American Apparel®

Retailer Boosts Sales 14%, Cuts Inventory Management Costs 35% with RFID Solution

Overview

Country or Region: United States
Industry: Retail

Customer Profile
American Apparel, based in Los Angeles, California, makes, distributes, and retails basic fashion apparel for men, women, and children. It has 260 stores in North America, Europe, and Asia, and 10,000 employees.

Business Situation
American Apparel wanted to boost its in-store sales, while reducing the costs required to generate those sales.

Solution
The company adopted Clarity ARS from Xterprise, based on Microsoft® BizTalk® Server RFID and Microsoft SQL Server®. The end-to-end solution covers the tagging of merchandise at the factory through the analysis of store sales.

Benefits
- Store sales up 14 percent
- Profit margins increased to 65.9 percent
- System can extend to other solutions
- Business intelligence enables better decision making

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Zander Livingston, Director of RFID, American Apparel

Like virtually all retailers and all businesses, American Apparel wanted to do more with less at its retail locations—specifically, it wanted to boost store sales while reducing the cost of generating those sales. It met that goal with a solution provided by Xterprise, a Microsoft® Gold Certified Partner, and based on Microsoft BizTalk® Server RFID. Radio frequency ID (RFID) tags and readers help employees to get needed merchandise on the retail floor faster than before. As a result, store sales are up 14 percent, margins are up to 65.9 percent, and the labor time and costs spent on handling inventory are down by 35 percent, resulting in better-organized backroom management. American Apparel sees the technology as the first step in an integrated solution that slashes shrinkage and increases customer service, and it is already using the solution to make better decisions in real time.

Xterprise
See. Understand. Execute.

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Situation

If you like to dress casually—say, a T-shirt and jeans—there's a good chance you're already an American Apparel customer. The company made and sold more than U.S.$545 million worth of casual apparel in 2008. The manufacturing is done at the company's Los Angeles, California, facility. The sales are conducted through independent retailers, online, and, increasingly, through the company's own network of 260 stores throughout the United States, Canada, Mexico, Europe, and Asia.

In those stores, American Apparel experiences the same concerns that trouble other retailers, from pharmacies and supermarkets to department stores and superstores. Shrinkage—that is, lost, misplaced, or stolen goods—eats into profit margins and is often difficult to quantify. That typifies a larger problem that American Apparel, like other retailers, had in lacking sufficient visibility into inventory to understand its shrinkage rates and other inventory issues. It struggled to determine what was on the retail floor, what needed to be replenished on the retail floor, and where—and whether—merchandise was in the back of the store, ready to move to the retail floor. The lack of sufficient visibility is a very down-to-earth problem: Any item that is not where it needs to be does not get sold and means revenue lost to the store.

In the case of American Apparel, those challenges were highlighted by a boutique retail model that called for one item in each size, color, and style to be available in the store at all times—a total of 12,000 different items on the selling floor. To make this model work, American Apparel first conducted manual "cycle counts" of its entire store-floor inventory twice a week. The process took 20 to 30 hours of personnel time and typically uncovered 100 to 300 items that needed to be replaced. But cycle

counts could undercount missing items, and there was no guarantee that replacement items would make it quickly to the sales floor or even that the needed items were in stock at all.

"[American Apparel CEO] Dov [Charney] could walk through one of our stores and immediately spot 50 or 100 items that needed replenishment," says Zander Livingston, Director of RFID for American Apparel. "But we couldn't send him from store to store to do this. We needed a technology solution that replicated his eye for the merchandise."

Livingston and his colleagues thought that they had the solution using an Auto-ID radio frequency identification (RFID) system that tagged each item in a store, read the item as it was received into the backroom inventory, and read it again at the point of sale. But there were problems with that system. It didn't integrate with the stores' other systems, such as its retail-specific enterprise resource planning (ERP) system, so merchandise had to be entered redundantly in both systems. The RFID system wasn't scaling cost-effectively to support the company's growth, and there was no easy way to generate business intelligence data from within or across stores.

With an economic downturn looming and retail sales poised for declines throughout the industry, American Apparel needed a solution that would immediately cut inventory levels and boost store sales.

Solution

The company decided that its choice of RFID technology was sound; the technology didn't require a direct optical read by a scanner, so store employees could use the technology both in the backroom inventory and at the point of sale (POS). But its choice of RFID platform—on the

basis of cost, integration, and business intelligence capabilities—was not.

At that point, the company turned to Microsoft® BizTalk® Server RFID and the Clarity ARS Advanced Retail System from Xterprise, a Microsoft Gold Certified Partner. "We were interested in the BizTalk RFID platform because it offered low total cost of ownership and the ability to integrate both into our current systems and into systems we are likely to adopt in the future. It also gave us maximum flexibility in our choice of hardware— such as RFID handheld and stationary scanners—to use with the solution," says Kris Doane, Technical Lead, American Apparel. "We chose Xterprise and the Clarity ARS solution because, in our research, Xterprise kept coming up as the best BizTalk RFID provider."

The planned deployment of BizTalk Server RFID and Clarity ARS will stretch from California to Manhattan, from the company's manufacturing facility to all 31 of its retail locations in North America. The solution consists of four RFID reading stations at each of the stores using the Xterprise Clarity ARS application, along with hardware including Motorola handheld RFID scanners and Motorola

XR440 and Alien Technology's ALR-9650 fixed scanners.

