

# RFID Budgets Play Catch Up

After failing to meet previously predicted levels, spending on RFID is expected to grow three to five times in 2005.

By Jonathan Collins

Jan. 6, 2005—This year's RFID deployment budgets will finally reach the levels that analysts had predicted for 2004, but smaller RFID hardware, software and services suppliers that have worked on last year's small pilots will have a hard time keeping these customers to themselves as these projects evolve, according to [ABI Research](#), a consulting firm based in Oyster Bay, N.Y.

Analysts had predicted that Wal-Mart's top suppliers would spend between \$1 million to more than \$500 million on their first RFID pilots in 2004, but each company spent an average of about \$500,000 (see [Suppliers Meet Mandate Frugally](#)). Spending on RFID, however, is now expected to grow significantly by the end of 2005. "We are seeing companies increase their RFID budgets three to five times this year compared with 2004," says Erik Michielsen, director of RFID research at ABI Research.

RFID spending in 2004 was held back for a number of reasons, says ABI, including limited availability of equipment and services as well as a conservative attitude toward adopting RFID that saw companies investigate the technology and its limitations. That work will prove a key foundation for 2005.

"The year 2004 was a great one for feedback from end users to [RFID hardware and software] developers. End users worked with smaller RFID companies and made those companies understand that they needed greater performance and scalability from their products," Michielsen says.

However, although smaller RFID specialist companies helped develop these pilots, ABI believes that in 2005, end users will increasingly call upon larger partners to develop and manage their RFID deployments.

When it comes to large-scale development and deployment of RFID, global companies such as Johnson & Johnson, Campbell Soup, Proctor & Gamble and Unilever are likely to turn to large, familiar business and technology partners with already-proven global capabilities to supply RFID equipment, software and services, instead of the RFID specialist players they turned to for their initial pilots.

"Corporate IT staffs don't want to work with a number of competing, small companies to pull together their RFID deployment. They want to work with the large IT partners that already have strong footholds inside the companies operations and have already proved themselves," Michielsen says.

In many cases, existing RFID-technology suppliers such as Avery Dennison, TI, Philips, Symbol and Zebra, or IT specialists including Cisco, IBM, Microsoft, Oracle, SAP and Sun, will be the beneficiaries of RFID dollars even though RFID isn't their core business. However, they will also have to strengthen their RFID capabilities. "In 2004, these companies added resources and spent marketing money on RFID, but now they have to get better versed at RFID," says Michielsen.

In order to do that, many are likely to turn to those smaller RFID companies—either as new partners or as acquisition targets. "The small guys won't get pushed out entirely. They have some of the brilliant people that have turned RFID into a progressing reality. Smaller RFID companies will be swiped up for their personnel and talent rather than intellectual property," Michielsen says.

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