AMERICAN APPAREL FINDS THE RIGHT FIT WITH MOTOROLA RFID

IMPROVE BUSINESS PROCESSES TO CAPTURE MORE SALES

American Apparel retail stores operate boutique-style, stocking only one item of each style, color and size on the floor at any time. Inventory turns over quickly in the apparel business, and with more than 26,000 SKU items to manage, store staff constantly battled to keep inventory counts 100% accurate and the sales floor 100% stocked. The effort was time-and-labor intensive and expensive. But the cost of inventory errors and stocking delays was even higher — lost sales and disappointed customers.

American Apparel was looking for a smarter way to meet their goals and, from what they had learned, item-level RFID looked like precisely the solution they wanted. Given the control the company has over its own manufacturing, distribution and retail operations, the plan was to reap the benefits of RFID not only on the retail floor, but throughout its closed loop supply chain.

But the first step would be testing the capabilities of RFID for accuracy, performance and adaptability to their business processes.

American Apparel

CUSTOMER PROFILE

Company
- American Apparel

Industry
- Retail Apparel

Key Results
- IIncreased stock visibility for improved customer service, higher customer satisfaction and improved sales
- Lower costs due to reduced labor and fewer human errors
- More frequent and more accurate inventory counts for improved stock management
- Reduction in sales floor out-of-stocks and associated lost sales
- Reduction of internal shrink by over 55%

THE CHALLENGE

Improve business processes and reduce lost sales attributable to out-of-stocks

American Apparel is a manufacturer, distributor, and retailer of branded fashion apparel based in Los Angeles. The company started in 1989 as a wholesaler of t-shirts and opened its first retail outlets in 2003. American Apparel currently operates over 285 retail stores in 20 countries and is still growing.

All of American Apparel's products are manufactured in the United States; its wholesale business supplies its cotton-based casual wear to distributors and screen printers. The company is a vertically integrated operation and conducts its own knitting, dying, cutting and sewing, and design out of its headquarters in downtown Los Angeles. American Apparel's young, metropolitan customers are very loyal to the brand.

As a fast-growing manufacturer, distributor and retailer serving young, urbanite consumers, American Apparel is in an excellent position to take full advantage of the benefits of an integrated item-level RFID inventory control process. The company prides itself on a commitment to use technology to advance the business process and was eager to test the capabilities of RFID with four clear goals for process improvements:

- Increased stock visibility
- Improved accuracy/reliability of inventory counts
- Decreased labor costs and human errors associated with inventory
- Sales floor stock levels maintained at virtually 100%
- Reduction of internal shrink by over 55%

> "Like many retailers, internal theft and process issues account for about 60 percent of our shrink. RFID, it turns out, affects internal shrink in a profound way. We measure everything, and have accountability of every item. Every item counts, and when we change that culture, employees start treating product better. Internal theft does go down, and process errors go down."
> **Stacey Shulman**
> **American Apparel's VP of technology**

THE SOLUTION

The right location and the right partners to test the potential of item-level RFID

American Apparel gave careful consideration to its choice of store for the pilot. They were looking for a store that had average sales and a dedicated staff that would embrace the technology and a new process for inventory management. In addition, they wanted a location with good traffic flow that was centrally located to other area stores, to facilitate a regional roll-out if the single store pilot proved successful. Ultimately, the store chosen was the Columbia University area store in New York City, which also serves as the returns center for all the American Apparel New York City stores.

Equal consideration was given to the technology partners who would support the pilot. To give item-level RFID a legitimate test in a real-world retail environment, American Apparel wanted to start with proven and universally-deployed hardware and software. Based on their market leadership and technology innovation, American Apparel initially chose Motorola MC9090-G RFID handheld readers for the pilot and have subsequently moved to the more retail sales floor-centric MC3190-Z handheld RFID readers and supports cycle counting and search/find Geiger counter use cases. Motorola FX7400 fixed RFID readers were deployed to support receiving, transfers, dynamic fill list, point of sale and encoding use cases in the backroom and sales floor. The retailer is using tags from Avery Dennison's Retail Information Services and LSIS and Xterprise's Clarity ARS application which leverages Microsoft's BizTalk RFID middleware. The Clarity application framework and ARS application create value for retailers with ease of install, ease of use, real-time inventory capability and back end integration providing unmatched inventory accuracy and accountability.

The initial deployment of American Apparel's pilot system placed RFID tags on each item of clothing and merchandise within American Apparel's Columbia University area store in New York City. As the tags were affixed to product, the tags were associated with the particular SKU in the TrueVUE software platform. From then on, mobile and fixed RFID readers were used by store associates to stock, inventory and replenish its 40,000 piece pilot store inventory. Fixed and mobile RFID readers were then used by store personnel to check inventory on a real-time basis.

