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Cover Story

## Fighting fakes

By Paul F. Nunes, Narendra Mulani and Alberto Pozzi

Counterfeiting is on the rise worldwide, threatening the brand integrity of more and more companies in almost all industries. Its total elimination is probably a pipe dream. But companies can successfully contain it by taking the right combination of offensive and defensive measures.

In 2004, a fake herbicide containing the wrong active ingredient devastated hundreds of hectares of corn, potatoes and tomatoes in Italy, Spain and France. In 2007, the United States Nuclear Regulatory Commission discovered two cases of suspected counterfeit parts at US nuclear facilities.

Counterfeiting—copying original products with the intent to deceive—is on the rise and no longer limited to street vendors selling knockoff handbags and bootleg DVDs.

As with many illegal activities, solid figures can be hard to come by. But according to the International Chamber of Commerce, roughly \$600 billion worth of counterfeit goods are sold every year. More troubling:

The practice is becoming increasingly prevalent in a growing number of product categories, from pills to pasta.

Counterfeiting has a darker side beyond the lost revenues suffered by legitimate businesses. The practice is increasingly the preserve of organized crime, exploiters of child labor and other groups operating outside the law. Fakes, moreover, can be downright dangerous. The World Health Organization reckons that more than 10 percent of the drugs sold in developing countries are forgeries, while the European Crop Protection Association estimates that counterfeit and illegal plant protection products currently account for 5 percent to 7 percent of that market in Europe.

## Taking a stand

Though counterfeiting dates back thousands of years—early cheats are known to have made fake wine seals so that they could pass off local wines as Italian vintages and sell them to homesick Roman legionnaires—today, the practice is being driven by new, often highly sophisticated forces that are difficult to combat. The involvement of crime syndicates has boosted the scale and volume of counterfeiting operations. And the quality of many forged products is steadily improving as well.

Counterfeits were once made by relatively primitive means. Today, many are produced in emerging economies with the same materials, production lines and technologies used in legitimate manufacturing.

The daunting scale of the problem can lead companies to believe they are helpless to do much about it. But it's critical that they fight back, especially if they are seeking to achieve high performance. Distinctive capabilities, one of the three building blocks of high-performance businesses, remain valuable and unique only to the extent they can be protected from imitation—including the illegal kind.

Any company struggling to control increasingly complex supply chains in a multi-polar world can benefit from taking a stand against counterfeiting. But it is essential for companies with exceptionally successful offerings to defend them. Even small efforts can send strong signals. In fact, some companies have fought back so successfully that they have actually managed to send counterfeiters packing.

Working with its clients, Accenture has concluded that with the right approach and appropriate tools, companies can contain the problem. The key to success is a

four-pronged approach that combines offensive and defensive strategies that tackle both demand and supply.

### 1. Offensive strategies to reduce demand: Become more distinctly valuable

In a recent report about how to tackle the ancient art of banknote forgery, the US-based National Research Council predicted that the “battle of the printed image” would be lost to counterfeiters within 10 years. The council's recommendation: Use materials like plastic, which are harder to copy than paper, and special inks to protect the integrity of the roughly \$720 billion in American currency that circulates worldwide.

