

Electronic Product Code (EPC) & Procter & Gamble: Using RFID to Create Efficiencies in the Supply Chain

Procter & Gamble is pursuing the use of Electronic Product Code (EPC) to create efficiencies in the supply chain. EPC is a way to uniquely identify a pallet, case or individual product using radio frequency identification (RFID) technology. It's similar to today's bar code but with many more potential uses and benefits. P&G was a founding sponsor of the early research at MIT's Auto-ID Center because we realized the enormous potential to improve processes in the entire supply chain - from our manufacturing plants to retail distribution centers to store shelves. The real time, automated, accurate information that EPC generates will benefit manufacturers, retailers, suppliers, and most importantly, consumers.

Today's supply chain systems are outdated and not meeting the needs of our consumers. EPC offers potential solutions to out-of-stocks, theft and counterfeiting as well as reducing inventory levels. We know that out of stocks are higher than we, our retail partners and our consumers want. Today we keep an average of 65 days worth of product inventory which costs us \$3 billion a year. Theft and counterfeiting are growing problems as well. Worldwide theft costs retailers \$50 billion a year and counterfeiting is a \$500 billion problem globally.

Since the inception of EPC in 1999, we have moved from the laboratory to testing the technology in real world supply chain situations in pilot tests with pallets and cases with retail partners in the US and Europe. The technology is still evolving and we are continuing to learn about EPC. We are working to solve issues that affect the reliability of the technology to read information about the product. For example, the speed at which tagged cases and pallets pass by the readers and the type of products, such as liquids and metallic packaging, can affect reliability.

Down the road as P&G learns more about the technology, there may be opportunities to eliminate costs and generate additional benefits for the supply chain and consumers through item level tagging. We believe it will be several years before the technology is affordable enough and the benefits great enough to be used on individual consumer product items. Like any new technology, as has been the case with the Internet, responsible use requires considerable forethought by those developing and using the technology.

P&G recognizes that in order for consumers to accept EPC, they must understand the benefits for them and be confident that their privacy will be protected. We have worked at these early stages to address privacy concerns associated with item level tagging. In collaboration with our EPCglobal partners, we crafted usage guidelines for item level EPC in the fall of 2003. To complement these guidelines, P&G has pledged to provide:

- (1) **Clear and accurate notice** to consumers when EPC is being used and whether products they are buying contain EPC tags;
- (2) **Choice to consumers** as to whether EPC tags on products they buy can be permanently disabled or discarded without cost or penalty;
- (3) **Choice to consumers** as to whether personally identifiable information about themselves is electronically linked to the EPC number on the products they buy, beyond what is done with barcodes today.

In this phase of testing and learning about EPC, P&G is informing our consumers about the pilot tests we are conducting. Up-to-date information about current tests, locations, brands and type of test (whether pallet/case or case/item) can be found on the company website, www.pg.com.

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