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The Value of Information

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What is it worth to know what is happening within your business?

By Mark Roberti

July 19, 2010—I received an e-mail the other day from Pankaj Sood, the founder of the McMaster RFID Application Lab at McMaster University, in Ontario, Canada, who is now studying at the University of Cambridge's Auto-ID Lab.

Pankaj wrote: "As part of my Ph.D., I am trying to understand the perspective various industry professionals have on valuing and pricing information. I am still at the exploratory stages of my research, and would really appreciate it if you could assist me by answering three questions."

Here are his questions:
1. What does value of information mean for you?
2. How do you determine the value of information (systems)?
3. How do you determine the price of information (systems)?

I have thought quite a lot about the value of information, because *RFID Journal* is an information provider. It occurred to me, as I ruminated over these three questions, that CIOs—who have everything to do with managing information systems—often have little to do with acquiring and valuing information.

Think about it. A CFO doesn't just balance books and manage a company's bank account. He or she manages money, coming up with new ways to obtain, maintain and use that money. The CFO, in fact, puts value on money, helping his or her firm's CEO to determine whether it is better to, say, invest in a new IT system or a new store.

Now, the CIO at most companies is more akin to the head of facilities, whose job it is to maintain and repair buildings and equipment, and to generally keep things running. Most CIOs, in my experience, see their job as maintaining IT systems, repairing network outages and generally keeping equipment running.

CIOs do, of course, evaluate new hardware and software, and they make investment decisions—but these decisions are often about how to maintain existing IT infrastructure more cost-effectively. There has been a focus on business intelligence software in the past few years, but such applications are mainly about parsing existing information, rather than acquiring new data or valuing existing information.

To my knowledge, most CIOs do not actively try to get new and better information for their companies. If they did, they would be all over radio frequency identification, which has the potential to provide a vast

amount of new data regarding what is happening within a company, within a supply chain and within a partner's operations. Instead, most CIOs to whom I've spoken see RFID as a burden—an additional infrastructure they must maintain. "The last thing I want are thousands of additional boxes," one CIO said to me a few years ago, referring to RFID readers.

If there are CIOs who have developed formulas to value information, I have yet to read about them. Is there, for instance, a CIO at any retail organization who has put an actual dollar value on information about an item's location within a store? You might say you can't put a price on that, but I disagree. A lack of information leads to a specific number of out-of-stocks, which then leads to a certain number of lost sales. And those lost sales lead to less profit.

So how many out-of-stocks occur, how many lost sales take place and how much profit is lost? The number might be very small—perhaps 5 cents per item. Or the number might be much more significant. But if CIOs put a value on information, then they could compare the cost of any new system, such as RFID, with that of not having the information these systems provide. One might find that the cost of an RFID system, amortized over five years, is 10 cents per item, and that the value of the information is much more—or less—than that. This would be a basis for determining whether to invest in RFID and other systems that could provide new information to senior executives.

Mark Roberti is the founder and editor of RFID Journal. *If you would like to comment on this article, click on the link below. To read more of Mark's opinions, visit the RFID Journal Blog or the Editor's Note archive.*