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The ROI Business

In 1992, the year before Rudolph Giuliani was elected mayor of New York, there were 203,311 violent crimes in the city, including 2,397 murders and 108,154 robberies. By 2000, violent crime was down 39 percent. Murders fell by 60 percent, robberies dropped by 63 percent, and the FBI declared New York the safest large city in the United States.

How did Giuliani achieve this turnaround when, for decades, crime in New York had seemed intractable? He didn't spend hundreds of millions of dollars to put armies of police on the streets. He started by focusing on much smaller problems—vagrancy, car theft, small-time drug dealing and so on. By tackling many of the small things that contributed to lawlessness, he was able to have a major impact on violent crime.



What does this have to do with RFID? Not much—except it's a brilliant illustration of the bottom-up approach companies need to take toward RFID. Instead of spending millions to attack out-of-stocks, excess inventory, manufacturing inefficiencies or other macro-level problems head-on, companies need to use RFID to root out the conditions that allow inefficiencies to persist in their internal supply chains.

The concept is deceptively simple: Solve lots of small problems—such as administrative errors, internal theft and put-away errors—and they add up to a big benefit. But the key to its success is to work within what we call a “benefits stack” and focus on the issues that contribute to one macro-level problem. That way, the small savings realized with each RFID application can multiply.

Our cover story, “The Road to ROI” (page 22), provides the 10 steps companies need to take to build a bottom-up business case based on the benefits stack concept. This approach can work whether your company is deploying RFID to meet a tagging

requirement, preparing for the day when it will be required to meet a mandate or just looking for a way to achieve new efficiencies.

It won't be easy. You have to deal with the physics of reading tags on cases and pallets in your warehouses. You also have to collect, analyze and use RFID data, change business processes and get people whose jobs will be affected to embrace new ways of doing things.

But companies such as Purdue Pharma are meeting these challenges. Our case study, "Purdue Gets Down to the Item" (page 13), shows how the pharmaceutical manufacturer integrated RFID into its packaging line so it could tag individual bottles of OxyContin that it ships to Wal-Mart. And companies such as Boeing and Northrop Grumman are already tagging goods and working to figure out how to meet tagging requirements from the U.S. Department of Defense and transform the defense industry supply chain (see "I Want You to Tag Your Shipments," page 30).

Reducing inventory, slashing out-of-stocks or increasing supply chain efficiency by deploying RFID—and getting an ROI—might seem like a CEO's pipe dream. But it's no bigger a challenge than cleaning up the Big Apple. As Giuliani said: "When you confront a problem, you begin to solve it."

Mark Roberti is the founder and editor of RFID Journal. If you would like to comment on this article, click on the link below.



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