

# The Cost of Wal-Mart's RFID Edict

AMR Research says Wal-Mart's RFID tagging mandate could cost suppliers more than \$2 billion.

By Jonathan Collins

Sept. 10, 2003 - Wal-Mart's mandate to its top 100 suppliers to deliver RFID tagged products by 2005 is set to cost those consumer package goods (CPG) manufacturers a total of more than \$2 billion. But so far, benefits to those companies are hard to find, according to a new report from AMR Research.

"CPG manufacturers can't afford to eat that cost of deploying RFID to Wal-Mart's specifications. Something's got to give," says Kara Romanow, senior analyst and co-author of the AMR report "RFID in 2005: The What Is More Important Than The When With Wal-Mart Edict." That could well mean passing on costs to consumers with higher prices.

According to AMR, a typical CPG manufacturer shipping 50 million cases per year will have to spend between \$13 million and \$23 million to deploy RFID and satisfy Wal-Mart's tagging requirement. Tags and readers alone will cost \$5 million to \$10 million, but that's just the tip of the iceberg, according to the Boston-based research company. An additional \$8 million to \$13 million will also have to be spent on system integration, changes to existing supply chain applications and upgrades to storage systems and analytics software to make use of the large volumes of data that RFID will bring.

That additional cost is only slowly becoming apparent to Wal-Mart's suppliers. "Every day manufacturers are finding Wal-Mart's demands more complex, less well defined and more expensive to deploy than they first thought," says Scott Lundstrom, AMR Research's chief technical officer and coauthor of the report.

Some of that additional cost stems from the RFID tag technology—a read-write eight-digit store code for routing purposes—that Wal-Mart is demanding. "That means tagging late in the production process not as part of the packaging," says Lundstrom, "which adds an additional process to manufacturing and a loss of flexibility."

In addition to the investment, CPG manufactures are also worried that RFID will bring little benefit and perhaps disruption to their current operations. According to AMR, most suppliers have inventory accuracy that is already as high as 99.9 percent. "They are concerned that RFID tags will have a failure rate that is far higher, as that is what they are finding in trial RFID deployments," says Lundstrom.

When Wal-Mart meets its suppliers in Bentonville, Ark., in November to present more details of its RFID deployment, the retailer is likely to find an audience that has a lot of questions and a lot of concerns about what RFID tagging means for their organizations. "Wal-Mart is unprepared for a backlash from its suppliers about implementation," says Romanow.

The report concludes that Wal-Mart must try to build consensus among suppliers as to what its RFID vision is, what it will cost, and what can realistically be done in a short time frame. "Either they do this pro-actively or they accept that a lot of suppliers will miss the deadline," says Lundstrom.

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