over multiple inventory turnovers reduces the expenditure of energy over time.

Evolving a Vendor Tag Recycling Program – Long-Term ROI

As EAS tagging continues to provide multiple benefits, the learning curves and cultural responses needed for retailers to leverage their tagging investments are becoming shorter.

Retail loss prevention experts agree that EAS tagging is a standard, effective deterrent to theft and a necessary component of a robust shrink-control strategy. Even specialty fashion retailers are recognizing that while tagging is “intrusive” to the flow of merchandise, its economic benefits in terms of lower shrink are too compelling to ignore.

For many retailers, the primary inhibitors to the adoption of new tagging systems have little to do with tagging itself, but everything to do with the financial hurdles and weakened capital structures that so many retailers face today.

A vendor tag recycling program helps companies overcome the financial obstacles associated with enterprise-level EAS by providing full benefits of hard tag application through fully integrated vendor source tag recycling programs. One of the more subtle benefits of vendor source tag recycling is that retailers gain a deeper understanding of their entire supply chain and the impact that improved shrinkage has throughout their merchandising strategy.

- Involves deeper and ongoing “intervention” in a retailer’s sourcing, production, and distribution processes. This creates opportunities for cost savings and improvement.
- Strengthens links among loss prevention, merchandising, and executive leadership.

With the basic framework and process in place, retailers can work with their EAS vendors to introduce new generations of EAS technology and tag design. They will be better prepared to analyze solutions for products at the article, case, and pallet level to determine the impact on their entire supply and merchandising chain.

The investment in the underlying process and framework of a vendor source tag recycling program is long-term and self-sustaining.