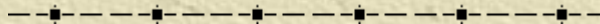


Workshop C:

Anti-Counterfeiting Master Class: Managing and Budgeting for Anti-Counterfeiting Action

Anti-Counterfeiting & Brand Protection Strategies



Overview

- ✦ Define the Problems
- ✦ Putting together a plan of attack
- ✦ Balancing the Budget
- ✦ Technology available – Pros & Cons

Some Interesting Money Facts

- ✦ In a 2004 report, the US FBI estimates that US Companies lose between \$200 billion and \$250 billion per year.¹
- ✦ The estimated domestic value of all counterfeit goods seized by U.S. Customs in 2004 was only \$139 Million.¹¹
- ✦ The estimated annual sales in counterfeit products, worldwide, is US\$600 Billion.¹¹
- ✦ The World Health Organization (WHO) has estimated that counterfeit drugs account for 10% of all pharmaceuticals worldwide. In some developing countries, WHO estimates the figure to be as high as 60%.²
- ✦ In 2004, NYC investigators seized more than US\$700,000 worth of counterfeit auto parts in one sting operation. The parts came from the middle east and China and included ignition coils, sway bars, and brake pads.³

More Interesting Facts

✦ Automotive Industry

- Daimler lost 30% of market in China/Taiwan/Korea to fakes⁵
- Yamaha licensed 5 China plants but 50 factories were found to be making their parts ⁵
- General Motors has seven full time staff members dedicated to finding fakes ⁵

✦ Fashion Industry

- In December of 2004, French Customs seized 10,000 m² of fake Louis Vuitton monogram canvas, enough to make 28,000 wallets or 18,000 handbags¹¹
- In a single NY Chinatown raid over 550,000 fake watches were seized¹¹
- According to Cartier investigators, the average amount paid by Chinatown wholesalers to import a fake blank watch is \$1.69¹¹

✦ Aviation Industry

- The operational life of counterfeit bearing seal spacers removed from a United Airlines Plane were found to be 600 hours. The Genuine parts had an operational life of 20,000 hours – 33 times the counterfeit.⁹

And even more facts. . .

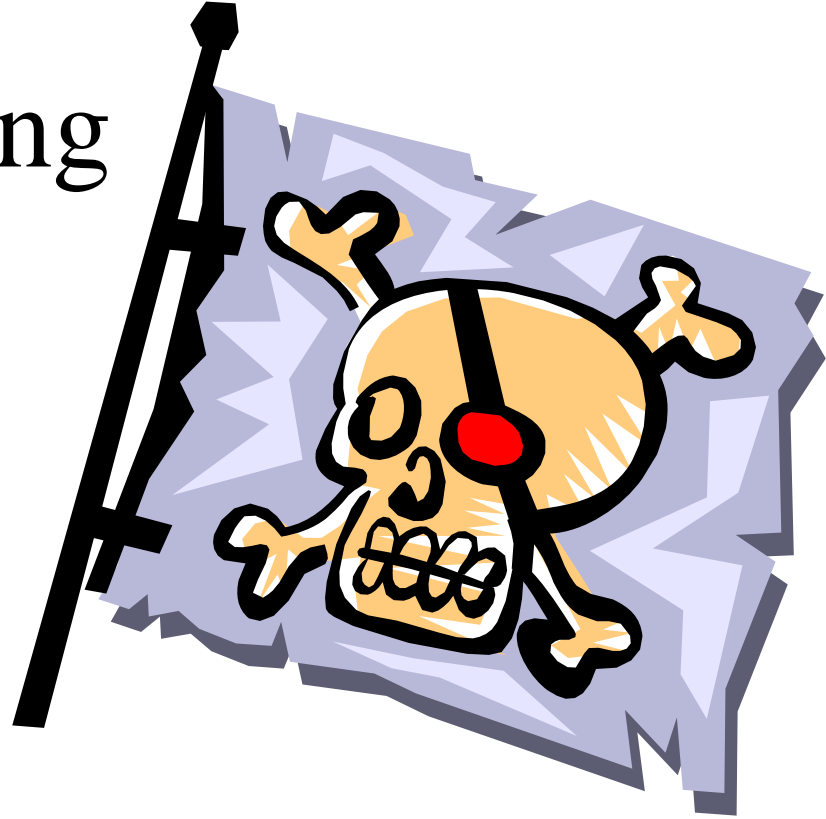
- ✦ A recent sampling of anti-malarial drugs bought in Southeast Asia showed 53% were FAKE⁸
- ✦ The World Health Organization has estimated that a fifth of the one million annual deaths from malaria would be prevented if all medicines for it were genuine and taken properly.⁸
- ✦ A charity working in Myanmar bought 100,000 tablets and discovered that all were worthless.⁸

The Obvious Problems. . .

✦ Counterfeiting


✦ Piracy

✦ Diversion



The not-so-obvious problems. . .

