

Expected Soon - Industry Consolidation among RFID Vendors

Recession, State of RFID in Retail Causing Financial Troubles for Many; What are Buyers to Do?

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What do you get when you have an overall economic slowdown, combined with a dramatic slowdown in the market's number one driver of RFID activity?

Real financial troubles for many RFID vendors, especially those that were highly leveraged to the Wal-Mart/retail supply chain market that has just never come together anywhere near or as far as most were expecting.

Add to that the fact that in this environment, venture capitalists which back many RFID start-ups are likely to be very reluctant to put more money into their struggling investments, as they may have done in better overall economic times.

As a result, we can expect to see substantial consolidation among RFID vendors, say the investment analysts at RW Baird, who closely follow the RFID industry.

"We believe **survival** is becoming more of a paramount concern to many companies. We, however, continue to expect an industry shakeout as market dynamics place continued pressure on an overly populated market," Reik Read wrote in a recent blog post last week.

He adds: "We believe RFID vendors, both active and passive, are being mindful of the critical need to preserve cash given the severity of the macro environment, and limited access to additional capital as venture investors and banks have become extremely cautious with lending/investing practices."

As a result overall market weakness, lack of access

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to capital, and the fact that too many companies occupy a technology space with too little revenue, we can expect to see an "industry shake-out," Baird believes.

"As this shake-out unfolds over the next 1-3 quarters, we expect a few of the smaller industry players will be acquired by larger players as they seek to fill solution or technology gaps," Read says.

So which vendors will make it?

Baird "expects investors will use the shake-out to focus on the surviving value-added business models." That includes companies with "service and software models having a strong engineering component and focused on offering closed-loop operational improvement, models offering immediate enhanced data visibility, and companies focused on government, medical, apparel and financial services."

So what's that mean to users?

First, you really have to evaluate the financial and technology position of potential vendors and service providers you are considering. Even if a vendor is weak financially and becomes acquired, if it has a strong technology position that technology will likely remain in place and supported even after an acquisition.

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Second, you need to do scenario planning that envisions an RFID vendor and or/its technology goes away. Is there a viable back-up plan available? If yes, then risks are minimized. If not, then the risk of moving forward is very high.
