

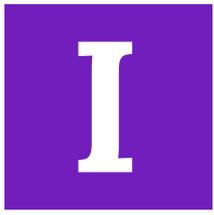
Hit Product Pirates Where It Hurts

Packaging and printing are powerful yet overlooked syndicate chokepoints

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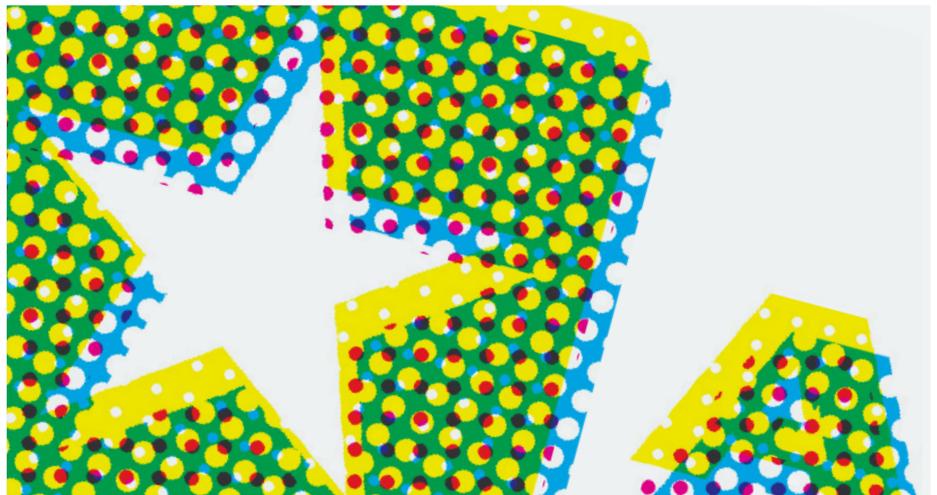


If narcotics investigators pursued only small dealers and users, it would do little to stem the flow of illegal drugs. Eradicating drug traffic requires much more, and citizens know and expect it.

That is why government agencies target everyone from marijuana farmers to methamphetamine labs. To have a major impact, narcotics investigators must hit where it hurts and cripple the drug syndicates' supply chains.

When trying to combat counterfeit product syndicates, however, many companies still focus on small-time street dealers. The all-too-common approach is to deploy small armies of investigators and intellectual property specialists to raid stores and warehouses and seize counterfeit products. Most organizations place their bets on the end of the supply chain — after the pirated products have been manufactured and brought to market.

These companies measure success by the number of product seizures, enforcements and prosecutions each year. While the numbers often are impressive, they do little to reduce the flow of pirated goods. Organizations are spending more than ever on this problem: In a survey conducted by the International AntiCounterfeiting Coalition, Fortune 500 companies report spending annually between



Fortune 500 companies, for example, now spend an average of \$2 million to \$4 million annually, and some companies spend \$10 million or more.



\$2 million and \$4 million per company to combat brand diversion, counterfeiting and gray marketing. Some indicate laying out as much as \$10 million. The National Intellectual Property Rights Coordination Center in the United States has documented that the total number of seizures in 2011 increased by 24 percent over 2010 and 325 percent during the past decade. Despite this hefty spend, the flow of counterfeit goods continues to soar. The Organisation for Economic Co-operation and Development estimates that \$650 billion in pirated goods were

sold around the world in 2008. The International Chamber of Commerce projects the number to reach \$1.7 trillion by 2015. In our experience, about half the companies, especially those selling luxury goods and personal healthcare products, still rely on the “bump and run” approach to seizing counterfeit goods. But organizations can be more effective and can save money by making a critical strategic shift: moving their attention away from product seizures and attacking the weak points in the counterfeit syndicates' supply chains.

Striking at the Root

Companies always have assumed that the critical players in the counterfeit supply chain are the component suppliers, finished product assemblers, exporters/importers and distributors. Industries where the stakes are high, such as pharmaceuticals and aviation equipment, have long focused on these key players to choke off the supply chain.

