

Avery Dennison: Investing for Intelligent Labels growth

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By September 2024, Avery Dennison had made Intelligent Labels (IL) a central part of its growth story. RFID-enabled labels connect physical products to digital information and can help customers track goods through stores and supply chains. Avery brought materials science, label manufacturing, RFID inlays and tags, and digital solutions to the opportunity. The question was how quickly to invest ahead of customer adoption-and what evidence should govern the next commitments.

This case uses information available through Avery's 18 September 2024 Investor Day. Company targets and estimates are not realized results. A role advising the company's leaders is hypothetical; Avery did not disclose a pending internal investment decision.

A growth ambition with an uneven clock

Avery's Investor Day presentation described IL as a low-penetration, multi-decade opportunity. It set a long-term annualized organic sales-growth target of approximately 15% or more for the business. In a company-wide growth bridge, management estimated that IL could contribute more than 1.5 percentage points to annualized sales growth as Avery pursued a total-company ambition above 5%.

The presentation included a qualification: the target is measured over a long horizon, and growth in any particular period depends on pipeline conversions and is likely to be uneven. It identified continued growth in apparel and general retail, growth and adoption in logistics, and further expansion into quick-service restaurants and initial item-level grocery adoption. Beauty, healthcare, and automotive were among other potential applications. These categories differ in how products move, what information customers need, and what operating processes RFID could change.

The company's recent results offered evidence of demand, but not a complete investment case. Avery reported that company-wide organic IL sales grew at a mid-teens rate in 2022 and a low-double-digit rate in 2023. For the second quarter of 2024, it reported mid-to-high-teens organic IL growth versus the prior year. The 2024 filing also said sales could benefit from both improving markets after customer destocking and continued IL growth, with some offset from raw-material deflation-related price reductions.

Those reported growth rates do not show IL's operating margin, capacity utilization, customer-level adoption, or the return on past investment. They also do not show how much growth came from new categories, existing customers, price, or changes in volume and mix.

Capabilities, capacity, and capital

Avery described IL as a business that draws on the capabilities of both of its reportable segments. Materials Group contributes materials science and process engineering needed to develop and manufacture labels at scale. Solutions Group contributes RFID, digital identification and data-management capabilities. The company's 2023 Form 10-K said it had expanded RFID capacity and business development globally, including new facilities in Brazil and Mexico.

In 2023 Avery spent \$285.1 million on capital expenditures, including fixed assets and information technology. That amount covers the whole company; Avery did not disclose how much went to IL. The same filing warned that infrastructure investments are long-lived and might not recover their cost if demand fell short. It also identified customer acceptance, product-launch delays, and execution as risks to returns.

At Investor Day, management presented approximately \$8 billion of capital available over 2024-2028 and a long-term allocation framework: 25-30% for capital expenditures and restructuring, about 20% for dividends, and 50-55% for share repurchases and mergers and acquisitions. The framework is company-wide and does not specify an IL budget. It signals that an IL investment competes with other uses of capital.

What RFID evidence can-and cannot-say

Field research has examined whether RFID visibility can improve retailers' inventory records. In a final 2013 journal article abstract, Hardgrave, Aloysius, and Goyal report one experiment across 13 stores over 23 weeks, with an approximately 26% decline in inventory record inaccuracy. A second experiment across 62 stores and five categories found effects ranging from no statistically significant improvement to 81%.

That range suggests that operating context matters. It does not estimate Avery's sales, profits, or return on capacity spending. The first experiment's earlier working-paper version focused on understated inventory records and automated adjustments using the retailer's proprietary RFID rules. Its result does not establish that RFID corrected every source or direction of record error. A fashion supply-chain model (Bottani et al., 2009) finds that estimated RFID economics depend on existing processes, number of stores, and assumed sales effects. A real-options study (Dimakopoulou et al., 2014) examines rollout choices in a beverage company's warehouses. These studies offer ways to structure questions about category fit and staged commitments, not Avery-specific answers.

The public record does not disclose the conversion probabilities in Avery's pipeline, the customer economics behind its targets, category-level capacity or utilization, project costs, or how Avery and its customers divide the value created. The growth ambition is therefore a useful strategic signal, but not enough to calculate a target return or a numerical spending trigger.

Your decision

Assume you are advising Avery's leaders on the next phase of IL investment. Recommend a pace and the evidence that should govern future commitments. Consider three paths:

1. **Accelerate:** add capacity and commercial resources ahead of expected adoption, using Avery's integrated capabilities and long-term target to pursue early scale.
2. **Stage by customer and category:** release investment as customer adoption, pilot results, repeat orders, and operational readiness demonstrate progress.

3. **Balance the portfolio:** continue IL investment while comparing each commitment with other growth and capital-return opportunities in Avery's company-wide framework.

For your recommendation, explain what evidence would cause you to accelerate, continue, or defer an investment. Identify who must demonstrate value, what must be measured, and how Avery should respond when customer benefits are clear but Avery's own economics are not. Do not assume numerical thresholds the public evidence cannot support.

Selected sources

1. Avery Dennison, [2024 Investor Day presentation](#), 18 September 2024, printed slides 14, 38, 45, and 47. Slide 38 states the IL target and uneven pipeline-conversion timing; slide 45 gives the company growth bridge; slide 47 gives the company-wide capital framework.
2. Avery Dennison, [2023 Form 10-K](#), filed 21 February 2024, Item 1, "Business Overview and Reportable Segments," SEC lines 159-175; Item 1A, "Our ability to develop and successfully market new products," lines 401-405; "Our infrastructure needs," lines 406-409; MD&A, Solutions Group, lines 964-988.
3. Avery Dennison, [Q2 2024 Form 10-Q](#), filed 30 July 2024, "Outlook," SEC lines 845-854; Solutions Group, lines 963-990.
4. Hardgrave, Aloysius, and Goyal, "[RFID-Enabled Visibility and Retail Inventory Record Inaccuracy: Experiments in the Field](#)", *Production and Operations Management* 22(4), 2013, pp. 843-856, abstract. The 2010 predecessor working paper is available [here](#), especially pp. 12-14 for Study 1 scope and pp. 35-37 for limitations.
5. Bottani, Eleonora, Gino Ferretti, Roberto Montanari, and Antonio Rizzi (2009), "[The impact of RFID technology on logistics processes of the fashion industry supply chain](#)", *International Journal of RF Technologies* 1(4), 225-252, DOI [10.1080/17545730903321675](#). Abstract only: fashion DC/store setting, process survey/site visits, and modeled profitability drivers.
6. Dimakopoulou, Andriana, Katerina Pramataris, and Andrianos E. Tsekrekos (2014), "[Applying real options to IT investment evaluation: The case of radio frequency identification \(RFID\) technology in the supply chain](#)", *International Journal of Production Economics* 156, 191-207, DOI [10.1016/j.ijpe.2014.06.005](#). Accessible case, model, timing-options, and conclusion sections only; the full article was not available in the publisher view.