



2MC - Reverse or Not?

You are the CEO of an Alpha Computers, a large multinational electronics company. Your company pays royalties to Beta Electronics Suppliers for special-purpose and unique components used in a key product. Your Research & Development department has presented you with a cost savings initiative: they believe they can reverse engineer the components Beta supplies, design replacements in-house, and avoid the supplier altogether. This is completely legal. Going this way would reduce costs by 10%, and you also know that it will significantly negatively impact Beta's business. Beta Electronics Suppliers has been doing design work and partnering with your company on major products for the past 25 years. What do you do?

Takeaways

- ✓ The law is not always the only in making a decision; legality is a minimum, not a maximum standard of conduct
- ✓ Consequences related to reputation and relationships can reverberate over many years

Issues

- ✓ The money to be saved
- ✓ Your reputation as a company
- ✓ Message this will send to others who do business with you
- ✓ Reliability of the reverse engineering and the longevity of the potential change (will you need Beta again in the future?)

Rules and Regulations

- ✓ Patent and royalty laws
- ✓ Current contracts with the supplier
- ✓ Accounting standards related to the lower costs
- ✓ Your own sense of values and how you do business; how much you value collaborations

Questions

- ✓ What is your company's current financial state?
- ✓ How badly will this damage Beta? Are there ways to lessen the impact on them and still achieve savings?
- ✓ Are there future benefits from the relationship with the supplier?
- ✓ How obvious would this change be to everyone in the industry?
- ✓ How many other parts does this supplier produce for you? What if you need them again in the future?
- ✓ How open is your relationship with Beta?
- ✓ What does their future look like? Do they have other products you might want access to in the future? On how many other products do you collaborate with them? What effects will it have if they terminate all business with you?

Available Resources

- ✓ Company culture
- ✓ Engineers, past success, and their faith in the reverse engineering
- ✓ Other similar issues in the industry and how they were handled

Options

- ✓ Switch to in-house production, reducing costs by 10%
- ✓ Open discussions with Beta; share your R&D insights with them, see if they can reduce their own costs and reduce price; negotiate a new agreement with Beta to reduce costs and form new partnerships
- ✓ Do nothing