# GMA: Business Case for EPC Mixed

A new study by the Grocery Manufacturers of America says RFID can deliver a return on investment if used to track pallets and cases of some categories of consumer items, but not all.

By Mark Roberti

Nov. 22, 2004—A new study released by the Grocery Manufacturers of America (GMA) says that Electronic Product Code technologies can deliver a return on investment for companies that tag pallets and cases of some high-value consumer items. But for many products, the technology is not viable today because its cost is too high.
"The CPG industry believes in long-term vision of [using RFID and EPC technologies to improve supply chain efficiency], but there are short-term issues that need to be resolved," says Pamela Stegeman, GMA's VP of supply chain and technology. "By resolving these issues, we will all be able to move even faster" [toward adopting the technology].

Among the key issues is the different approach to deployment that retailers and manufacturers want to take. Retailers want to deploy EPC technology geographically, because it is easier for them to install tags and readers in facilities in one area and then move to the next, rather than installing the technology across all their facilities.

But for manufacturers, the study says, it makes more sense to deploy the technology out by product categories. That's because manufacturers can get a return on investment from tagging fast moving consumer goods that are often out of stock, or high-value goods that are often stolen or counterfeit. But for other categories, there are few benefits to tagging.

Another issue is defining the processes that need to be changed so that RFID technology can be used to reduce out of stocks and ameliorate other supply chain issues. "As an industry, we need to have an open discussion about the business processes that need to be changed," says Stegeman. "We need to define the changes that need to take place across the supply chain, and then we need to test them with new process and new technology."

Manufacturers are concerned that they will pay the cost of tagging goods, but if retailers don't work with them to establish practices and procedures, such as replenishing shelves on established timetables, the technology will not deliver the promised benefits.

GMA’s Industry Affairs Council, which is made of senior executives of large consumer packaged goods companies, commissioned the study, “A Balanced Perspective: EPC/RFID Implementation in the CPG Industry,” because there was a lot of hype about the potential benefits of RFID. This report is based on a detailed analysis of two dozen business cases put together by GMA members over the past 12 to 18 months.

The confidential business cases were analyzed by A.T. Kearney and IBM Business Consulting Services, which drew conclusions about which categories might be tagged successfully today. The report produced few surprises. Companies can get an ROI today by tagging pallets and cases of fast-moving consumer items that have a high price, are stolen or counterfeited often or are frequently out of stock.

The benefits of tagging slower-moving or low-value goods are not significant enough to off set the investment in tags and readers at today's price levels. It also concluded that there is no ROI for today for tagging cases and pallets of goods that reflect or absorb RFID energy and therefore are harder to tag (canned goods, containers of liquid). That's because more expensive tags are needed for such goods or because it’s not possible to scan the tags every time and get the data needed to drive business process changes.

The study focused exclusively on food, beverage and consumer product companies in the United States, which have total combined annual sales of $460 billion. Stegeman said that even companies that have goods in categories where there is no ROI today need to begin testing RFID technology and begin developing a plan for how they will roll it out once prices of tags and readers come down.

"We recommend that they put together a business case and test the technology with a range of product categories," she says. "They can also look upstream to see how they can work with their suppliers to achieve more benefits internally."

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