For decades, however, businesses have overlooked the counterfeit industry's packaging and printing suppliers because it was assumed these were low-value components that easily could be replaced. Although once true, the picture

is very different today. High-end products now incorporate elaborate packaging and built-in security devices, and counterfeiters have to mimic these to inspire consumer confidence. As a result, the once high-end counterfeiting skills — such as product assembly, warehousing, distribution and selling — now are more readily substituted than packaging and labeling.

Today, packaging and labeling activities are sophisticated specialties, with fewer mom-and-pop operations than before. These higher-octane suppliers cater to counterfeiting syndicates with significant

investments in specialized printing operations, equipment and expertise. Since these suppliers are not in the cross hairs of anti-counterfeiting efforts, they typically operate openly and sometimes brazenly, broadcasting their capabilities. We have attended trade fairs in greater China where more than 300 companies touted their proficiencies; some even eagerly engaged in conversations about creating counterfeit packaging. The good news: With the right investigative techniques, companies easily can bring down these central cogs in the illicit product value chain.

More Sophisticated Sleuthing

Like the ballistic evidence on bullets fired from a gun, packages carry evidence of their origin. When printing machinery applies an image to a surface, it leaves identifiable, microscopic, non-random defects that are unique. Government agencies have long used these defects to detect counterfeit money and other fakes that rely on high-tech printing. Figure 1 illustrates the differences between two print patterns — one authentic and one counterfeit — that we discovered with advanced microscopic techniques. The naked eye can't see the difference.

The investigative process works like this: We begin by acquiring samples of the same counterfeit product from markets around the world, sometimes numbering in the hundreds. From these samples, we create a library and conduct microscopic analyses to determine if the printed items are coming from a few suppliers or from many. Because sophisticated printing capabilities are so rare, in about 75 percent of our investigations, we find that the counterfeit packaging comes from a single source.

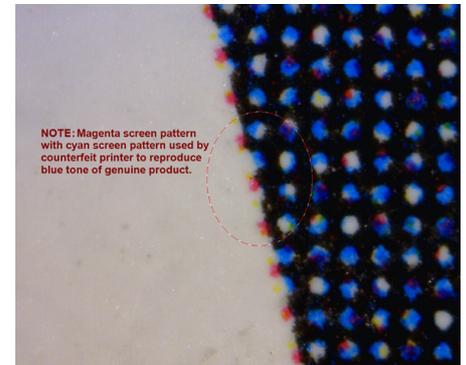
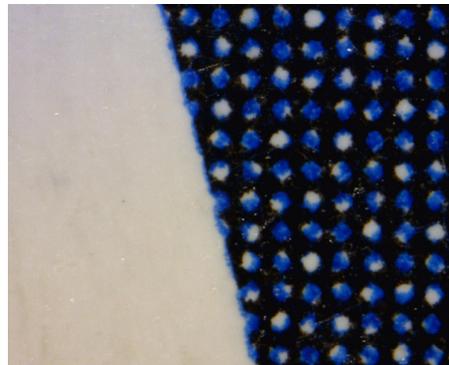


Figure 1: Original packaging and non-random defects in the counterfeit version.

Finding the supplier frequently is straightforward. Unlike other players in the counterfeit supply chain, printers often operate confidently and openly because they are not used to being investigated. Many times, they are geographically centralized. In China, for example, most counterfeit packagers for personal healthcare products are located in Shantou, a manufacturing center on the southeast coast. Thus, it is relatively simple to acquire packaging from suspected counterfeiters and to identify

their “fingerprints.” Once a trademark owner can prove that a certain printer has produced the illegal packaging, the organization quickly can build a strong case to present to government authorities. With this evidence, many governments will pursue, prosecute and sentence the perpetrators. In a recent case of a counterfeit cancer treatment, for example, the key player was sentenced to 12 years in prison.

The Case of the Healthcare Product

A global manufacturer of personal healthcare products was plagued by the counterfeiting of many of its products, especially in Asia. The company was spending millions on bump-and-run raids. Since the problem was so pervasive, we were engaged to help stem the flow of knockoffs.