- ✦ Counterfeiting does not have a line item on most company's balance sheets
- ✦ Funding your efforts
 - Your money spent on ACM will appear on the balance sheet only as an expenditure
 - The money you save the company will appear on the balance sheet as increased profits
 - Your efforts must connect the two in order to be justified

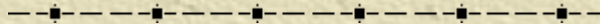


*Do we agree
there is a problem?*



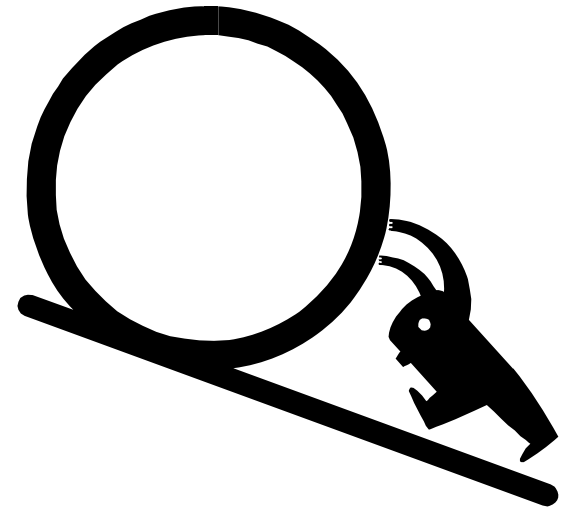
Managing the Effort

**Anti-Counterfeiting &
Brand Protection Strategies**

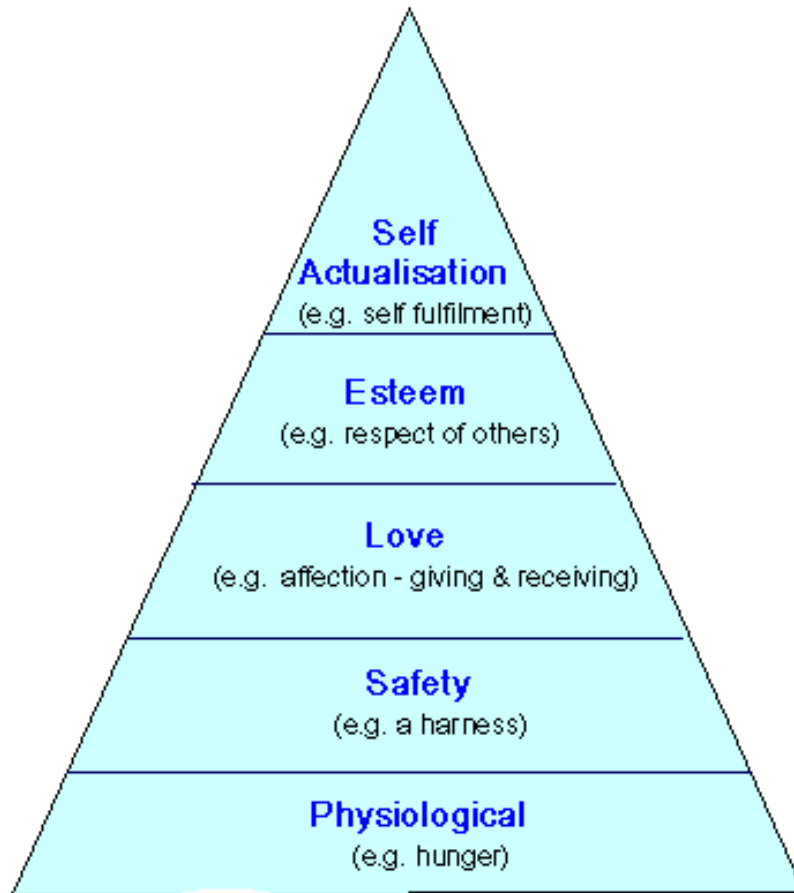


*You must get “buy-in”
from every level.*

- ✦ Board Level
- ✦ CEO Level
- ✦ Executive Level
- ✦ Management Level



Understand to Whom you are Selling



Maslow's Hierarchy of Needs

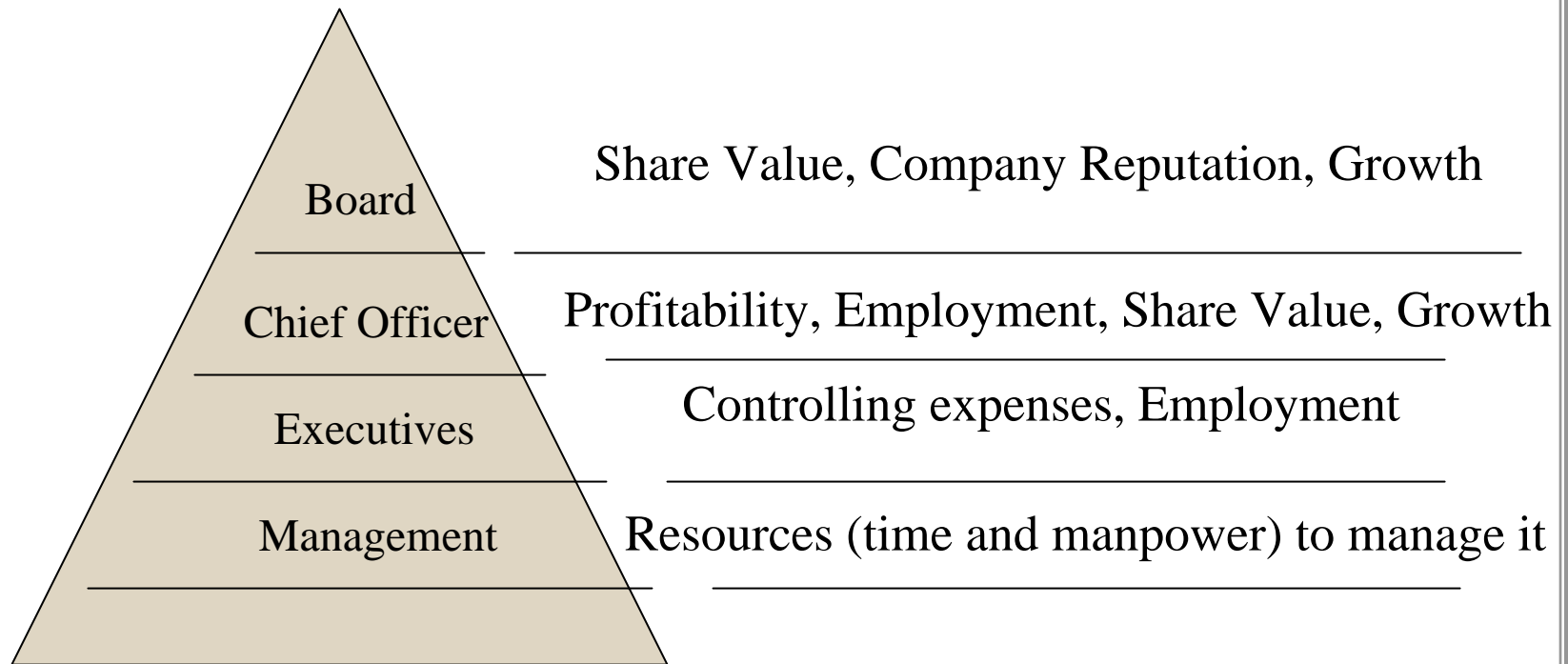
Some psychologists have added a further layer for Beliefs and Spirituality