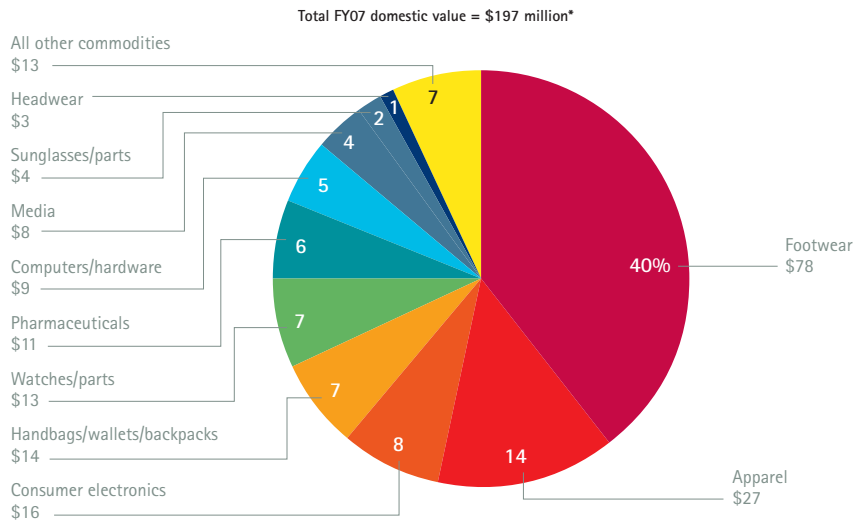
By taking similar steps to make their products more distinctly valuable, and by introducing features that are tough to replicate cheaply, companies can diminish the demand for fakes and enhance the appeal of the real thing. The “Made in Italy” label is so important to the Italian food industry, for example, that some manufacturers plagued by counterfeiters now use specialized marking and tagging technologies to establish the authenticity of their products to consumers (see sidebar, on page 4).

Anti-counterfeiting efforts don't have to be especially sophisticated to succeed, however. Back in the 1970s, when the Johnnie Walker & Sons whiskey company (now part of the Diageo group) detected counterfeit activity, the company designed a new bottle cap to protect the integrity of its famous brand. The cap had a distinctive bulge that immediately verified its authenticity but was very difficult to duplicate cheaply. Before long, the knockoff distillers gave up.

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## Hot properties: Winning the battle . . .

Nearly \$200 million worth of goods were seized in the United States in 2007 for infringing on intellectual property rights. Although fashion-related categories as a group top the list, the seizures ran across a wide range of products.

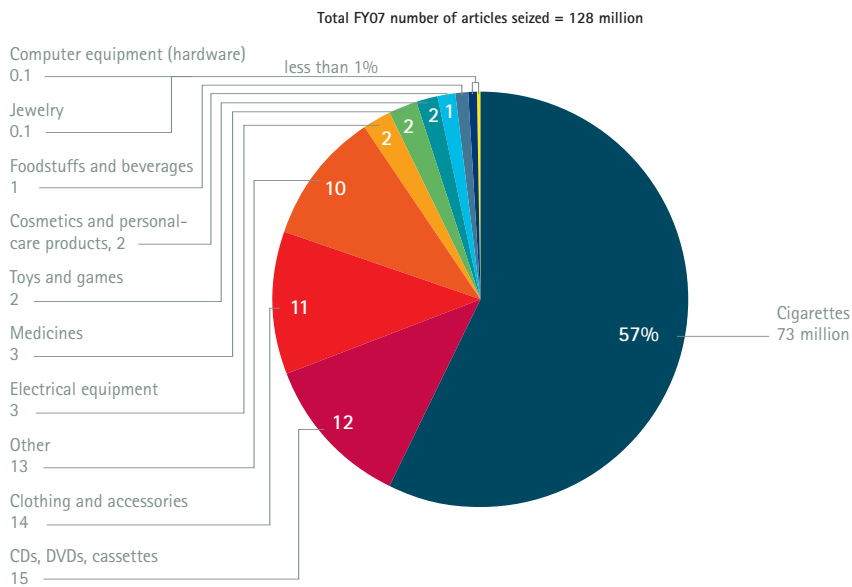


\* Due to rounding, the numbers listed above total 196.

Note: Media includes motion pictures on tape, laser disc and DVD; interactive and computer software on CD-ROM; and music on CD or tape. Consumer electronics includes cell phones and accessories, radios, power strips, electrical tools and appliances.

Source: US Customs and Border Protection Office of International Trade

In Europe, customs agents seized 128 million counterfeit articles in 2007. Cigarettes accounted for more than half the articles seized, followed by media-related products and clothing.



Source: European Commission Taxation and Customs Union

## Digital DNA: Ensuring that “Made in Italy” means what it says

Italy's food and fashion industries enjoy a reputation for quality the world over. But the high prices their products can command also make them a magnet for counterfeiters.