1. The first step in the process is to tag every piece of merchandise with an RFID tag. This is done at the company's California factory.
2. The tagged merchandise is read by the scanners at the in-store receiving station when it arrives from the factory, a distribution center, or another store.
3. A "fill station" in the store's backroom serves a dual function. First, its screen constantly informs store personnel what merchandise needs to be brought up to the sales floor (based on readings from the point-of-sale scanner; see step 5). Second, employees use the station to inform the system what merchandise they are in fact bringing to the sales floor, by holding the merchandise near the fill station's reader.
4. A "validation point" between the backroom and the retail floor provides a checkpoint to ensure that the proper merchandise is being brought to the floor. If it's not, employees have the opportunity to make corrections without having first to bring merchandise all the way to its position on the sales floor.

The Clarity ARS system, based on BizTalk Server RFID, provides an end-to-end solution that extends from the moment merchandise is tagged to the analysis of store sales.

Receiving & Tagging

- Automatic receiving of tagged garments
- Automated matching to factory/supplier shipment advice
- Tagging garments if required

Stocking & Replenishment

- Put away to back stock
- Store front replenishment fill list
- Touch screen or Web-based

Inventory & Cycle Counting

- Inventory managed by garment, zone and location
- Handheld or mobile carts
- Reconciliation and reporting

Point of Sale

- Automated article capture/checkout
- Touch screen validation
- Store POS integration
- Serialized status update by article

Analytics & Reporting

- Operational Intelligence
- Execution Dashboards
- Management Alerts

5. The point-of-sale RFID reader likewise serves a dual function. It not only ties to the retail ERP system and implements the transaction, but also sends to the fill station information about replacement merchandise to be brought to the retail floor.

The servers hosting the solution in each of the stores communicate with a central server at American Apparel headquarters, where data on store sales and other operational data is fed into a business intelligence application from Xterprise. Managers and executives use the dashboard to receive overview as well as detailed information about how long it takes to get items onto the sales floor, what merchandise is out of stock at a given store, top sellers, incoming shipments, how long it takes to scan merchandise, and more.

"The business intelligence portion of the Xterprise solution makes it possible for us to check, in real time, on the heartbeat of each store using the system," says Livingston.

Benefits

The Xterprise solution, based on Microsoft BizTalk Server RFID, cuts costs, boosts sales, serves as a foundation for an extensible solution, and provides managers with real-time performance data that they can act on in real time.

Store Sales Up 14 Percent

"Doing more with less" is the maxim of business, especially during tough economic times. The BizTalk Server RFID solution has turned that philosophy into reality for American Apparel, which now really is doing more with less—increasing profits while reducing the money that it spends to generate those profits. The company estimates that sales in the RFID-equipped stores are up 14 percent, for an average

increase in net income of $126,900 per store. Factoring in its investment in the Xterprise and Microsoft solution, American Apparel expects each store to achieve payback in an average of just 4.5 months.

The system also helps reduce costs because conducting cycle counts and replenishing merchandise are far more cost-effective than before. Cycle counts that formerly took 20 to 30 hours twice a week are now accomplished in about 3 hours—a time savings of 90 percent. The time spent on handling inventory and thus the associated costs are down by 35 percent.

That means that stockroom personnel who were spending half their time on cycle counts now can spend 75 percent of their time on more value-added functions, such as replenishment and customer service.

Meanwhile, sales are up because replenishment takes place far more quickly—needed merchandise is generally replaced within a minute of being sold—so American Apparel doesn't lose sales because customers can't find the merchandise they want. Moreover, employees who spend less time on inventory replenishment have more time to spend on customer service, including cross-selling and selling more valuable merchandise, further driving up revenues.

"If I'm at an American Apparel store and I'm looking for a specific item, it's going to be on the sales floor," says Livingston. "At the same time we're selling more, we have more satisfied customers.

"RFID is the future of retail because it's a better way of counting inventory, period," continues Livingston. "Working with a 65 percent or 75 percent inventory accuracy is a thing of the past. Every retailer can make more money by making replenishment

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>
> Zander Livingston, Director of RFID, American Apparel

more efficient, and that's only the start of what RFID does for us."

System Supports Extensible Solutions
For example, Livingston and his colleagues are now looking at extending the BizTalk Server RFID–based system to achieve two additional goals: reduce shrinkage and increase in-store sales.

As a result of deploying the solution, American Apparel discovered that its shrinkage rate was 20 percent—twice the rate it had estimated. Having an accurate view of shrinkage is the first step in reducing that shrinkage. The company could add RFID scanners specifically to monitor and address shrinkage at the entrance and in the fitting room—key sites for shrinkage problems.

RFID scanners in the fitting room could also boost customer service and sales. Customers could request additional merchandise— say, a sweater in another color or size— while they're in the fitting room trying on the first sweater. Store personnel, now freed from much of their inventory-processing chores, could bring the additional merchandise to them without requiring the customers to first leave the fitting room to request it. All this makes it more likely that customers will leave having made a purchase.

"There's an almost limitless range of ways we can take advantage of RFID in retail," says Livingston. "The fact that this is based on Microsoft BizTalk Server RFID means that integration capability is built into the system, making these possibilities that much more practical."

Business Intelligence Enables Real-Time Decision Making
Identifying the company's true shrinkage rate is just one example of the business

intelligence benefits that are now possible with the solution.

"The reporting tools we use with the Xterprise solution give us visibility into the health of the store and are useful in different ways to the in-store manager, the district manager, and corporate executives," says Livingston. "Store operational intelligence gives them a true sense of how a store or a set of stores is performing in real time. And that provides a level of accountability we never had before."

For example, Livingston points to the ability to determine manager performance very quickly. "We can retrain managers if needed," he says. "In extreme cases, we can make a change in store management. Either way, we can take action much faster than before because we can spot problems much faster than before."

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  - Microsoft BizTalk Server RFID
  - Microsoft SQL Server 2008 Enterprise
- Clarity ARS Advanced Retail System

Hardware
- Motorola MC9090-G RFID handheld scanners
- Alien ALR-9650 fixed scanners
- Motorola XR440 fixed scanners

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