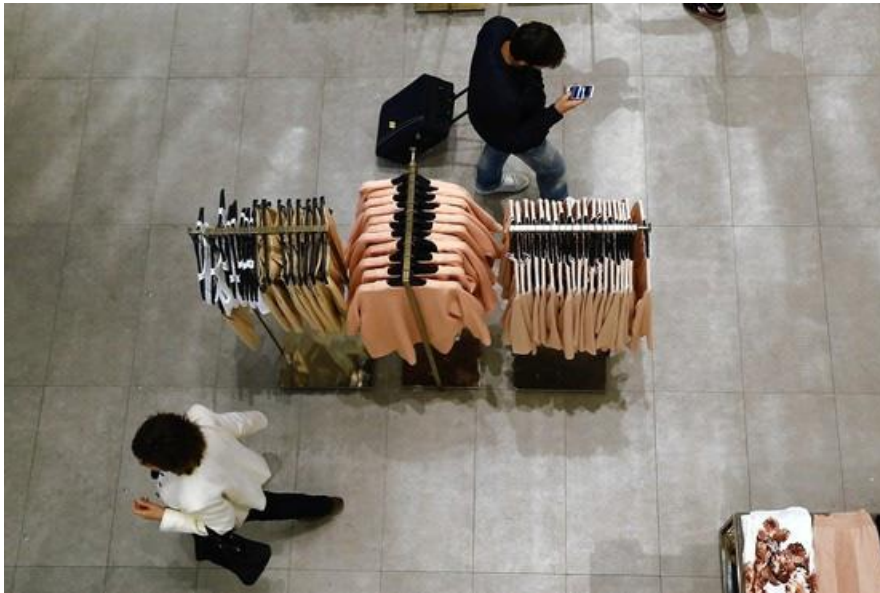


Zara Builds Its Business Around RFID 'Fast Fashion' Meets Smarter Inventory; Retailer Learns From Others' Mistakes

By Christopher Bjork

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High-tech ID tags on merchandise have been slow to pay off for many retailers, but the Zara chain is a fan. *Reuters*

MADRID—For more than a decade, radio frequency identification chips were touted as a game-changer for retailers. But when they tried to apply the inventory-tracking technology, merchants such as [Wal-Mart Stores Inc.](#) [[WMT -0.20%](#)] and [J.C. PenneyCo.](#) [[JCP -0.54%](#)] discovered that what looked good on the drawing board didn't always work so well in warehouses and stores.

Penney, for instance, started attaching RFID chips to merchandise in 2012, but the radio signals interfered with existing anti-theft sensors. Penney removed the anti-theft sensors, but thieves caught on [and shoplifting surged](#). The company scrapped the project.

Now, apparel powerhouse [Inditex SA](#), [[ITX.MC -0.22%](#)] parent of the Zara chain, says it has learned from competitors' experience and is rolling out RFID technology throughout the operations of its signature brand.

The chips, about twice the size of a standard mobile-phone SIM card, help the world's largest fashion retailer keep better track of its stock and replenish its clothing racks more quickly, said Pablo Isla, chairman and chief executive of Inditex, which reports first-half results on Wednesday.



RFID technology "gives us great visibility, knowing exactly where each garment is located," says Inditex CEO Pablo Isla.
AFP/Getty Images

"It gives us great visibility, knowing exactly where each garment is located," Mr. Isla said. "It really changes how we operate our stores."

RFID chips can store information about whatever item they are attached to and, when prompted, emit that data via radio signals to a scanner. Inditex is burying the chips inside its garments' plastic security tags, an innovation that allows the "fast fashion" chain to reuse them after the tags are removed at checkout.

By the end of this year, more than 1,000 of the 2,000 Zara stores will have the technology, with the rollout completed by 2016, Mr. Isla said.

The scale and speed of the project is drawing notice in the industry. The Spanish retailer says it bought 500 million RFID chips ahead of the rollout, or one of every six that apparel makers are expected to use globally this year, according to U.K.-based research firm IDtechEX.

Zara, which operates in 88 countries, generates two-thirds of Inditex's €16.7 billion (\$21.6 billion) in annual sales. For the first half ended in July, Inditex is forecast to report sales of €8.08 billion and net income of €908.6 million, according to FactSet. In the year-earlier first half, Inditex reported sales of €7.7 billion on net income of €951 million

Inditex began experimenting with RFID in 2007. Mr. Isla asked his engineers and logistics experts to figure out how to reuse the chips—a solution that would minimize costs and ensure that the tracking devices wouldn't follow customers out the door, a concern among privacy advocates.

A breakthrough came during a brainstorming session at Inditex headquarters in northwest Spain, Mr. Isla said. An employee suggested putting the chip inside the slightly larger security tags Zara attaches to each item, a combination that experts in the field say no other large company has used.

The security tag's plastic case would protect the chip, allowing for reuse, and it would be removed at checkout.

One benefit was on display on a recent morning, when store manager Graciela Martín supervised inventory-taking at one of Zara's biggest outlets in Madrid. The task previously tied up a team of 40 employees for five hours, she said. That morning she and nine other workers sailed through the job in half the time, moving from floor to floor and waving pistol-shaped scanning devices that beeped almost continuously while detecting radio signals from each rack of clothing.

Before the chips were introduced, employees had to scan barcodes one at a time, Ms. Martín said, and these storewide inventories were performed once every six months. Because the chips save time, Zara

carries out the inventories every six weeks, getting a more accurate picture of what fashions are selling well and any styles that are languishing.

And each time a garment is sold, data from its chip prompts an instant order to the stockroom to send out an identical item. Previously, store employees restocked shelves a few times a day, guided by written sales reports.

If a customer can't find an item—say a medium-sized purple shirt—a salesperson can point an iPod's camera at a barcode of a similar item and, using data gathered by the chips, see whether it is available in the store, in a nearby Zara store, or online.



By the end of this year, more than 1,000 of the 2,000 Zara stores will have radio frequency identification, or RFID, for inventory tracking, with the rollout completed by 2016. A Zara store in Madrid. Reuters.

Some early adopters got only limited payback from investment in RFID. Early last decade, Wal-Mart pushed its suppliers to put chips on cases of items or stacks of cases, rather than on individual items. Wal-Mart scaled down the project after suppliers complained about the high cost of the technology—a problem Inditex doesn't face because it manufactures its own clothing.

But the technology has slowly been catching on. In the U.S., Macy's Inc. said this week it would expand use of RFID tags after tests showed they helped improve sales, margins and markdowns.

Other European retailers have recently embraced the tracking technology. France's Oxyane Groupe, owner of sporting goods chain Decathlon, said it will put hundreds of millions of RFID chips on goods it sells. U.K.-based Marks & Spencer, [\[MKS.LN -0.39%\]](#) which specializes in clothing, home products and luxury food items, said it plans to track everything it sells.

Bill Hardgrave, dean of Harbert College of Business at Auburn University and a consultant on RFID, said his retailer clients have boosted sales between 2% and 30% after installing tracking devices. Traditional retailers usually know where 60% of their inventory is at any time. With RFID technology, accuracy levels exceed 95%, he said.

"Zara might not be the first, but when they implement a new technology, they do it so well that they catch up very fast," said David Frink, chief technology officer at German clothier Gerry Weber International AG, one of the first retailers to put RFID chips on all its products.

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