In an effort to protect the integrity of their brands and the craftsmanship behind them, several high-end Italian brand owners are giving their products a unique identity code number, a sort of “digital DNA.” By providing very specific information (where the product was manufactured, for example, and where it should be shipped and traded), the identity codes not only allow companies to fight counterfeiters but also give consumers the opportunity to confirm the authenticity they seek.

Protect Your Brand—a proprietary digital DNA solution conceived by CertiLogo, a specialist provider of anti-counterfeiting solutions, and offered in Italy in conjunction with Accenture—leverages the consumer's desire to take an active part in fighting counterfeiters. If buyers don't find a digital DNA label on the branded item they have bought, they can alert the company directly.

Leading the way with this unique and sophisticated technology are food producers—among them niche producers like Acetaia San Giacomo (maker of Aceto Balsamico Tradizionale di Reggio-Emilia, a famous vinegar); Olio Benacus, a brand of olive oil exclusive to the Lake Garda region; and the often-counterfeited wine Brunello di Montalcino, made by Ciacci Piccolomini d' Aragona. But fashion and luxury goods companies are now starting to experiment with the technology as well.

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### 2. Defensive strategies to reduce demand: Make customers think twice

Research has shown that many of the buyers of counterfeit products are relatively unconcerned about the risk and ethics of their purchases. But educating consumers can really pay off: witness the success of the IACC College Outreach Campaign, in which students at US universities were educated about the issues associated with counterfeiting (see sidebar, page 5). Meanwhile, China has recently begun extensive educational programs, staging more than 800 events around “IPR Protection Publicity Week” this year alone while committing to even greater efforts in the future.

Ongoing awareness programs are also worthwhile. At trade shows, for example, to help buyers understand the distinctive qualities of its sophisticated products, Bendix Commercial Vehicle Systems displays knockoffs side by side with its genuine parts. It also works with

show sponsors to remove infringing products and literature that are displayed by counterfeiters, some of which actually have their own booths at the events.

Punishing the buyers of counterfeit goods is more problematic. Purchasers, after all, can genuinely plead ignorance about many fakes. As Bendix acknowledges, forgeries of its own valve and brake products have become so sophisticated that it is “difficult for consumers to discern the real from the copy.”

Even so, surveys suggest that fear of jail time is a powerful disincentive to those who might suspect they are buying phony products—even tourists, who are common buyers of fakes. Despite concerns about the potential negative effects on tourism, Kenya and other countries have proposed anti-counterfeiting laws that would make it possible to prosecute the buyers as well as the sellers of knockoff goods.

The media and entertainment industry has been particularly creative

# College outreach: Getting students to get real about counterfeits

Educating the public about the sordid facts behind fakes is an important defensive strategy in the battle to reduce demand for counterfeit goods. But how do you persuade young people that knockoff designer goods just aren't cool? Answer: by combining the power of peer pressure with an appeal to youth's strong sense of social justice.

That's what the International AntiCounterfeiting Coalition set out to do in 2006, and the effort so far has been startlingly successful. The IACC College Outreach Campaign targeted colleges across the United States, raising awareness about the dangers of counterfeit goods by providing teachers and students with background materials and case studies from brands like Rolex and American Apparel. The students were

encouraged to conduct their own anti-counterfeiting campaigns, using the full arsenal of file-sharing devices and social networking services—blogs, MySpace and Facebook.

At Hunter College in New York City, students set up web pages on MySpace and Facebook that stressed the connection between counterfeiting and organized crime, as well as counterfeiters' exploitative use of labor in developing countries. At the University of Miami, more than 1,300 students joined the "Don't Fake It" Facebook group. And at Ohio State University, students spread the message linking counterfeits with crime and human indignity in a campaign that persuaded 79 percent of the student body to agree that buying counterfeits is wrong.

about combating the problem. Some buyers of pirated DVDs in South Africa, for instance, have been shocked to discover that they've been duped into purchasing a "fake" fake from students dressed as hawkers. After a few minutes, the image freezes and a notice appears, reminding the viewer that piracy is a crime and announcing that the purchase price has been donated to the local Anti Piracy Foundation.

