SUMMARY: Persuading customers to focus on lowest total cost instead of unit price is difficult to do as they continue to move their business to low-cost countries in reaction to severe, market price pressure. Perhaps a discussion on counterfeits and the price of cheap can help to change this culture.

Introduction
Anyone who has done a fair amount of international travel will have a story about coming back from China with a $20 Rolex (wink, wink). A shopping spree on the streets of New York City will provide an endless supply of bootleg DVDs, designer handbags, shoes and other knockoff products, all hidden behind the legitimate wares being sold in street-side shops. (“Mister, mister, have I got a deal for you; let me show you the good stuff I have in my back room.”) It was not too long ago that newspapers told the story of soccer moms being heavily fined, or thrown in jail, because their teenagers were “stealing” music from sites like Napster, Limewire and Kazaa.

Copycats have always been around, but are we really prepared to pay the true cost of this business practice?

Counterfeiting: What Side Are You On?
There are two major philosophies regarding counterfeiting (knockoffs, copycats) products:

- **Consumer perspective:** Knockoffs let me afford designer goods while brand owners stimulate demand, but place a price point that is out of the reach of the general public; they are ripping us off!
- **Brand-owner perspective:** We take all the financial risk when developing and launching a new product and those who copy us without the risk are ripping us off!

Consumer Behavior
There are two types of copycats:

- **Counterfeits:** a fake product sold under a brand name
- **Look-alikes:** a copy of a brand design sold under a different name

A recent report indicated a distinct correlation between counterfeiting and consumer behavior, and while the facts are not surprising, they are alarming:

Fake Facts
- One in eight consumers buy fakes
- For some brands, as many fakes are sold as genuine product
- Half of all fake purchases were believed to be genuine when purchased
- Fake consumers often buy genuine products also; there is a brand/consumer engagement
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Look-alike Facts
- One in two consumers buy look-alikes
- Only one in five consumers think they can tell the difference between a look-alike and the genuine product
- Look-alike consumers generally do not trade up to the genuine product; there is no brand/consumer engagement

Financial Impact
Google, L’Oreal, Jimmy Choo, Levis, and Chloe have all been in the news recently for initiating court action against counterfeit competitors in an effort to protect intellectual property. Permanent brand damage is a result in many cases, and the financial impact can be staggering. The FBI estimates that brand losses in the U.S. exceed $250 billion a year. The Counterfeiting Intelligence Bureau estimates that about 7-9% of the world trade can be attributed to counterfeits. The cosmetic industry loses about 5% of its annual revenue to counterfeits, and spends another 4-5% fighting the problem.

Small Business Case Study
I recently read about a small business in North Carolina, SylvanSport, who manufacturers a unique pop-up camper with many innovations not available from its competitors. The design was so innovative that the owner patented his design to protect his intellectual property. A new customer purchased one of his units through a distribution channel and masked the fact that they were a Chinese competitor to SylvanSport, reverse engineered the camper, and began marketing a look-alike model at a considerable discount. To the owner’s shock and disbelief, U.S. patents do not protect companies from copyright infringement abroad.

What Does This Have To Do With Boards?
When you look at the decimation of the PCB industry in America, a large part of the cause directly relates to OEMs moving their purchasing offshore to China and other low-cost countries. Let’s look at some startling data:

- The world PCB demand is roughly $56 billion, but the U.S. PCB industry supplies only 6.5% of the world demand
- The number of PCB operations in the U.S. has dropped by 75% over that last 25 years, and 25% over the last 5 years
- 2% of the world’s PCB operations are in the U.S., compared to 49% in China, and 74% in all of Asia
- Only four of the Top 20 PCB companies in the world are based in the U.S.

This is not strictly a small business issue; there are numerous high-profile companies in the telecom, medical and industrial market sectors that have recently had to pull their products back to America because of intellectual property concerns. One of the top categories for counterfeit products is consumer electronics, with each unit typically having at least one PCB driving the device. It is highly unlikely that the manufacturer of these electronics will be going to an American PCB maker to provide the electronic backbone for their counterfeit products.

The Price of Cheap
What to do, what to do... hope for an understanding ear! The next time one of your customers says they are moving their boards to a low-cost country to reduce their cost, hope that they will engage in a meaningful discussion with you on the true cost of low cost. Counterfeits, equivalents, and intellectual property concerns are all legitimate discussion points to have with your customer. There is also the safety (Mattel toy lead paint) and publicity (iPad factory worker conditions) concerns, but that is another story...

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