Maslow articulated the fact that everyone is motivated by five basic needs at different times in their lives.

The art of selling comes in understanding the current motivating needs that drive the people you are trying to sell.

Understand to Whom you are Selling the program

✦ Hierarchy of Corporate needs



*How Daimler Chrysler Did It**

- ✦ Formed a brand protection team
 - Size of team was kept small
 - Team members came from several departments
 - Parts center
 - Intellectual property
 - Purchasing
 - License Projects
 - Legal Department
 - Gave the Team effectiveness by defining BRAND PROTECTION as the CORE TASK for all Team Members

*Excerpts taken from Beate Lalk-Menzel's talk at the Global Brand Protection Summit 2006

Tasks to include in your plan

- ✦ Review & Revise Your Anti-Counterfeit Measures (ACMs), Strategy and Tactics
- ✦ Chain of Custody for ACMs
- ✦ Manage production waste and damaged or unusable inventory.
- ✦ Educate the consumer
- ✦ Find the right “*eyes and ears*” for your product
- ✦ Collaborate with local customs officials
- ✦ Prosecute to the fullest extent whenever possible.

Where to focus your efforts¹⁰

Priority Foreign Country

- China

Priority Watch List

- Brazil
- Canada
- Costa Rica
- Czech Republic
- Paraguay
- Russia
- Vietnam

Watch List

- Belize
- Malaysia
- Mexico
- The Philippines

Special Mention

- Peru
- United Arab Emirates

Case Study - In our home town. . .

Woman charged with selling knockoffs

By KEVIN DEUTSCH
Palm Beach Post Staff Writer

Shoppers browsed Hetty Palant's suburban West Palm Beach garage as if it were a designer clothing boutique: Knockoff shoes, clothes, Rolex watches, and handbags were all laid out as they would be in a storefront.

Palant said she had run the business for five years, making a total of about \$500,000. She didn't work full days; her home in the 8360 block of Pioneer Road was open to shoppers Tuesday through Saturday from 11 a.m. to 4 p.m., authorities said.

After an investigation that lasted more than eight months, sheriff's office detectives broke up the operation Wednesday and arrested Palant, 63, as well as her main supplier, Alan Roth of Miami-Dade County, who was delivering a new batch of goods when authorities served their search warrant, said sheriff's office spokesman Sgt. Pete Palenzuela.

Palant was charged with 13 counts of vending counterfeit goods. Roth was charged with four counts.

Investigators seized at least \$1.5 million in counterfeit watches, high-end jewelry, clothing, shoes, purses, travel accessories and other knockoffs.

"She had every counterfeit thing you can think of," Palenzuela said.

Roth was in the middle of a supply run to Palant's house when the sheriff's office showed up between 1:30 p.m. and 2 p.m. Wednesday, Palenzuela said. Roth's vehicle was loaded with handbags and other items.

Investigators believe Roth supplied goods to numerous counterfeit operations throughout South Florida.

The sheriff's office started its investigation after an anonymous tip to Crime Stoppers. Investigators had completed a controlled buy and carried out surveillance during months of investigation, which culminated in Wednesday's arrests.

Palant ran the retail shop out of her two-car garage and a laundry and utility room,

Palenzuela said. Sixteen people were shopping in her home when the sheriff's personnel arrived. All of them cooperated.

Investigators also found between \$40,000 and \$50,000 cash in the house.

Staff Researcher Melanie Mena contributed to this story.
©kevin_deutsch@pbpost.com

Thursday, March 15, 2007, Palm Beach Post

Woman ran a business for five years out of her garage selling counterfeit clothing, purses, watches and other jewelry. Five days a week, 11:00 a.m. to 4:00 p.m.

The sheriff's office acting on an anonymous tip, started the investigation which lasted over 8 months.

