Aggressive Sales Growth Predicted for Passive Tags in North America

Frost & Sullivan expects a compound annual growth rate of 21.5 percent during the next six years, spurred in part by increase adoption in Canada.

By Beth Bacheldor

Aug. 21, 2007—Revenue from the North American RFID market is expected to climb steadily to nearly a half-billion dollars in the next six years, according to a new study released this week by research and consulting firm Frost & Sullivan.

Sales in the United States, Canada and Mexico will experience a "highly positive growth rate," says Priyanka Gouthaman, industry analyst at Frost & Sullivan and author of the study, titled "Passive RFID Tags Market: Will Future Growth Rates Match Hyped Expectations?" She presented the findings during a webcast on Tuesday. Gouthaman expects revenue to grow at a compound annual growth rate (CAGR) of 21.5 percent between now and 2013, to $486.6 million. RFID shipments will grow at a CAGR of 29 percent between 2007 and 2013, she says.

For now, the United States has for the lion's share of the North American RFID market, about 88.3 percent, with sales there totaling $124.6 million. But in the next five years, the United States will account for only about 65 percent of the market, as RFID adoption rises in Canada, according to Gouthaman.

The key industries spurring RFID's growth in North America are no surprise: health care, retail, industrial, automotive, aerospace and government. What's changing, however, is a growing interest in RFID's ability to provide businesses with a return on investment (ROI). "ROI is the buzzword right now," Gouthaman told webcast attendees, but cautioned that "ROI is still a fuzzy concept."

RFID's growth still largely appears to be driven by mandates from the likes of Wal-Mart and the U.S. Department of Defense, Gouthaman said, adding that the RFID market is still in an early growth stage. Perhaps the most powerful market driver-particularly within the passive RFID market-has been standardization, such as the acceptance of EPC Gen 2. "One of the biggest markets for RFID is the supply chain, and global standardization is a requirement," Gouthaman said. Standard RFID technology is more likely to provide businesses with complete visibility of their supply chains, which often stretch across countries, industries and companies.

Other major market drivers, Gouthaman said, include ongoing investment in the technology by the RFID vendors, particularly tag manufacturers, as well as California's upcoming e-pedigree requirement that takes effect in January 2009.

RELATED_ARTICLES There are growth-inhibiting challenges too, she said. The technology is still considered disruptive to current business processes because it can require a significant investment in time and money. Also, data from RFID typically provides true value only when it is integrated with back-end systems, which adds to the money and time it takes to make RFID a more integral part of business processes. What's more, environmental factors that affect tags' accuracy still continue to thwart RFID's overall growth, although tag read rates have improved overall.

The study highlights emerging RFID market trends, including the fact that the technology is increasingly appealing to traditional bar code vendors. "To remain technically relevant to changing market demands, bar code manufacturers are starting to offer RFID," Gouthaman said. Printed RFID electronics and the combination of sensors and passive RFID are starting to emerge on the scene, too. "Sensors have typically been used with active RFID, but the combination of sensor capabilities and low-cost passive tags is particularly interesting for supply chain markets that are already challenged with trying to cut costs," Gouthaman said.