

# The Value of Good Information

There's a lot of confusing information about RFID being published, and that's making it harder for senior executives to make smart decisions.

By Mark Roberti

Dec. 8, 2003—I received an e-mail from a gentleman in Australia last week asking about Wal-Mart's plans. He attached an article from a local publication that said that Wal-Mart had delayed its RFID tagging requirement for a year, except for deliveries to three Texas distribution centers. He wanted to know if this was correct. I explained that it was not. Wal-Mart, in fact, said it expects suppliers to deliver pallets and cases with RFID tags to its three Texas distribution and 150 stores beginning in January 2005. It will then roll out the technology geographically over the year—and its suppliers are expected to roll with it.

This is just one example of the many erroneous reports being published in print and online around the world. A technology Web site posted a story last week quoting a Duke business school professor who said that it's plausible that Wal-Mart might roll out a pilot project, find it doesn't work, try another, find that one is too costly and try another. The article suggested that it could be six years before Wal-Mart hits on a winner.

That scenario is possible but extraordinarily unlikely. Wal-Mart has been working on RFID for 12 years. Kevin Turner, head of Wal-Mart's Sam's Club division and its former CIO, told me Wal-Mart ran its first UHF pilot in the early 1990s, tracking items in its lay-away area. More recently, it built a large facility to test RFID on all its conveyors, forklifts and dock doors to ensure that the rollout doesn't disrupt its operations in any way. It doesn't make sense to think that Wal-Mart would spend this much time, money and manpower figuring out how RFID can help its operations, then roll it out and suddenly find it doesn't work or is too expensive.

CEOs also have to contend with conflicting advice. I've been telling companies for nearly two years that the only prudent strategy is to start learning about RFID early by developing a business case for a small pilot and then launching it. The same Web article described above quotes an analyst who suggests that companies shouldn't feel any sense of urgency about RFID, unless they're a supplier to Wal-Mart or the U.S. Department of Defense. The analyst suggests that companies that are focused on customer service or product innovation don't need to worry about RFID.

It's certainly true that adoption of RFID will not affect all companies at the same rate. But it's hard to believe any company that makes, moves or sells products will not be affected by RFID within the next two or three years. Consider a few facts. Wal-Mart and the DOD, which plan to require shipments they receive to be tagged in about a year, account for about 6 percent of the United States' \$10 trillion economy.

And they represent the tip of the proverbial iceberg. Alan Estevez, the DOD's assistant deputy under secretary of defense for supply chain integration, said at the meeting the DOD held with its suppliers last week that he's talking to folks at the General Services Administration (which supplies government agencies with paper, pencils and many other products), the Department of Homeland Security and the Food and Drug Administration about following the DOD's RFID lead. Those agencies touch almost every sector of the

economy. The DOD is also in discussions with allies about using RFID tagging.

It's likely that RFID will become ubiquitous much more quickly than analysts are currently suggesting. Even if your company may not be forced to adopt RFID next year, it makes sense to start learning now about how the technology can improve customer service or add value to your products. Why let your competitors take the lead?

The Web article also suggests that you can adopt a "slap-and-ship" approach to RFID and comply with mandates from the DOD and Wal-Mart. The article says this will cost only \$200,000 or so per facility for labeling equipment, plus the cost of the RFID labels. It's perfectly true that you can do this and meet the tagging requirement, but it's not a smart strategy. Even Wal-Mart's senior executives advised suppliers not to take this approach.

Let's say you're shipping 10 million cases a year to Wal-Mart, and RFID labels cost 20 cents each. That's \$2 million per year in recurring cost. Not huge, but what if your chief competitor spends a million or two per facility to integrate RFID data into its backend systems and finds ways to offset the recurring cost. That means it will be more profitable in the short term. Five years out, your competitor may not just offset tag costs, but actually reduce its operating costs. That means it can undercut your prices and take market share away from you. On the other hand, if you move first to learn how you can take advantage of RFID technology, you might be the one with the upper hand.

The amount of misinformation and conflicting advice is only going to increase next year. RFID technology is still immature. Standards haven't solidified, there are huge differences in the performance of the hardware and the benefits of using RFID in open supply chains remain mostly theoretical. There will be articles telling you this will "revolutionize" your business—bet you never heard that before—and others saying RFID is not ready for prime time or offers no real value. Focus on the facts and start a small pilot internally. That way, you will begin to learn for yourself what RFID can and can't do for your business, and you'll be ready for any eventuality.

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