They seized over 1.5 million dollars in counterfeit goods

The woman claims to have made approximately \$500,000 over the course of her five years in business.

Investigators found between \$40,000 and \$50,000 in cash in the home.

Lessons from “In my home town”

- ✦ The Keystone of this apprehension was a factory authorized representative that verified the fact that these were fakes.
- ✦ The representative was a private investigator specializing in anti-counterfeiting who was on retainer from several companies
- ✦ The local police knew “who to call”
- ✦ Fast action was key to the apprehension

The Balance Sheet



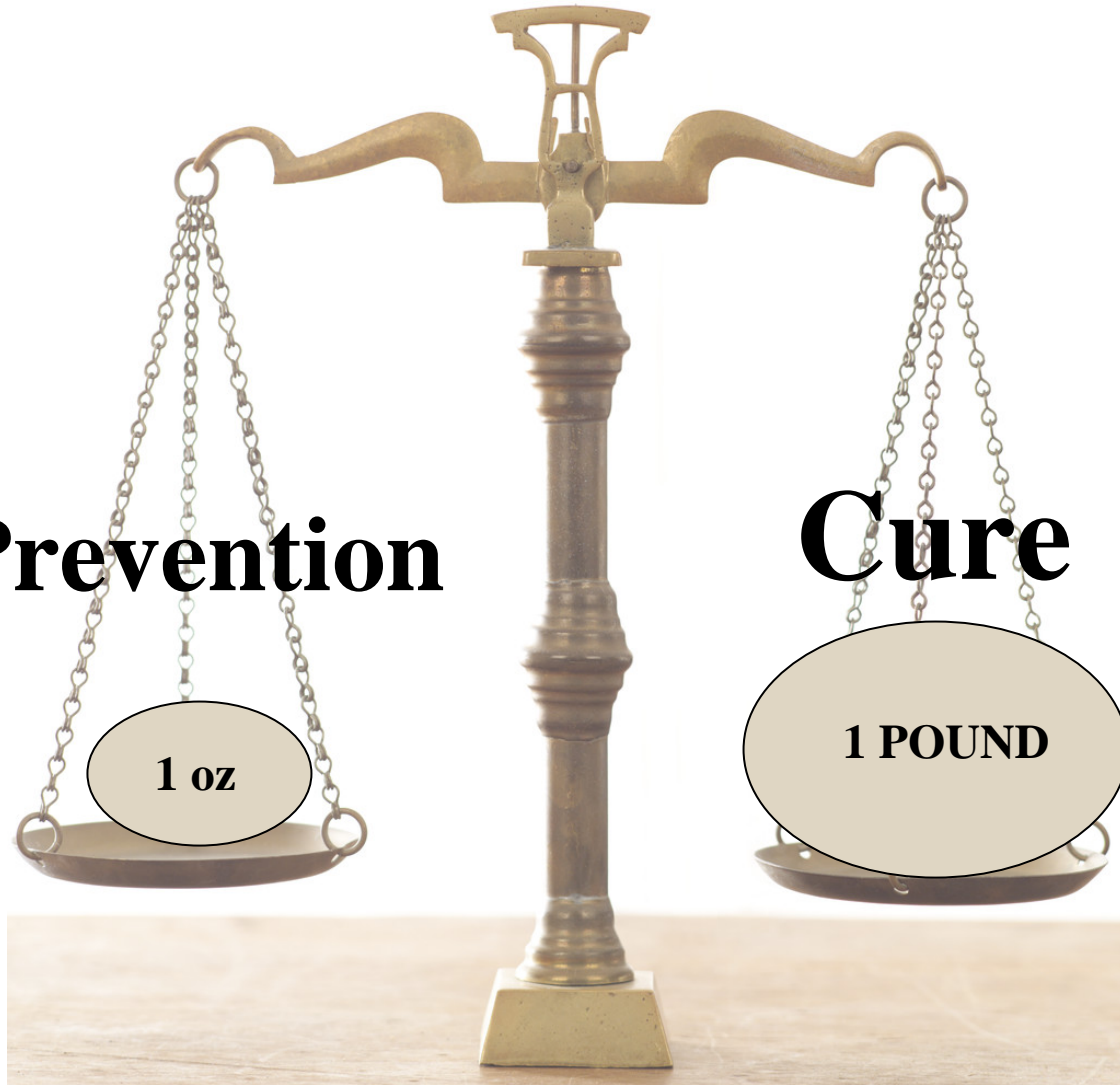
Strategy

Prevention

1 oz

Cure

1 POUND



Strategy

How much money to
spend on Anti-
Counterfeiting Measures?
(ACM)



