Return on Innovation

Return on investment is not the only way to calculate the value of RFID.

RFID is often paired with another acronym: ROI, for return on investment. The conclusions are not always positive. Some examples from recent headlines: "No Quick ROI From RFID," "Most RFID Users Believe RFID Lacks ROI," "RFID ROI Is Hard to Find."

Yes, return on investment matters. And yes, RFID should ultimately deliver more value than cost. But ROI, which was developed by accountants, is just one way of measuring RFID's value. There is more to management than a relentless focus on a single metric. Business is an art, not a calculation.

One of ROI's biggest limitations is that it punishes risk and rewards conservatism. No one would have launched Amazon.com, eBay and Google or developed iPods and silicon chips based on their initial ROI. In their early years, most spectacular business successes were all investment and no return. And most probably had their share of quiet failures. That's why we need additional ways to evaluate an early stage technology such as RFID. One of the most important may be a different kind of ROI—return on innovation.

Yes, innovation involves risk, and risk could lead to failure. But there is no way to know what will succeed in advance of trying, and no way to succeed every time. Not every dollar invested can result in an immediate, measurable and greater number of dollars in return. Many of the things a user tries will fail.

Venture capitalists who make their living investing in high-risk companies expect most of their investments to fail completely. The few that don't will deliver more than enough return on investment to cover the losses on the rest. One of my favorite venture firms embodies this spirit in its name: .406 Ventures takes its inspiration from the 1941 batting average of the Boston Red Sox's Ted Williams. He scored a hit just 40 percent of the time he went to bat, yet Williams hit 521 home runs and is considered one of the greatest hitters of all time.

The same spirit applies to RFID and any other emerging, innovative business opportunity. Failure is an essential element of success. Every time something doesn't work, there is a return in the form of a valuable lesson. Maybe it's as simple as "don't try that again," and maybe it's more nuanced, such as "next time, we need a different kind of RFID tag." This is what makes trying so valuable, regardless of ROI.

Wal-Mart, Gillette (now part of Procter & Gamble), Pfizer and other early RFID adopters have been banking this kind of value every day for several years now. Their competitors—who have been sitting on the sidelines counting their cash and doing nothing but trying to calculate potential return on investment—have not. Sooner or later their lack of RFID experience, including their lack of RFID failures, will hurt them and their investors. This will probably happen at precisely the moment that the early adopters start seeing huge cash returns from their early courage and adventure.

RELATED_ARTICLES And that's the power of return on innovation. Every swing of the bat has value, even when there is none of that other kind of ROI. Then, when you do finally hit the ball out of the park, you'll get that, too.

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