We began with a detailed examination of the company's raids in a specific area of China. In that region, our client had conducted hundreds of raids and seized goods from some 70 local outlets. We discreetly investigated those outlets and discovered that 96 percent of them were continuing to sell the counterfeit goods — it was business as usual. The client had spent more than half a million dollars in the region in just over a year but had little to show for it: Management still had no idea of the source of the illegal goods.

We then planned a strategic intelligence effort to strike at the source: the packaging printers. We started with the wholesalers that were serving the outlets, as well as component suppliers that were providing peripherals such as bottles and aerosol cans. Through our forensic examinations of the counterfeit packaging, we discovered that three local printers were supplying all the packaging products. Armed with this evidence, we turned to law enforcement agencies to go

after the printers and disrupt the supply chain. Our follow-up investigations showed that local outlets no longer were carrying the counterfeit goods. Clamping down on merely three printers was much more effective — and less expensive — than conducting hundreds of raids.

The experience of a Japanese auto parts manufacturer also illustrates the potential results. By targeting key

points in the supply chain — packaging suppliers, shipping companies and websites that were selling counterfeit versions of its products — the company spent far less than it did on raids and prevented the fakes from reaching end buyers (see Figure 2). ■

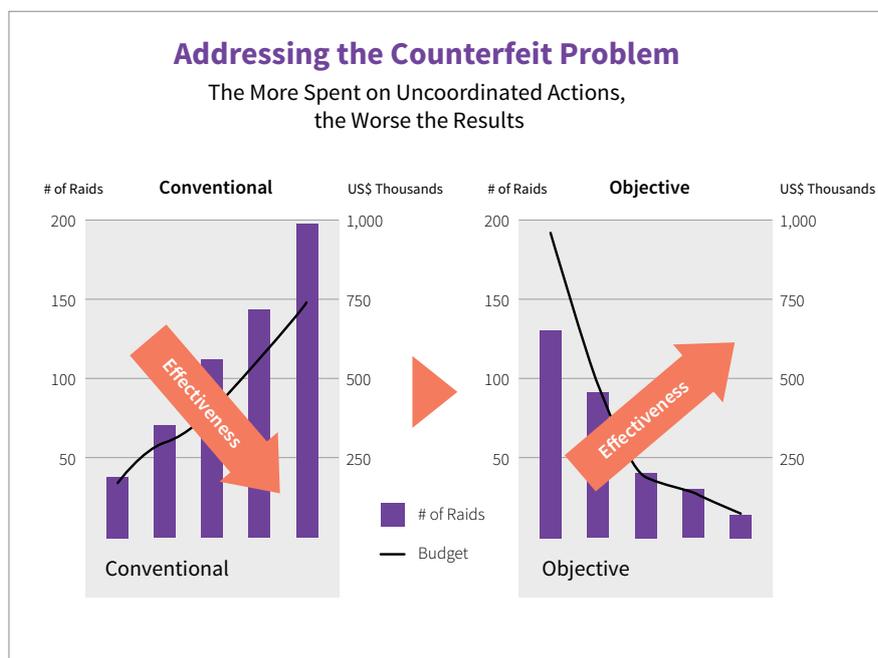


Figure 2: A Japanese auto parts company boosted its impact on counterfeit products while reducing the cost.

Smoking Out the Big Players

In addition to leaving counterfeit supply chains intact, the bump-and-run approach allows the syndicates' big players to hide comfortably in the shadows — while reaping millions, often at the expense of public health and well-being. In fact, in many parts of the world, *selling* counterfeit products in a store is not a serious offense. In China, for example, it is on par with disturbing the peace or trespassing. *Making* counterfeit goods, however, is a major crime. Removing these key elements of the illegal supply chain forces the worst offenders into the open when they have to find new suppliers. By developing strong cases for criminal authorities, companies not only protect their revenues but also help law enforcement capture the leaders of illegal enterprises.

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