Prevention

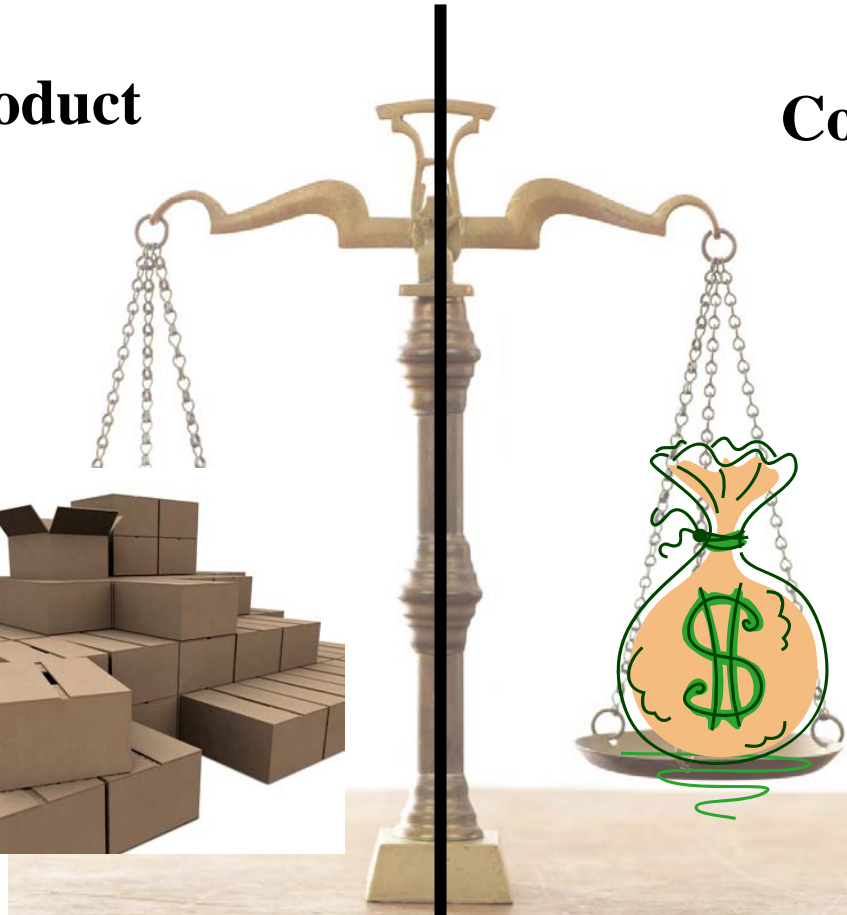
1 oz

How to Balance Our Strategy

Value of Product



Cost of ACM



Three areas of Costs Associated with ACMs

- ✦ Cost of ACM itself (creation, field distribution)
- ✦ Cost of Detection Method/Device
- ✦ Cost of Policing (time, training, manpower)

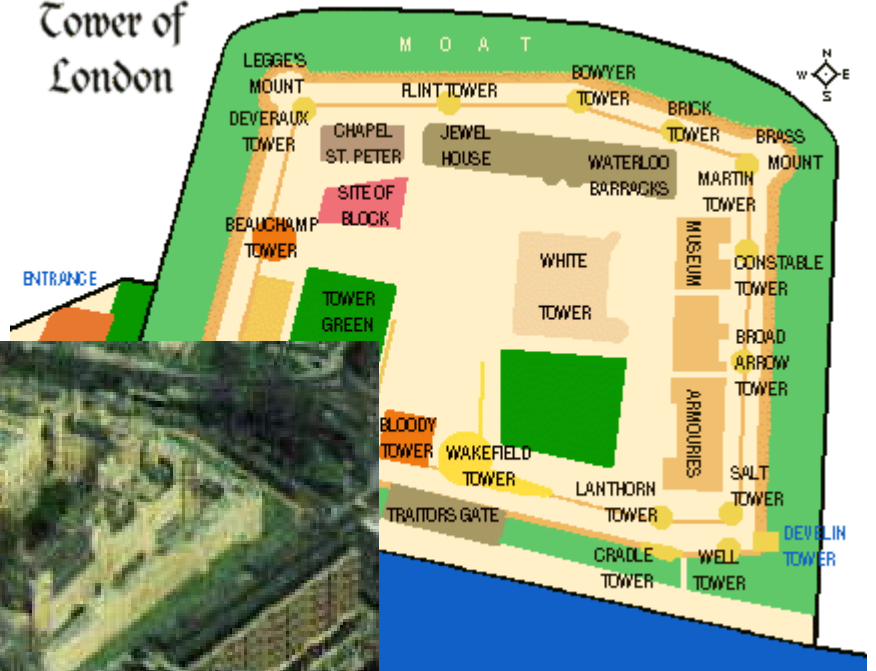
Considerations for Choosing your ACM

- ✦ Total Costs of ACM
- ✦ Practicality
 - Speed of detection
 - How easy is it to train the inspectors
 - Are the subtleties too subtle?
 - How many permutations are possible given the method?
- ✦ Layers of Security
- ✦ Levels of Security (Inspector, Supervisor, Executive).
- ✦ Is Track and Trace Advantageous?

Layers of Security



Tower of London



Layers of security - Examples

Serial Numbers



Watermark



Security Thread



Microprint

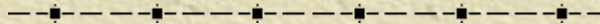


Color Shift Ink



*Anti-Counterfeiting Measures
(ACM)
[a.k.a. “your arsenal”]*

**Anti-Counterfeiting & Brand
Protection Strategies**



Three Categories of ACMs

TYPE I (OVERT)

Used by **69%** of
CACP Surveyed⁴

- Obviously present
- Hard to get or difficult to reproduce
- Often integrated into packaging design and marketing strategies
- Includes items such as color shifting inks, holograms, thermochromic materials, etc.

TYPE II (COVERT)

Used by **82%** of
CACP Surveyed⁴

- Hidden technologies
- Require field devices to verify
- Include items such as invisible bar codes, lenticular, polarized hidden images, & invisible images, etc.

