



Combating shrink in Italy with source tagging*

The economic crisis has meant a rise in theft in the major retail chains. Source tagging using radio frequency identification is an effective counter-measure. Retailers met the industry at a roundtable to discuss the issue.

By Chiara Mandelli

3.4 billion euros. According to the 2009 Global Retail Theft Barometer, this is the massive amount that inventory shrinkage cost Italian retailers, suppliers and consumers each year. It may seem that the problem is purely a retail one given that it accounts for 1.36 percent of retail revenues, but this is not in fact the case. In Italy the phenomenon adds 174 euros per family to consumer prices – money that could be spent elsewhere. Largo Consumo recently organized a roundtable entitled “*Source Tagging For a More Efficient Supply Chain*” to discuss the many implications of this phenomenon.

* Excerpted from *Largo Consumo*, October 2009.

The event was held at the Indicod-Ecr RFID Lab, and some of the leading names in retail, industry suppliers and solution providers were invited to attend.

Metro, the world’s third-largest retailer, has decided to abandon its previous protection technology in favor of radio frequency (RF) systems in all its stores worldwide. The benefits of this choice include the possibility of source tagging. **Gianpaolo Brunello, head of security at Metro Italia**, explained, “For our group, protecting products at source is a



strategic decision at a international level. In Italy we started off slowly at first, because until a few years ago suppliers were not sufficiently aware of the implications of source tagging. However, the results have not been slow to arrive," he said. "Thanks to source tagging Metro sales have increased as forecast. The reasons are obvious: Protecting goods at the source means first of all optimizing costs, as you save on the time-consuming task of labelling goods in-store. It also allowed us to display more goods for self-service, particularly more expensive goods such as high-end alcohol, which before we had to keep in display cabinets that could only be opened by staff. It certainly didn't encourage customers to buy."

The world-leading spirits producer Diageo was the first to adopt protection at the source using RF-EAS tagging on one of their main products, Pampero Aniversario, after experimenting on other leading products in the whiskey segment. Boris Agazzani, logistics manager of Diageo Italia, said, "Our experience of source tagging began in 2006, as we have been aware of the critical issue of theft of alcoholic beverages in major retail chains for some time. It was a radical choice; we adopted RF technology across the board for all eight products, giving them 100 percent protection. RF tags are applied in our warehouses where the bottles are stored, not during production. It is an investment choice by Diageo which aims to strengthen commercial relations with our principal customers."

The beauty products department is one of the major theft targets, as the products are small with high added value. Côtý, a leading multinational company that includes the Rimmel brand, is a case representing challenge and innovation. Unlike Metro where source tagging was promoted by the international head office, at Coty the impulse came from the Italian branch. Nadia Pizzocaro, trade marketing manager at Côtý Italia, said, "I won't deny that the introduction of tagging in the company met with some initial resistance. This was because we had to put across the importance of shrinkage for major retail chains compared to some of the other distribution



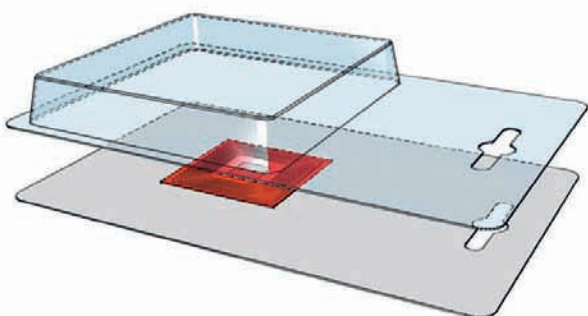
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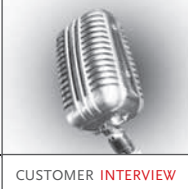
Nadia Pizzocaro,
Trade marketing manager at Côtý Italia

channels we use. In 2008, we realized retailers were concerned, and wanted our help in the matter," she said. "In some (stores) they were at the point of wondering whether to keep the products and put up with the theft, or eliminate the makeup department completely and reduce their product assortment. Some preferred to use safers and anti-theft packs, but this solution has a detrimental effect on the shopping experience, as it adds a box to the existing blister packaging typical of retail chains, preventing shoppers from handling the products before buying them, a factor which significantly reduces the assortment on the POS display stand.

"At this point, management took decisive action, deciding to safeguard 100 percent of the over-170 Rimmel-branded products using RF source tagging. It was a good opportunity to redesign the packs and merge the technical and the aesthetic."

Cornelio Vaghi, perfumery senior category manager at Bennet, said the category suffers particularly from theft, due to the fact that the products are small but have a high value. An additional concern is the extension of product ranges in major retail chains to include more





expensive products such as creams costing over 10 euros in the “accessible luxury” category. Their higher cost puts them at greater risk, said Vaghi. Solutions to deal with the phenomenon include new technological solutions and more traditional solutions. For example, safers are used to protect razor blades, as they increase the packaging volume and make them harder to conceal.

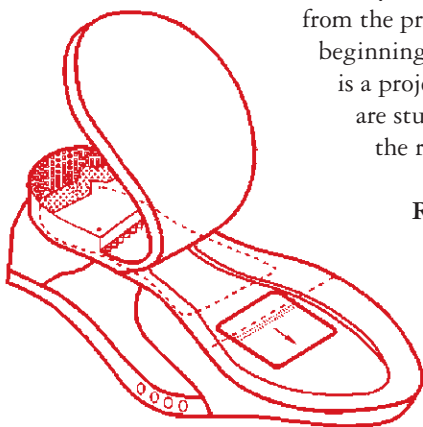


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Boris Agazzani
Logistics manager of **Diageo Italia**

These are partial solutions, and it is preferable to try and work with the industry to try and find tangible, measurable protective solutions. **Pierangelo Larghi of Bennet’s security department** added that there is interest in increasing source tagging, but without forcing the hand of suppliers. At the moment, they are keeping an eye on the situation, also because there are a number of different solutions currently in place in the company at the same time.