Consumer electronics makers might consider a similar move to reclaim lost sales from counterfeit video games, cameras and MP3 players. With adequate media coverage, buyers could quickly come to mistrust street versions of products.

### 3. Offensive strategies to reduce supply: Enforce the law

Registering a company's intellectual property is critical in the fight against forgeries, as is effective trademark management. And since the 1994 signing of the World Trade Organization agreement on Trade-Related Aspects of Intellectual Prop-

erty Rights, which paved the way for strengthening enforcement procedures internationally, more companies have taken counterfeiters (and those who sell or promote their goods) to court.

In France, luxury goods maker LVMH Moët Hennessy-Louis Vuitton successfully sued a leading Internet search engine for displaying advertising from merchants selling fake Vuitton goods. The company has also gone after discount retailers that have allegedly sold fake versions of their products, and along with jeweler Tiffany & Co. (though in a separate action) is suing a large online auction site for allegedly allowing counterfeit items to be sold via its website.

Another approach is to build strength in numbers. In the fashion industry, competitors have joined forces to fight forgers in the courts (see sidebar, page 6). An array of anti-counterfeiting organizations also offers membership and support, providing a number of forums in which companies can share ideas about tactics and even pool

## Fashion fights back: Joining forces to beat the forgers

Designer clothing companies might be competitors in the marketplace, but when it comes to fighting fakes, they have a lot in common. Counterfeiters rarely fake just one brand, so it makes sense to combat them by joining forces.

Burberry, for example, has teamed up with Louis Vuitton on a program that targets New York City landlords who rent to counterfeiters on Canal Street, a favorite location for selling fakes. (In February 2008, city investigators raided dozens of storefronts in what is known as "Counterfeit Triangle." Officials estimated the street value of the counterfeit goods—knockoffs of such brands as Coach, Dolce & Gabbana, Dior, Prada, Rolex, Fendi, Burberry and Calvin Klein—at more than \$1 million.) Seven For All Mankind, a luxury denim and apparel company, has forged relationships with competitors including Abercrombie & Fitch, Rock & Republic and True Religion Brand Jeans, sharing information and tactics and sometimes joining together in civil or criminal actions.

The driving force behind this initiative is Seven For All Mankind's general counsel, Barbara Kolsun, who works closely with US customs officials to help them track counterfeit jeans entering the country. The company also participates in a training program run by the International AntiCounterfeiting Coalition (of which Kolsun is a former chairperson) at ports where fakes pour in. The program is designed to show customs agents how to spot the difference between counterfeits and authentic goods.

Among Kolsun's tips for companies that want to keep the couture copycats at bay: Record registered trademarks with customs bureaus in all the countries where your company does business and ask your customers for their help. Seven For All Mankind receives about one tip-off a week about counterfeit sales, sent in by customers via a special form on the customer service section of its website.

resources to combat the crooks. The International AntiCounterfeiting Coalition, the self-styled "world's largest non-profit organization devoted solely to protecting intellectual property and deterring counterfeiting," brings together brand owners, product security experts, government agencies and specialist law firms.

And if you think it's probably futile to enlist the aid of local law officers in regions like Asia, where fakes and look-alikes are rampant and enforcement is widely considered to be lax, think again.

In the late 1990s, for example, when customs officials in Hong Kong realized that the influx of counterfeit goods from the Chinese mainland was getting out of hand, they established a special intellectual property task force to tackle the problem. Now numbering some 400 officers and armed with powers that far exceed those of customs authorities in most other countries, the group is not only arresting more criminals but also finding that

fewer counterfeit products are being sold. It has also made headway in smashing the criminal syndicates that oversee these businesses.