TYPE III (FORENSIC)

Used by **36%** of
CACP Surveyed⁴

- Hidden Technologies
- Require laboratory examination with specialized equipment
- Include items such as micro-tagants, nanotext, etc.

Overt Technologies for the arsenal

Technology	Cost of ACM	Cost of Detection
Holograms	Cents/unit	None
Color shift Ink	Fractions of a cent/unit	None
Thermochromics	Fractions of a cent/unit	None
Intaglio Print	Fractions of a cent/unit	None

Covert technologies for the Arsenal

Technology	Cost of ACM	Cost of Detection
Invisible Inks		
- UV-Vis	Fractions of cent/unit	<\$100/inspector
- IR-Vis	Cent/unit	<\$300/inspector
- Polarized	Cents/unit	<\$1/inspector
RFID	Dollars/unit	Few hundred\$
Scrambled Indicia	Fractions cent/unit	Cents to hundreds of dollars
Micro-print	Fractions cent/unit	\$15/inspector
Field Readable Taggants	Cents/unit	\$15/\$200+

Forensic Technologies for Arsenal

Technology	Cost of ACM	Cost of Detection
DNA Inks	Cents/unit	High Hundreds of dollars
Taggants	Cents/unit	Low Hundreds of dollars to upwards of \$30K

Arsenal Comparative Strengths & Weaknesses - Holograms

Strengths

Eye catching appearance can be utilized to enhance packaging

Relatively inexpensive

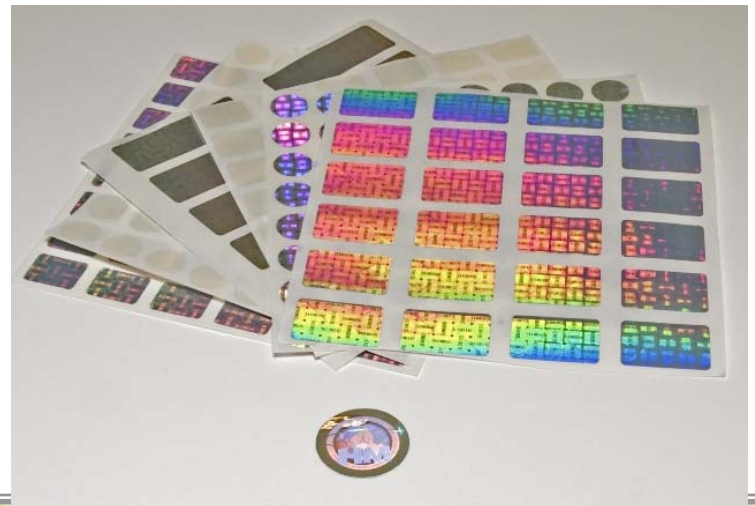
No Detection method required

It's presence is a quick go/no go

Weaknesses

Can be copied using a production hologram as a new original

Most retailers and customers just look for the presence of a hologram – ANY hologram



Arsenal Comparative Strengths & Weaknesses - Holograms

✦ Holograms are being enhanced with additional security measures



Microscopic and “nano-text” are being examined with a US\$15 field microscope.

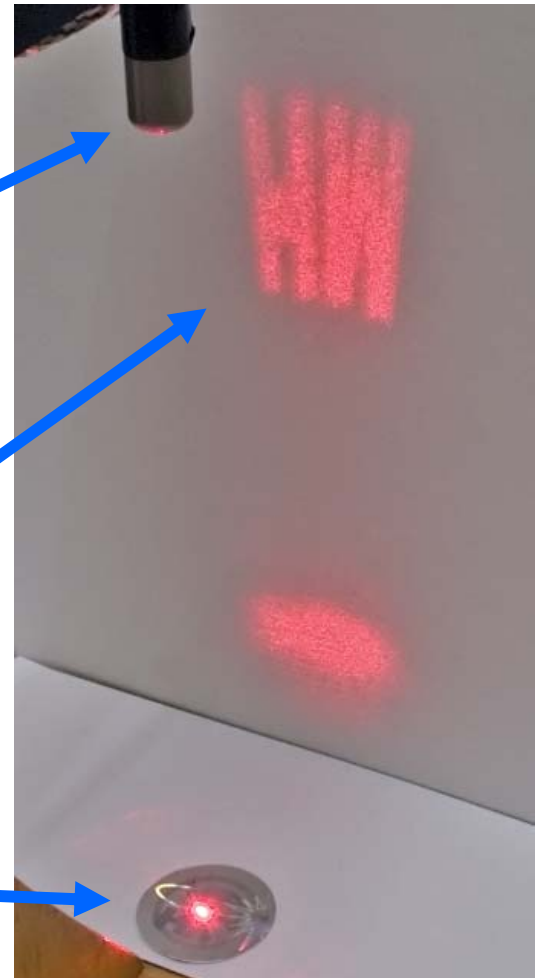
Arsenal Comparative Strengths & Weaknesses - Holograms

✦ Holograms are being enhanced with hidden images

Laser pointer US\$15

Hidden Message Revealed

Enhanced hologram with target zone lasing



Case Study – Butane Lighter

- ✦ Counterfeits noticed in the Brazilian market three years before any action was taken
- ✦ No action taken even when legal claims filed against the brand owners for fires and explosions from the fakes
- ✦ Finally a 30% loss in sales to counterfeits initiated action
- ✦ They banded together **WITH THEIR COMPETITION** and approached a **GOVERNMENT AGENCY (INMETRO)**

