

Companies Pulling Out All Guns to Thwart Counterfeit Goods

New Balance Limits Access to Trade Show Booths; "Made in China, Sold Everywhere"

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For many companies, the problems with counterfeit goods are starting to reach boardroom level problems – and launching an increasingly sophisticated array of countermeasures.

How big a problem is it?

The International Anti-Counterfeiting Coalition estimates that the level of counterfeiting has grown more than 10,000 percent over the past two decades, spurred on by globalization – which has produced more sophisticated production capabilities outside Western countries – and rising economies among developing nations, which fuels demand.

The dollar impact is difficult to measure, but the number is certainly in the many billions of sales of fake products, even at low ball prices, and there are also multiple risks to a company's brands.

Made in China, Sold Everywhere

Perhaps not surprisingly, China is the epicenter of the counterfeit industry. The tidal move of Western companies to China for manufacturing has given rise to many opportunities to learn and knock off designs and production techniques, and a rising middle class there is eager to snap up realistic looking knock-offs at low-ball prices.

In addition, Chinese government protection of intellectual and brand property rights has historically been low, though by most observations improving somewhat of late.

80 percent of all the items confiscated last year by U.S. Customs authorities as counterfeits were pro-

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duced in China. But the distribution of those goods is truly worldwide – and a nightmare for companies to control across global geographies, hundreds of countries and jurisdictions, and wildly varying laws, enforcement and resources. In many parts of the world, counterfeiting of Western goods is not seen as law breaking, but as smart business.

What Companies are Doing

According to a recent article in CFO magazine, companies are taking dramatic action and adding substantial resources to combat this scourge. Examples include:

- New Balance, the athletic shoe maker, limits access to its trade show booths at various events, to prevent would be counterfeiters from taking samples and pictures, and has significantly raised its annual budget for brand protection programs and resources, to as much as \$ 2 million per year.
- Apparel retail Abercrombie & Fitch hired **Shane Berry**, a former special supervising agent with the FBI's global intellectual-property program, as its first senior director for brand protection. The company also incorporates tight controls over the use of its IP in its contracts with its vendors, including language that prescribes who is allowed access to their facilities and how

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excess labels, buttons, logos, and other trademarked identifiers are stored and managed.

- Juniper Networks Inc., the computer networking equipment maker, now adds technology into some of its products that detects counterfeit and other illegitimate hardware on a customer's network.

Companies must certainly do the basics, like registering brands and trademarks in every country on the planet. Many are also providing a variety of new mechanisms (web sites, 800 numbers, etc.) for consumers to report fake goods, and in general being more aggressive about prosecuting alleged counterfeiters, rather than just stopping the flow – which is usually temporary.

That's a bit of a change, because supporting a full prosecutorial action or civil suit can cost hundreds of thousands of dollars, which in the past may have caused companies to be satisfied with smaller victories – but the stakes are getting too high now for that strategy to continue – even though it may take years to pursue legal action.



Counterfeiting is also rapidly expanding beyond the fashion, entertainment, and drug areas for which it has traditionally been most common.

"Counterfeiting has taken an even more insidious turn in the past few years. We've discovered counterfeit medicines, counterfeit automotive products, and even counterfeit electrical components, all of which present substantial safety issues." CFO magazine quotes **Howard Japlon Sr.**, senior vice president and general counsel for the North American division of Schneider Electric SA, an \$18.1 billion French electrical-equipment manufacturer whose brands include Merlin Gerin and Square D, as saying.