

Scaling Down RFID Investments

Layoffs and cutbacks within the industry may not necessarily be a bad thing.

By Priyanka Gouthaman

Dec. 25, 2006—Layoffs and cutbacks appear to be the new buzzwords within the industry, with announcements from both [Sirit](#) and [Checkpoint Systems](#) in recent weeks. Critics of RFID technology have been quick to point to such announcements, claiming the market continues to be driven more by hype than by reality. However, the scaled-down efforts are not reflective of the industry's potential. [Frost & Sullivan](#) believes the potential for RFID definitely exists, and that growth patterns are likely to resemble that of the earlier bar-code market.

The scaling down of RFID efforts by Sirit and Checkpoint reflects a natural reaction to the changed market dynamics. What remains highly positive in the midst of the cutbacks and restructuring, however, is that both companies have reiterated their commitment to RFID. Product lines have not been discontinued, and this reflects future expectations of the vendor and end-user communities.

In the case of Sirit, the company undertook the restructuring to balance its cash flow following its acquisition of TradeWind Technologies and SAMSys Technologies. While these acquisitions enhanced Sirit's RF product portfolio, consolidating teams from the three companies resulted in inevitable layoffs to avoid duplication. The cutback also includes the closing of engineering facilities in the United States and the United Kingdom. Sirit's decision to reorganize is expected to support the firm's post-acquisition integration strategies. Resource consolidation is critical following acquisition strategies, and can significantly impact the success of the new enterprise.

Checkpoint is likely to refocus on using existing sales channels to sell its RFID product line. The reorganization of the company's marketing efforts has been primarily due to the disappointing second-quarter results (earnings from continuing operations for the same quarter declined from \$7.5 million in 2005 to \$5.2 million in 2006). Layoffs and cutbacks are, therefore, reactions specifically aimed at cost containment and improving year-end results.

RFID technology and product strategies have always been positioned to ensure coexistence with existing legacy auto-ID technologies. Research funding to the company's RFID Solutions Group has been recently cut back, and is being reallocated to the core product line of RF-based electronic article surveillance (EAS) systems. Checkpoint's decision to discontinue this group has meant the company is not looking to expand immediately into the pharmaceutical and mass-transit markets. Both markets were the primary focus of research within the group. Consequently, the emphasis of research and business development is likely to remain concentrated on the company's traditional core markets, which include retail and library management.

RELATED ARTICLES The decisions of both companies to discontinue certain RFID-specific research and marketing teams can be rationalized, given the slow pace of adoption in the industry. Industry observers hailed 2005 as the "year of deployments", a preconception that did not truly materialize due to a number of challenges, including a lack of standards, an absence of clearly defined ROI and the high cost of

investments. In 2006, deployments continued to be isolated. Tagging volumes, which most vendors expected to benefit from, have remained elusive—even among early-adopter pilots and deployments, which have not scaled up. Profitability and operating margins have, therefore, been adversely affected, given the high investments made in R&D and marketing for RFID products.

Still, the cutbacks are expected to be a temporary trend, lasting until pilots and deployments scale up after initial success stories begin emerging within the industry. Companies are developing product and technology strategies to reflect and adapt to the gradual progression from legacy AIDC systems to emerging technologies, such as RFID. It makes business sense, therefore, for a company to converge its research, marketing and expansion strategies with the same focus. Capital investments are likely to remain stringent until these companies can realize sizable economies of scale and profitability with their RFID product lines. In the meantime, a cautious expansion strategy seems to be the way forward.

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