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# The Commodity Myth

By Kevin Ashton

MIT's business students are full of surprises, but they ask at least one predictable question: "With all these standards, won't RFID just become a commodity?" The students aren't alone. Many end users, RFID vendors and investors ask the same thing.

Commodities are products where price is the only basis for choice—there are no other differences, regardless of producer. The assumption is that standards, which ensure interoperability between products from different suppliers, lead to commodities and thereby erode profit margins. And if there's no money to be made from RFID technology, the market will collapse, or at least be starved of innovation.



Actually, the opposite is true: Standards create large, fiercely competitive markets, where only the fittest survive—by out-innovating the competition or finding and serving valuable niches. Take television, for example. The National Television System Committee standard for black-and-white TV was established in 1941, creating a fast-growing market for TV sets. By 1953, the profits from this new market had enabled the development of even better technology: color TV—and a new standard to go with it.

As the market exploded, product improvement, not price reduction, was the most common competitive strategy. TVs got bigger, picture and audio quality got better, and innovations such as the remote control were introduced. Most recently, LCD and plasma technologies delivered huge flat screens and helped launch the latest TV standard—high-definition. While there are \$30 “commodity” TVs, few people buy them.

We can predict the future of EPC technologies based on the history of standards. New technologies start without standards and find a few niche markets. Then interoperability becomes a

priority and battles over standards ensue. Eventually, a standard emerges that's good enough to foster mass-market adoption (EPC Generation 1). The market grows, more vendors enter, and competition and innovation increase. Eventually, next-generation standards (EPC Generation 2) are developed to accommodate all the innovation, leading to further market expansion.

The most significant achievement of EPC Gen 2 isn't its performance enhancements but the number of vendors that are supporting it. Only a few silicon vendors backed EPC Gen 1, but Gen 2 has attracted at least seven and more will follow. The same is true for companies that convert silicon into tags, make readers and develop software.



This unprecedented competition will have a huge impact on Gen 2's price and performance. Interoperability will force vendors of standards-based products to keep innovating. Those that compete effectively will profit and grow. End users will find it easier to get technology that meets their needs. Meanwhile, purveyors of proprietary RFID alternatives will see their markets dwindle.

So the answer to the question is no, standards won't turn RFID into a commodity. Standardization will increase competition,

drive innovation and lead to products with meaningful differences.

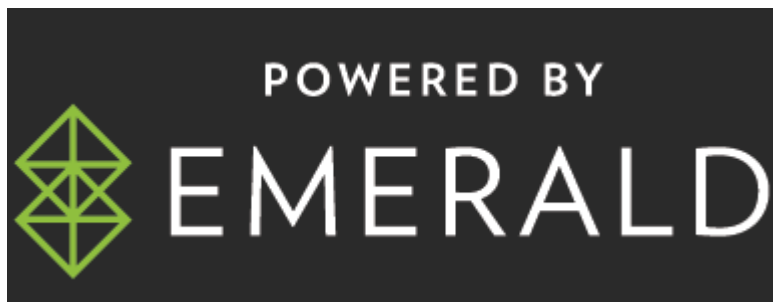
*Kevin Ashton is the former cofounder and executive director of the Auto-ID Center. He is the author of a soon-to-be-published book about RFID.*



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