

Most RFID Users Believe RFID Lacks ROI

An AMR Research survey of 500 *RFID Journal* readers shows that spending on RFID is being hampered by high cost and immature technology.

By Mary Catherine O'Connor

July 22, 2005—Projected spending on RFID technology among end users won't accelerate significantly until after 2008 at the earliest, according to a report released by [AMR Research](#) this week. The main reason behind this lackluster spending? "Most companies are simply not finding a return on investment," says Dennis Gaughan, research director at the Boston-based consulting firm and the report's author. The 20-page report—"RFID Technology Assessment 2005-2007: Where Is the ROI?"—is based on an April survey of 500 *RFID Journal* subscribers that work for end user companies.

The report says that the high costs of RFID hardware, software and services and the immaturity of the technology contribute to a lack of ROI for end users. It also says the adoption of RFID technology is being spurred by retailer and government mandates, which is pushing many end users into using a technology they would not otherwise use until it was more affordable and mature. Gaughan says this echoes what AMR Research staff is hearing from many of the end users they speak with. "Most users we talked to are approaching RFID as a compliance requirement rather than as an enabling technology," he says. "Most of them say they would not be using RFID right now if they didn't have to."

While respondents point to cost as a major roadblock to an ROI, the lack of standards is another issue. Says the report: "Overall, 44 percent of the respondents believe that the maturity of today's RFID standards is enough to deliver an ROI. However, only 29 percent of process manufacturers [makers of gasoline, ore, drugs, chemicals, consumer products and other goods that are produced in batches, instead of discrete units] believe the standards have reached an appropriate level of maturity. Only 35 percent of the large company segment (more than 5,000 employees) believes that standards are mature enough to deliver ROI."

The survey's demographic breakdown shows that biggest group of respondents (205) are in the discrete manufacturing industries. Discrete manufacturers are companies that produce distinct, individually distinguishable products, such as cars and appliances (companies in the automotive, aerospace/defense and the high-tech industries are discrete manufacturers). The second largest group (188) is in service-based industries, including retail, transportation and wholesale distribution. The third largest segment (107) are process manufacturers. The majority (44 percent) of all respondents work for companies have fewer than 500 employees, followed by companies with 10,000 or more employees (25 percent) and 500 to 999 employees (10 percent).

The report also says that RFID deployments will still be largely limited to pilot projects rather than full deployments until 2008. It bases this on the respondent's RFID budget forecasts through 2007, which show what the report calls modest growth in spending: a 16 percent increase from 2005 to 2006 and a 20 percent increase the following year. The average RFID budget in 2005 is \$548,000, which will increase to \$771,000 by 2007. "For a quickly emerging market, you would expect to see a much higher growth rate," says Gaughan, "of around 30 to 40 percent."

What's more, few of the respondents—only 8 percent—have transitioned from a pilot project to a full deployment, while 23 percent are currently in a pilot, according to the report. Based on spending projections, the report says, not many more end users will be moving into full deployment in the coming two year, either.

Despite the survey respondents' apparently slow movement into deploying RFID, especially when compared with the hype surrounding the technology, Gaughan believes companies stand to gain many important benefits from deploying RFID, including supply chain visibility and reduced out-of-stocks. But, he explains, these benefits will be realized only by devising a long-term strategy beyond compliance.

The survey also shows that RFID vendors are competing in a market with no clear leaders, though the survey shows that end users are looking for large vendors that can support global RFID deployments.

The report costs \$2,500, can be purchased online at [AMR Research's Web site](#).

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