### 4. Defensive strategies to reduce supply: Fortify the supply chain

Globalization, the Internet and advanced technologies have obviously made it easier for fakes to infiltrate the supply chain. But there are plenty of measures companies can take to boost their business resilience and supply chain security. These include the use of hard-to-replicate "track-and-trace" technologies in inventory management, and microscopic, traceable anti-counterfeiting "taggants" for product verification purposes.

An example of a taggant is the radio frequency identification chip. Connecticut-based Purdue Pharma, a privately held company best known for over-the-counter antiseptics and dietary supplements, was the first company in the United States to deploy a fully integrated RFID solution that combines track-and-trace and anti-counterfeiting

## Taking supply chain security seriously

Few counterfeiters actually attempt to “copy a copier,” but they do try to infiltrate the aftermarket supply chain with fake or diverted supplies. Counterfeit aftermarket products often perform badly and may even damage machines; this caused major headaches for one international office products maker, which has a considerable reputation for customer service to defend.

In response, the company has integrated its global supply chain security in a worldwide “brand protection” organization. Trained teams assess security at warehouses and depots, gather intelligence about transportation providers, and develop appropriate controls. They also teach technicians how to spot counterfeit parts and toner during repair calls, as well as how to help customers recognize (and appreciate the value of) genuine products.

Cooperation with government and law enforcement agencies is a cornerstone of this firm’s strategy—indeed, as it is a key aspect of any offensive strategy to reduce the supply of forgeries. The company also aggressively investigates supply chain incidents, ensuring that the evidence it takes to authorities is strong and comprehensive. And because the company has successfully disrupted the operations of scam artists and counterfeit manufacturing facilities in the United States, it is an opponent that most forgers prefer not to tangle with.

capabilities. As a result, Purdue can track a product’s entire journey, from the moment it leaves one of the company’s facilities to the moment it gets to the customer. What’s more, Purdue can determine whether the contents verified upon departure actually match the contents that arrive.

Growing government concern about the extent of pharmaceutical counterfeiting is driving the call for so-called pedigree laws, which impose very specific tracking and control requirements across the supply chain. The Italian Ministry of Health, for example, wants every drug sold in Italy to carry an individual serial number, and several US states have proposed similar product tracking requirements. In response, leading pharmaceuticals companies are taking measures to control leakage and supply chain contamination.

Separately, the Coalition Against Counterfeiting and Piracy (a business group led by the US Chamber of Commerce) recently coauthored

a report with Accenture recommending that companies take systematic steps to ensure the authenticity of raw materials and component parts and to verify the legitimacy of customers and distributors (for an example from the report, see sidebar, above). Many counterfeiters are licensees or former licensees of legitimate manufacturers and have access to the equipment used to make the real thing.

Companies should also carefully manage the disposal of production waste and damaged or unusable inventory, as many counterfeiters mine scrap yards, waste depositories or reclamation centers for inferior goods discarded by the brand owner.