Filippo Rocco, security manager at Auchan, said, “In our case, 40 percent of anti-theft systems do not yet use radio frequency technology. We have some old electromagnetic systems, and some that use acoustomagnetic technology, the result of a choice made by the group several years ago. Three years ago, Auchan began to introduce RF, so it would be ready to benefit throughout its network from the protection at source the industry was beginning to adopt,” he said. “Source tagging is a project we believe strongly in, and we are studying it carefully in order to find the right cost-benefit balance.”



Riccardo Giuliani, IT systems and technological innovations manager at Coop, is looking to the future. “So far we have talked about anti-theft RF labels. But considering the commitment that the various players are implementing in

this area, why not focus directly on RFID? It is undoubtedly the most promising technology for ensuring traceability and security throughout the supply chain.” The experience of Coop in terms of RF source tagging is already very positive. “In 2008 we began applying it to the textile and clothing segment, with positive results,” he said. “Our strength is having created a working partnership involving purchasing management and technological innovation, along the lines of the experience described by our colleague from Metro. However, in order to get the most out of these projects, it is crucial to have a collaborative relationship with suppliers.”

Coop Italia bases much of its reputation on private labels. Is source tagging a possibility in PLs? “Never say never,” says **Marco Giotti, non-food commercial manager at Coop.** “Our first experience of this type of protection began with clothing bearing our Joyful brand.”

Ferrania Technologies, a historic brand in the manufacture of photographic articles that has extended its product range to small consumer electronic goods and printer cartridges, is strongly focused on the commercial brand. **Irene Castellazzi, key retail chain account manager at Ferrania,** said, “80 percent of our business consists of private labels. We had already tested source labelling on disposable cameras and commercial brand films in 2005, at the request of a French retailer. We have now extended its application to inkjet printer cartridges, which we know are the most commonly stolen products in Italy, at the request of one of our retail chain customers. Ferrania works with the major chains and can provide a service like this very rapidly.”

Gaetano Beninati, security manager at SMA north, explained, “Our interest in source tagging technology is based on uniformity of technology. In 2005, we began converting all the aerials in our POS. The result is that to date all 280 directly managed stores are protected by RF, and we have launched an installation program for the 51 directly managed franchise stores.”

Like the other retail representatives present at the roundtable, Beninati agrees on the type of products most commonly stolen – razor blades, parmesan cheese and spirits top the list. “When it is not possible to use source tagging, we add anti-theft labels manually in store. We have calculated that a staff member can apply 200 in an hour, but it is not economical compared to industrial source tagging. Another limitation of this method is that tags should be applied continuously, in the same position and if possible be concealed, while hand labelling is not uniform.”

Massimo Milani, purchasing and self service manager at SMA, added, “Implementing source tagging solutions...allows us to think about how innovation may take place through increasing the service provided to the retail industry, not just through perfecting the product, per se. Purchasing offices receive plenty of applications from products highlighting their characteristics, but not as often providing services to help develop business with the retail chain.”

Andrea Colombo, purchasing manager at the Italian branch of Rewe-Standa, agrees on the attitude to source tagging projects in the relationship between the manufacturing and retail industries. “It is important that both parties agree on the principle. The commercial objective is achieved when the end user buys the product, and not when the retail chain buys the product from the supplier.”

The category of refrigerated products also suffers from shrinkage, agreed leading pork producer Castelvani. “We started (source tagging) this year,” explained **Paolo Franchini, commercial manager at Castelvani**. “In August our first source-tagged products were on the shelves. It was our first experience of this technology. We have seen a rise in theft in our segment, in addition to the phenomenon of lower margins. The stimulus came from PennyMarket, one of our most reliable retail partners. We had to make changes to nine production lines to enable source tagging in the factory. I won’t deny that it involved a significant financial investment, but we realized that PennyMarket was being clear-sighted about the objectives, and that it wasn’t an impromptu request.”

Lorenzo Fiorin, meat sector buyer at PennyMarket, echoed Franchini’s view. “Our request to Castelvani to protect their goods at source is part of a broader project within the meat sector, which is becoming an increasingly strategic part of our business,” he said. “The problem of theft is particularly felt at discount



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stores. Because of the layout of the stores and minimal staff numbers, labelling products on the shelf is too expensive and difficult to do.” **Carrefour** is one of the international pioneers in the use of RF-based anti-theft solutions. “We believe strongly in source tagging,” said **Jerome Mairet, a manager** with international experience who took on the role of risk and loss manager in the Italian branch just a few months ago. “Five years ago, our group adopted radio frequency as an exclusive technology in all its hypermarkets worldwide. After France and Spain, Italy was the third country to be involved. The company already protects its own brand of parmesan and grana cheeses, and we are currently carrying out a manual protection test on the most commonly stolen food products in Italy. The aim is to simulate a source tagging project in order to obtain accurate data (labelling times, a map of the most stolen products, etc.), which will be a measurable starting point for beginning talks with our partners in the manufacturing industry.” ■

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