Case Study – Butane Lighter

- ✦ Program that was designed is estimated to have cost \$2 million to start and \$1 million/year thereafter
- ✦ Program included
 - Overt Security hologram with covert features
 - Government Legislation
- ✦ First year they realized a 28% increase in sales. The second year showed an additional 55% growth.
- ✦ Program and security label now in their 5th year of use



Arsenal Comparative Strengths & Weaknesses – Color Shift (OVI)

Strengths	Weaknesses
Moderately priced	Non-Secure Color shift materials are ubiquitous making them easy to simulate
Can be printed as a spot color with the rest of your print job	There is a subtlety required in differentiating the color shift materials making authentication difficult
Easy detection – no device required	



Arsenal Comparative Strengths & Weaknesses - Thermochromes

Strengths

Fairly inexpensive & easily applied

Can be adjusted to multiple temperatures and colors so the multiple of permutations is great

Weaknesses


Widely available so easy to obtain

To obtain authentication of subtle differences requires a lab



Arsenal Comparative Strengths & Weaknesses – Intaglio Printing

Strengths	Weaknesses
Dramatic and artistic in its presentation	Not suited to short runs due to cost of plates
As currency has traditionally been printed in this fashion, it automatically connotes “financial stability”	Can be simulated by less expensive means
Allows for microprint	The uninitiated cannot appreciate the subtlety of this printing vs other types of printing



Arsenal Comparative Strengths & Weaknesses – Invisible Inks



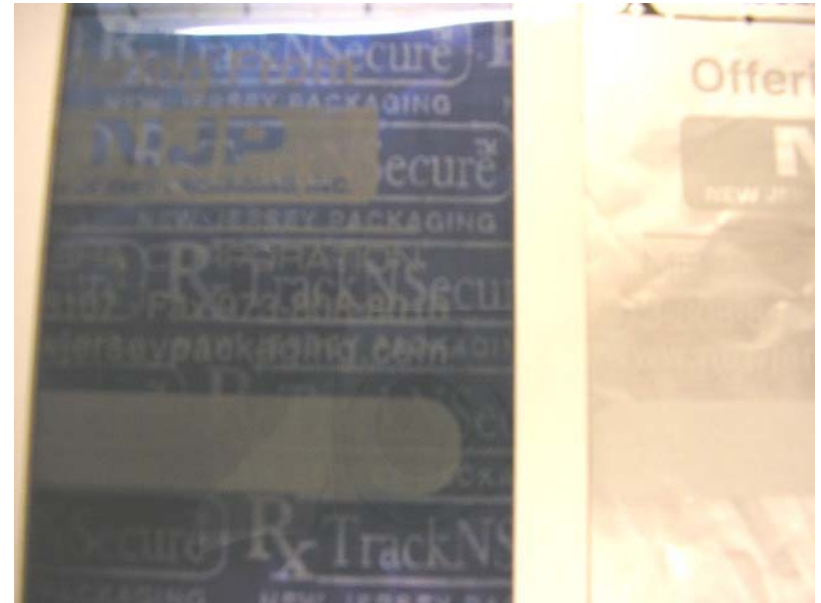
Arsenal Comparative Strengths & Weaknesses – Invisible Inks

Strengths	Weaknesses
Relatively inexpensive	UV-Vis inks are ubiquitous making them easy to counterfeit
Can be printed as a spot color with the rest of your print job	IR-Vis inks require expensive lasers to detect
Easy detection	Laser detect inks need target spots for inspectors to focus on due to the tight beam of the laser
Variety of wavelengths available keep the permutations high	

Case Study - Contact Lens Maker

- ✦ Worldwide distribution
- ✦ Manufacturer was here-to-fore unaware of an issue
- ✦ Physician in the Middle East recognized something was wrong and alerted manufacturer
- ✦ New Invisible Printing Technology Introduced on all packages
- ✦ Total cost for ACM is US \$150,000/year
- ✦ What would be the cost of a Liability Law Suit?

Arsenal Comparative Strengths & Weaknesses – Polarized Images



Arsenal Comparative Strengths & Weaknesses – Polarized Images

Strengths	Weaknesses
Relatively inexpensive to add	May require an additional lamination step
Detection method is inexpensive	Must be applied on reflective backgrounds (foils, white substrate)
To date, has not been counterfeited	

Case Study – Belarus Bus Pass



Denial. . .

“We know there is a small problem but we are not sure it is worth addressing. We would be happy with a 6% increase in revenues”

– Belarusian Province

Ticket with OVERT Anti-Counterfeiting Measures

OVERT Security – Holographic Stripe



Ticket with Covert Anti-Counterfeiting Measures

Polarized lens reveals covert security

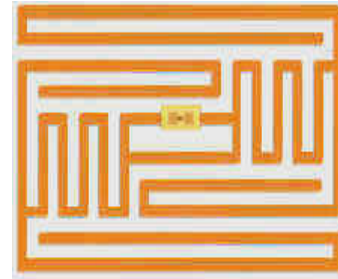


Impact. . .

“We were extremely surprised to see an immediate 40% increase in revenues from the implementation of [ACM]. Obviously, our problem was larger than we realized.”

