

RFID's ROI Tops User Concerns

Half of U.S. companies surveyed by ABI Research have deployed RFID technology, but return on investment and other worries are holding up wide deployment.

By Jonathan Collins

Oct. 26, 2004—Uncertainty over the potential return on investment from deploying RFID is keeping a number of businesses from widely deploying RFID, according to a survey of U.S. companies by analyst firm [ABI Research](#). The survey of 50 end-user companies was carried out during a four-week period during the third quarter this year. The companies varied in size, with 29 percent reporting revenues over \$10 billion a year and 25 percent with revenues at less than \$100 million. The majority of respondents were global organizations, with more than half making more than \$500 million annually. The companies surveyed, however, do not comprise a statistically representative sampling of all U.S. companies

Twenty-three percent of the respondents replied that ROI uncertainty was preventing widespread deployment of RFID in their business. The next most commonly cited reasons for not deploying RFID widely were uncertainty over technology standards (19 percent of responses), tag/transponder costs (13 percent) and technology flux (13 percent), followed by lack of funding (9 percent), back-end integration (6 percent), lack of understanding (6 percent) and availability of integrators (5 percent).

A similar study from ABI released in June 2003, found that the cost of RFID tags and the integration of RFID systems with back-end systems was the biggest hindrance to widespread RFID deployments. That study (see [Integration Impeding Use of RFID](#)) included responses from user companies and RFID technology vendors.

Although the survey found that 51 percent of companies were not using RFID, the rest are examining the technology in pilots or are already using the technology in their operations. Thirty-five percent of respondents are currently involved in pilots, 8 percent are rolling out an RFID trial, and 6 percent have already implemented the technology into a working system.

Despite concern over the ROI of RFID among survey respondents, the companies deploying the technology said they are not doing so solely because of their customers' mandates. When asked what are or would be their organization's primary motives for installing an RFID system, 20 percent of respondents said they are aiming to use RFID to improve their own supply chain visibility, and 18 percent replied they are looking to improve efficiency. Deploying RFID primarily to meet customer mandates ranked fifth (12 percent of responses), behind better inventory visibility (16 percent) and improved security (14 percent).

This interest in deploying RFID in the supply chain was reflected in a parallel ABI Research survey of 170 RFID hardware and software vendors. In that survey, also carried out during a four-week period during this year's third quarter, 36 percent of vendor companies said they are targeting supply chain management applications. The next most frequently cited application, targeted by 13 percent of vendors, was asset management.

ABI maintains that its RFID user survey also reveals that companies are looking beyond deploying RFID just to meet mandates—dubbed slap-and-ship deployments.

“Companies are still looking to meet mandates, but they are also progressively proactive in looking for their own potential return on investment from RFID deployment,” says Erik Michielsen, director of RFID and ubiquitous technologies at ABI Research, which is based in Oyster Bay, N.Y.

The survey found that many of the survey respondents are still struggling to determine the potential for RFID in their own businesses, prompting the majority of respondents to say they can not estimate the number of tags they will be using in 2005 or 2010. Of those respondents that could make such an estimate, the majority expect to require between 100,000 and 1 million tags next year, increasing to between 1 million and 50 million in 2010.

The vendor survey revealed that although there has been a lot of interest and investment in RFID over the past year, RFID has yet to become a significant market. When asked to specify the RFID-related revenues for each company/division, including all hardware software and services, 51 percent of vendors said they had earned less than \$1 million in revenue from RFID, with just 4 percent reporting RFID business worth more than \$100 million. When ABI asked vendors about the value of their customers’ RFID supply chain trials, 51 percent of the vendors indicated that the average cost of an RFID supply chain management trial was less than \$200,000; only 1 percent indicated more than \$10 million.

The results of ABI Research’s surveys will be published in two reports—*2004 RFID End User Survey* and *2004 RFID Developers Study*. Both will be made available free of charge at the company’s Web site (www.abiresearch.com) by the end of the month.

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