Trying to Build the Business Case for RFID?

Take a lesson from former New York mayor Rudolph Giuliani.

By Mark Roberti

Feb. 28, 2005—In 1992, the year before Rudolph Giuliani was elected mayor of New York, there were 203,311 violent crimes in the city, including 2,397 murders and 108,154 robberies. By 2000, violent crime was down 39 percent. Murders fell by 60 percent, robberies dropped by 63 percent, and the FBI declared New York the safest large city in the United States.

How did Giuliani achieve this turnaround when, for decades, crime in New York had seemed intractable? He didn't spend hundreds of millions of dollars to put armies of police on the streets. He started by focusing on much smaller problems—vagrancy, car theft, small-time drug dealing and so on. By tackling many of the small things that contributed to lawlessness, he was able to have a major impact on violent crime.

What does this have to do with RFID? Not much—except it's a brilliant illustration of the bottom-up approach companies need to take toward RFID. Instead of spending millions to put RFID readers on every shelf or choke point to attack out-of-stocks, excess inventory, manufacturing inefficiencies or other macro-level problems head-on, companies need to deploy the technology wisely to root out the conditions that allow inefficiencies to persist in their internal supply chains.

The concept is deceptively simple: Solve lots of small problems—such as administrative errors, internal theft and put-away errors—and they add up to a big benefit. But the key to its success is to work within what *RFID Journal* calls a "benefits stack" and focus on the issues that contribute to one macro-level problem. That way, the small savings realized with each RFID application can multiply.

Our featured story this week, "The Road to ROI," explains the 10 steps companies need to take to build a bottom-up business case based on the benefits stack concept. This approach can work whether your company is deploying RFID to meet a tagging requirement, preparing for the day when it will be required to meet a mandate or just looking for a way to achieve new efficiencies.

It won't be easy. You have to deal with the physics of reading tags on cases and pallets in your warehouses. You also have to collect, analyze and use RFID data, change business processes and get people whose jobs will be affected to embrace new ways of doing things. But it is doable and it will deliver results. That's because RFID allows you to eliminate inefficiencies that otherwise would be too costly to tackle.

Here's an example. One contribution to excess inventory is errors involved with receiving goods into inventory. Companies could reduce receiving errors by scanning every bar code on every case arriving at a distribution center or warehouse, but the cost would be more than the benefit of having more accurate inventory numbers. But companies could use RFID to go after the problem, because once the infrastructure is in, there is no incremental cost for each tag read. Yes, you have to pay for the tags, but you can work with your packaging and raw material suppliers to put tags on shipments to your facility and distribute the costs—and benefits—across the supply chain.

Reducing receiving errors won't deliver a return on investment, but when the same infrastructure can be used to reduce internal theft, cargo transfer errors, cycle counts, labor costs and paperwork, companies can get a return on their investment.

I know, I hear it all the time: Reducing inventory, slashing out-of-stocks or increasing supply chain efficiency by deploying RFID—and getting an ROI—is a pipedream. Maybe. But it's no bigger a challenge than cleaning up the Big Apple. As Giuliani said: "When you confront a problem, you begin to solve it."

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