> **"Everything starts with inventory accuracy. That is the foundational element. [More accurate inventory] allows us to do things that were never possible, such as target our cycle counts or allow a customer to order online and pick up the item in the store. With RFID, we know with confidence the item will be in the store."**
> *Stacey Shulman*
> *American Apparel's VP of technology*

THE RESULTS
Proven effectiveness

American Apparel quickly saw that its new pilot RFID system contributed to a well-stocked store, increased sales, and allowed immediate and accurate responses to consumers' requested design, size and color of in-store merchandise. The technology also allowed the retailer to better determine real-time buying behaviors and adjust inventory accordingly, making items easier for customers to find and for employees to replenish. In fact, the new system has reduced the number of "missing" items (that is, an item color or size that is not on the floor) from an average of 80 missing items on the floor at any time to fewer than eight – which were subsequentially found misplaced on the selling floor.

Item-level tagging also allowed inventory to be taken more accurately, in less time, enabling staff to spend more time on the sales floor assisting customers and making sales rather than restocking merchandise. For example, what used to take 6-8 people 6-8 hours to accomplish now takes two people 2.5 hours to accomplish – with better accuracy. American Apparel is now able to fulfill its vision of consistently offering merchandise in every size and color on store floors at all times, creating a more rewarding customer experience and simplifying the inventory process for in-store staff. The retailer has also seen unexpected benefits from the initial rollout, including a significant decline in employee theft.

"The RFID system at American Apparel was born from the retailer's vision to further improve business processes, enhance customer service, increase sales and improve associate productivity," said Tom Racette, Director of RFID Market Development for Motorola's Enterprise Mobility business. "Motorola's Enterprise Mobility business is very pleased to be working with American Apparel as we see this as the beginning of a new trend for retailers worldwide. Utilizing RFID technology at the item-level will consistently provide always-stocked shelves and merchandise, ultimately improving the shopping experience."

Solution proven: the international roll-out

American Apparel has since begun to roll-out its RFID inventory system across dozens of stores in North America and Europe. By deploying the technology in additional stores, American Apparel expects to increase sales and customer service by having real-time visibility into product at nearby stores, enhancing the intra-store transfer process to balance stock. Furthermore, the retailer will be able to better understand customers' choices by using RFID to record and report on purchases, not only within one location, but across a region of stores.

For the pilot, employees used a pool of tags, attaching them to items of clothing during the tag-up process. Now, parallel shipments of pre-tagged garments arrive from the factory in LA to populate the stores in preparation for go-live of the Clarity system.

When the tagged cases are received at a retail store, a Motorola FX7400 fixed reader collects the data and sends it to the Xterprise Clarity ARS software, which then reconciles the received goods with the advance shipment notice that was sent by the factory. The Xterprise software then adds the goods to the store inventory. Employees use Motorola's MC3190-Z handheld RFID readers to take periodic inventories of all items on the sales floor.

The Los Angeles-based apparel retailer has already deployed the technology to over 100 of its 285 stores, and expects to expand to more than 200 stores by the end of 2012.
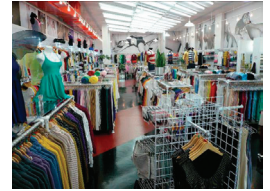
Before the RFID system was implemented, employees periodically took sales lists from the point-of-sale system to the stock room, where they would search for each item in the store's inventory to replenish the floor stock.

An item-level RFID system lets American Apparel consistently stock merchandise in every size and color on store floors at all times, making it easier to serve customers looking for a particular item.
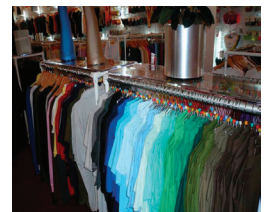
Item-level RFID tagging can help find misplaced items – in the stock room, fitting rooms or misplaced on the sales floor. Associates can use a handheld's "find" function to locate merchandise – they just scan an item's associated barcode or input specifics on a handheld reader and follow the beeps, like a Geiger counter, right to the item.

ABOUT OUR PARTNERS

Xterprise Incorporated is a leader in RFID Item-Level inventory management and in the development of enterprise-class software applications for the retail market. These highly scalable applications combine the Clarity™ application framework technology, Microsoft platform technology, continuous improvement and lean supply chain expertise, enterprise systems integration along with RFID to deliver previously unachievable levels of value to their clients. Xterprise's applications deliver rapid ROI for the retail market.

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. Avery Dennison is also a leading innovator in the emerging area of passive RFID inlays and labels. Their capability begins with designing antennas. They carefully match an antenna's design to the requirements of the product on which it will be used to ensure optimum device performance.

Xterprise
Global Headquarters
2304 Tarpley
Suite 114
Carrollton, TX 75006
Phone   +1 (972) 690.9460
E-mail   info@xterprise.com
Web   www.xterprise.com

Avery Dennison Corporation
Charles D. Miller Corporate Center
150 North Orange Grove Boulevard
Pasadena, California 91103-3596
Phone   (626) 304-2000
Fax   (626) 304-2192

For more information on how Motorola's broad portfolio of fixed, mobile and handheld RFID readers can improve your operations, please visit us on the web at www.motorolasolutions.com/RFID or access our global contact directory at www.motorolasolutions.com/contactus

MOTOROLA