– Belarusian Province

Arsenal Comparative Strengths & Weaknesses - RFID



Strengths	Weaknesses
Adds additional functionality in addition to anti-counterfeiting	Expensive per unit price
Allows reams of information to be stored (fingerprints, images, etc)	Information can be read by “snooping” devices
Contact-less scanning speeds transactions	Data can be “cloned”

Arsenal Comparative Strengths & Weaknesses – Scrambled Indicia

Strengths	Weaknesses
Inexpensive	Slow detection process
New technologies are increasing its security (proprietary lenses, multiple images hidden, multi-levels in the same image)	Easy to reproduce if permutations are known
Can be applied by a variety of printing methods	
Can we quickly changed	

Arsenal Comparative Strengths & Weaknesses - Microprint



Strengths

Inexpensive

Will not photocopy or scan well

Often goes un-noticed

Weaknesses

Can be reproduced very easily

Arsenal Comparative Strengths & Weaknesses – Field Readable Taggants



Strengths

Very hard to counterfeit

Some can be machine read

Weaknesses

Slow detection methods using field microscope

“Chunky” state imposes application limitations

Case Study – Turkish Mass Transit

- ✦ Istanbul Public Transportation Authority
I.E.T.T. is one of the world's largest Mass Transit systems
- ✦ They operate nearly 3000 buses in 900 square miles
- ✦ They service 10 million passengers/month

Case Study - Turkish Mass Transit

- ✦ They suspected a loss of 15% revenue due to counterfeiting
- ✦ They implemented a machine readable invisible taggant on their tickets
- ✦ Post implementation bus ticket sales has risen from 5.5 million to 11 million
- ✦ With a ticket value of \$0.5, this increase represents total added gains of \$33 million per annum for I.E.T.T.



Arsenal Comparative Strengths & Weaknesses – DNA Inks

Strengths

Very hard to counterfeit

Easy to apply

Weaknesses

Slow and expensive production processes

Slow and expensive detection processes requires lab

Arsenal Comparative Strengths & Weaknesses – Forensic Taggants

Strengths

Very hard to counterfeit

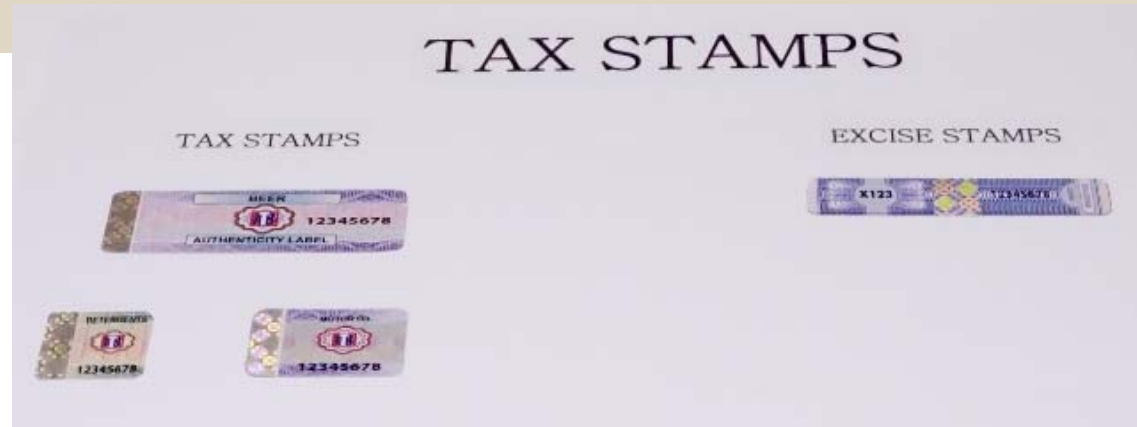
Easy to apply

Weaknesses

Slow and expensive production processes

Slow and expensive detection processes requires lab

Case Study – Russian Tax Stamps



- ✦ A Russian Government was aware of a problem but did not know the extent of it.
- ✦ They indicated that a 10% increase in revenues would be considered an overwhelming success.

Case Study – Russian Tax Stamps



✦ They realized a 300% increase in revenues!!

References

- ¹ International Chamber of Commerce Commercial Crimes Services, *A Brief Overview of Counterfeiting*, July 2004
- ² “Fighting the Fakers,” *The Engineer*, April 16, 2002; Philip Broussard, “Dangerous Fakes,” *World Press Review*, January, 1999.
- ³ Scott Shifrel, “Car Dealers Busted in Scam,” *New York Daily News*, December 1, 2004.
- ⁴ Coalition Against Counterfeiting and Piracy Technology Task Force survey, July 2006
- ⁵ Business Week, July 2, 2005
- ⁶ BBC News, March 24, 2006
- ⁷ Forbes.com/Reuters, June 11, 2003
- ⁸ The New York Times, February 20, 2007
- ⁹ IACC.org resources, “Facts on Fakes”
- ¹⁰ IACC.org “Submission of the IACC to the US Trade Representative, Special 301 Recommendations”
- ¹¹ IACC.org “Fakes by the Numbers”

Resources

- ✦ United States Chamber of Commerce www.thetruecosts.org
- ✦ The International Anticounterfeiting Coalition www.iacc.org
- ✦ Business Action to Stop Counterfeiting and Piracy www.bascap.com
- ✦ Interpol
www.interpol.int/Public/FinancialCrime/IntellectualProperty/Default.asp