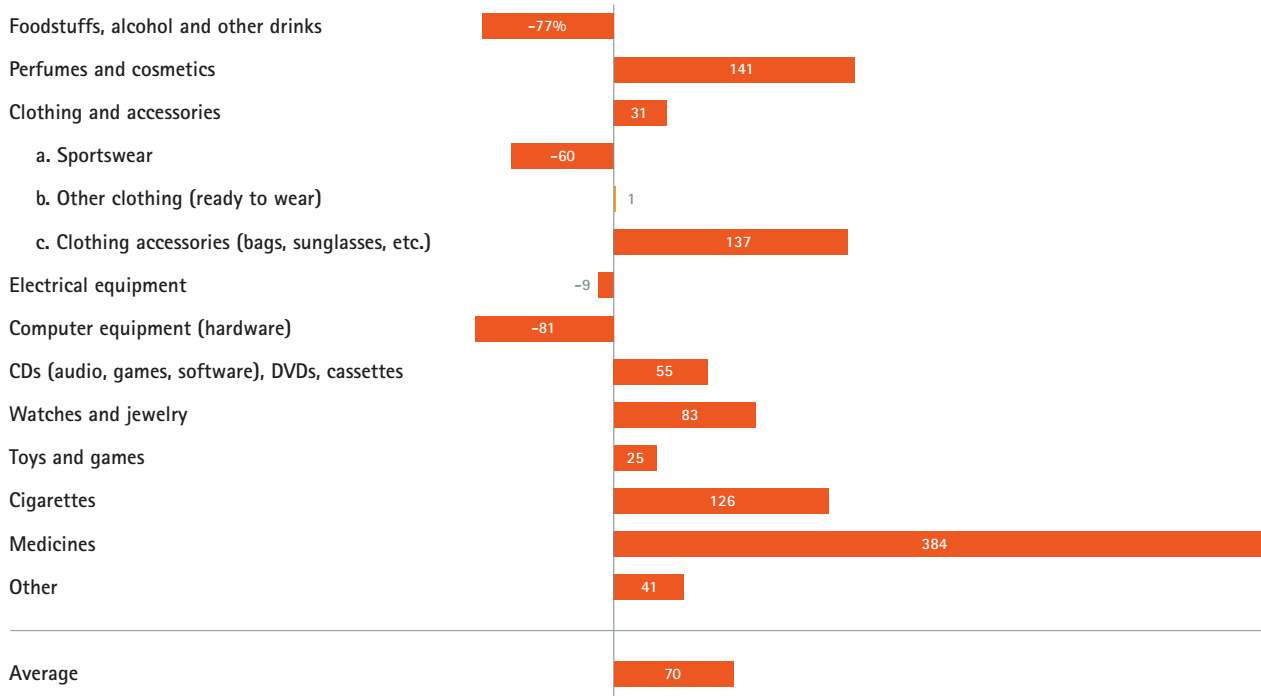
Counterfeiters can be extraordinarily inventive. Some have already managed to knock off anti-counterfeiting technologies, notably the holographic labels affixed to clothing and other items. And it’s reasonable to assume that they will, in time, find the means to copy most of them.

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## ... but losing the war?

In Europe, the number of counterfeit articles seized in certain categories—food and alcohol, for example, and computer hardware—declined significantly in percentage terms between 2005 and 2006. Three times as many categories showed increases, however, including a stunning 384 percent jump in medicines seized.

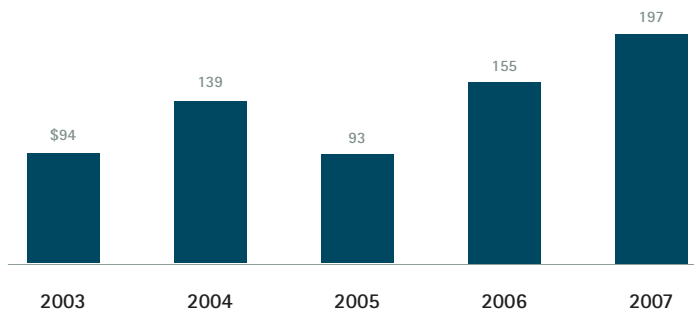
Number of articles seized by product type (% from 2005 to 2006)



Source: European Commission Taxation and Customs Union

The trend is similar in the United States. Since 2003, the value of intellectual property rights seizures has more than doubled; from 2006 to 2007 alone, the value jumped 27 percent.

Comparison of yearly domestic values of IPR seizures (\$ millions)



Source: US Customs and Border Protection Office of International Trade, November 2007

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But that doesn't mean it's not worth fighting forgery. In recognition of the problem, China this year unveiled its Outline of National Intellectual Property Rights, a new national strategy intended to boost innovation through additional legal protections, increased education activities and stricter enforcement of existing intellectual property rights law.

Successful brands are complex, extremely valuable assets. Counterfeiting corrodes their value and stifles innovation. While the battle against counterfeiters promises to be ongoing, companies with valuable brands have no choice but to fight back.

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