

Don't Let Misperceptions of RFID Become Reality

A recent article by the Wall Street Journal portrays Wal-Mart's RFID efforts as failing. That's not the case, of course, but there is a danger that misperception could become reality.

By Mark Roberti

Feb. 19, 2007—The venerable *Wall Street Journal* ran an article last week entitled "Wal-Mart's Radio-Tracked Inventory Hits Static." The article says, "Wal-Mart Stores Inc.'s next leap forward in ultra-efficient distribution [RFID, that is] is showing signs of fizzling."

That couldn't be further from the truth, but there's a danger that stories like this—and we've seen many—can have a chilling effect on RFID adoption. Many companies don't want to change the way they do things, so this becomes a reason not to examine RFID's potential. That's obviously bad for the RFID industry, but it's also bad for the companies that are misinformed.

The big evidence cited for Wal-Mart's "fizzling" RFID effort is that Wal-Mart had planned to RFID-enable 12 of its distribution centers and 1,000 of its stores by January 2006, but that "so far, it has installed the technology at just five [DCs], plus 1,000 stores."

True, Wal-Mart has not yet rolled the technology out to 12 DCs, but it has started a pilot in Canada, and its RFID team has handed off the RFID rollout to its operational teams, meaning RFID is not just a small science project, but rather part of the way Wal-Mart does business. I spoke to Simon Langford, Wal-Mart's manager of RFID strategies, at a conference in the fall, and he said the operational teams want to move faster because they see the benefits RFID brings.

The article goes on to say that Wal-Mart "needs another breakthrough in its logistics operations, the main driver of its pricing advantage," and points out that Wal-Mart's expenses have risen slightly faster than Target's.

But Wal-Mart's RFID efforts are not primarily about cost-cutting. They are about reducing out-of-stocks, and yet the story never mentions how RFID has reduced out-of-stocks by as much as 60 percent on some fast-moving items. They're also about using the same labor, or less, to make sure the 5 billion cases of goods Wal-Mart handles each year are where they are supposed to be, when they are supposed to be there. Any labor saved will likely be redeployed to more value-added jobs, such as helping customers. (Different companies will use RFID in different ways, and others might focus first on labor savings and later on other benefits.)

The article quotes an unnamed supplier spending \$200,000 a year to comply with the RFID tagging requirement as saying this of the RFID mandate: "It's a big black box with nothing out there for a return [on investment]. A lot of people, if given a true choice, would not be in it."

I guess the quoted person meant "black hole," but you get the idea. Either way, the idea is wrong. If someone

is spending \$200,000 to slap some tags onto cases and expects to see a huge benefit, then that person is delusional. That would be like spending \$200,000 on routers and Ethernet cable in 1997, and saying: "This Internet thing is a black hole."

We've already written about the benefits Procter & Gamble is getting today from tracking promotional items (see [P & G Finds RFID 'Sweet Spot'](#)). The next issue of our magazine will feature a case study on how Kimberly-Clark is achieving a return on investment from tagging promotions. These companies have each spent a lot more than \$200,000 on RFID, and they will get many more benefits in the future as the technology matures and becomes less expensive.

These two CPG companies have been among the few to talk openly about the benefits they are achieving, but I talk to more and more Wal-Mart suppliers who say they see real opportunities today, whether in tracking promotions or reducing chargebacks.

The *Wall Street Journal* claims many companies are complying with the tagging mandate just to please an important customer. That may be true, but some are also in it because they realize RFID offers transformational benefits in the long term, and that these can't be realized by sitting on the sidelines today. The challenge is that to achieve the massive benefits possible, companies have to invest significant sums in RFID infrastructure, IT systems and business process change, and they have to make sure others in their industry go along with it.

RELATED_ARTICLES Some companies—including Wal-Mart and its suppliers—are deploying RFID intelligently. They are not rolling out the technology in one massive wave, then waiting for the benefits to accrue. They are looking at how and where it can deliver value today, getting early wins and finding new ways to leverage the technology. This might be slower than some journalists expected, but it makes good sense from a business point of view.

Let's try to focus on reality and not allow ourselves to get caught up in simplistic views of RFID adoption. Otherwise, there is a real danger that companies will assume there really are no advantages and miss out on the benefits RFID is delivering today, and will deliver tomorrow.

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