

## Member company case study : ARP Supplies BV

In May 2017, Council Director David Fitzsimons visited member company ARP, a Netherlands-based independent remanufacturer of toner cartridges. In this case study we explore the relationship between independent remanufacturers, such as ARP, and the OEMs whose products they remanufacture.



### A brief history of ARP's toner cartridge remanufacturing

ARP started remanufacturing printer cartridges in the late 1980s in response to the rapid uptake of the first HP office printers. Aware of the many empty toner cartridges generated by customers, ARP began to investigate refilling and reselling them. ARP discovered that HP cartridges had been designed for disassembly and soon found suppliers for replacement components.

Market discovery activity is a key function of independent third party companies when OEMs choose not to remanufacture their own products or components.

For more than 20 years, OEMs have tolerated the activities of the remanufacturing industry, yet the precarious nature of the relationship between them may, in part, explain why cartridge remanufacturing remains a small part of this industry.

During the 1990s most printer hardware OEMs responded to competition from remanufacturers like ARP by invalidating the printer warranty where any non OEM-approved cartridges had been used in their hardware. To counter this threat, ARP took over the hardware warranty. This is not an option that most independent third party companies could consider, but was a function of the unusual relationship between the remanufacturers and OEMs. "We are a

big friend to HP - and sometimes a small competitor,” says Ben Brouns of ARP.



### ARP’s precarious relationship with HP, and other threats

Though still small-scale, ARP’s remanufacturing process is standardised and quality controlled. For example, the disassembly, remanufacture and testing of monochrome toner cartridges follow ISO and DIN norms. “We can’t match the quality standards achieved in OEM mass-manufacturing systems, but we aim to come as close as possible” says Sergio Jaramillo Restrepo.

The 14 staff working on cartridge remanufacture at ARP have become expert in testing the components that degrade and cannot be reused. The final product is sold under the ARP brand; all original brand markings from HP are covered and a performance guarantee is offered at a 20% discount on OEM new product prices.

Yet, despite ARP’s expertise and pride in being a part of the circular economy, their

business model is at risk. The threats described by ARP are similar to those faced by most other independent remanufacturing organisations.

1. Cartridges continue to be designed to enable disassembly. However, there is a constant risk that this could be changed without notice, making the ARP process redundant or uneconomic.
2. This risk extends beyond the cartridge itself and includes the supply of licensed spare parts on which remanufacturers depend.
3. In a mature product market, lower cost ‘New Build’ cartridges have appeared. Sold to compete with OEM-designed toner cartridges, the ‘New Build’ products - manufactured mostly in China - are designed for a single use to keep prices low. These single-use products are priced to undercut the remanufactured product.

The above factors have an important implication for the growth of the sector. The constraint on investment created by the risk of a change in policy by an OEM results in many of the companies in the independent third-party sector being small and under-capitalised. Unless remanufacturing can operate on an equivalent scale to new production, the activity will be permanently locked into diseconomies of scale.

#### POLICY QUESTIONS

1. How might the persistent risk to investors of a catastrophic loss be reduced in the independent third-party remanufacturers sector?
2. Following the US Supreme Court decision in ‘Impression Products Inc.’ what else can be done to support businesses that buy products OEMs do not want to remanufacture themselves?
3. In exchange for supportive policies in (1) and (2) should intellectual property (IP) owners benefit from additional constraints on the way remanufactured products are placed on the market?
4. How should policy makers view products that are designed specifically for single use, and which undermine existing European remanufacturing activities?

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