

Brands on the Move: Taking Back Control

By Heiko Haasler

A couple of thousand years ago, a huge manufacturer had exclusive ownership of the world's largest luxury apparel brand. It was quite unique and its identity was not a logo or a single design but the fabric itself, because nobody else could make it. The fabric was silk and it belonged solely to China. Then, in the year 552 AD, the Byzantine emperor Justinian I arranged for Christian missionaries to smuggle silkworms out of China. Very soon afterwards, Chinese silk products (which had commanded a premium price and been worth transporting thousands of miles) had to compete with locally-produced 'knock-offs'.

That probably sounds eerily familiar and – given China's current status as the undisputed counterfeiting capital of the world – rather ironic too but it just goes to show that the theft of intellectual property (IP) is nothing new and has been perpetrated on a global scale for thousands of years. These days, though, the circumstances just happen to be reversed with western brand owners usually the victims of IP thieves in 'developing' economies.

The growth in outsourcing has made life much easier for the IP thieves, as companies hand out proprietary secrets to their supply chains like candy, and then wonder why other people are rapidly gaining weight.

Why outsource then?

It is an unfortunate fact that some of the most attractive countries to outsource production to are also some of the riskiest. So, given the problems, why has outsourcing still become so popular in recent years? The answer is simple – outsourcing offers a range of extremely persuasive benefits:

Growth – local production opens up new markets to established brands by reducing distribution costs and synchronising material and labour costs with the market concerned.

Cost reduction – lower material and labour costs also offer the potential for improved product quality and profit margins in domestic markets.

Added value – outsourcing gives access to technology and expertise that can add significant value to the brand.

Flexibility – brand owners are increasingly faced with shorter life cycles for each product range. To keep pace with consumer demand and sophistication, they need to be seen to be fresh and dynamic. Outsourcing manufacturing offers the flexibility and speed of response to cope with the need to adapt and replace product designs continuously. Doing so in house would often involve impossibly high overheads.

Focus – companies in many sectors are increasingly using outsourcing to enable them to concentrate on their core competencies. For example, the key activities for pharmaceutical and biotechnology companies are the discovery, development and marketing of products. If they were to carry out all the manufacturing for these in-house, their whole operation would become skewed towards this high-asset/overhead/resource activity and away from those competencies that they actually exist to pursue. Other key factors for pharmaceuticals are the ever-increasing regulatory burden on manufacturers and the sheer scale of operation required, when only 1 in 5,000 compounds that are researched actually make it to market.

Assessing the risks

Essentially, outsourcing is a combination of trust and risk assessment (though not necessarily in that order) – another company and its employees have your branded goods and your confidential, proprietary information. You are trusting them to act in your best interests. How confident can you be that your trust will not be abused and what will be the consequences if problems do occur?

One level of risk is simple property theft – either of finished articles or by substituting valuable components with cheap copies. However, alongside these threats are the even more costly problems of IP infringement. There are three main types and they most often arise from a lack of control over supply and distribution chains:

Counterfeiting – privileged information is passed on to counterfeit manufacturers by trusted suppliers or overruns are produced from legitimate contracts. As a result faked products are on the streets as soon as (or even before) the brand owner launches the genuine ones.

Unfortunately, China is by no means the only source of fake goods but nowhere on Earth offers a better example of how serious the problem can be. A huge population, with low incomes but an insatiable demand for western brands has created a vast marketplace for cheap counterfeits across every conceivable sector. This covers the complete spectrum, from fmcg brands such as Coca-Cola or Head & Shoulders shampoo to luxury goods or specialist components. Fake video and computer software are particularly prevalent and the latest US releases hit the Chinese street markets in days, selling for the equivalent of as little as US\$1 a piece. Faced with what it estimates to be a US\$16 billion (annually) industry, the Chinese government seems to stand little realistic chance of doing more than scratch the surface.

However, as China moves into the mainstream of international trade, brand owners are not just counting the cost of the potential sales lost in this rapidly developing market but are seeing floods of counterfeit products being exported into their established ones – losses that run into tens of billions of dollars each year. The problem seems to be two-fold – a lack of effective enforcement of Chinese anti-counterfeiting law and the complexities facing foreign companies that wish to defend their brands. Chinese legal restrictions prevent direct involvement by foreign legal firms in litigation against those infringing on IP rights and even registering copyright and trademarks has to be done at arms length through local legal firms and various government agencies. This can be a time-consuming and frustrating process.

Copycatting – here, there is a fine line between the legal situation and infringement. The perpetrators seek to exploit the brand owner's investment in design, development, production and marketing without actually counterfeiting the product. Although less blatantly criminal, these soundalike and lookalike products can seriously undermine market share and brand image. High profile examples, which involved the brand owners in lengthy legal wrangles, include:

Sainsbury's Classic Cola resembling Coca-Cola (1994)

Tesco's cereals resembling Kellogg's (1996)

Asda's Puffin resembling the well-known Penguin biscuit (1997)

And

Copycat Bellini deodorant resembling Unilever's Lynx

Diversion – otherwise known as parallel trading or grey marketing, this form of brand infringement can leave carefully laid selective distribution strategies in tatters. Official stockists are undermined by branded goods sourced from lower-priced markets and brought into

countries for which they were not intended. Instead of a managed level of exposure and availability, the tailored retail element of the 'brand experience' is removed and its added value lost. Diversion is a truly global problem with the value of grey market products sold throughout the world topping a billion dollars annually (according to Matthew B Myers, Nov 1999, 'Business Horizons: Strategies for combating Gray Market Activity').

Whilst these forms of 'leakage' may only affect a small percentage of goods and suppliers in the chain, they can have a significant effect on profits and reputation. The financial impact of diversion is not always readily appreciated as, rather than having an immediate effect on the bottom line, it damages long-term brand value. In the most extreme cases, a lack of control and security in the supply chain has led to quality problems, which have placed end users at risk and even caused fatalities.

Taking back control

The annual Interbrand survey calculates that for some organisations, the value of their brand accounts for 60% of the company's total worth but, in general, companies spend about 15% of turnover on building a brand but only about 1% on brand protection.

There are ways and means for brand owners to defend their brands against such forms of infringement before the integrity of the brand begins to suffer. The most effective brand protection solutions typically encompass anti-counterfeit and anti-tamper technologies with supply chain security backed up by investigation and legal support. The technologies available include solutions which can be tailored to different needs and different production processes: whether it is via the use of holograms on the packaging; watermarks; remote frequency identification devices (RFID); covert taggants; tear tapes and security labels; or computerised track and trace systems.

The advantages of implementing such solutions are:

- the ability to detect genuine product from fake goods
- maintenance of customer confidence in the brand
- that shareholders are assured of the management control process
- that brand and company image is heightened
- minimisation of revenue lost to external threats
- that it secures the supply chain
- lower insurance premiums.

Track and Trace Systems Track and trace systems are now being used to address problems such as counterfeiting. An ideal system is one that combines electronic tagging of products with a secure database, through which brand owners can locate their products across the globe without leaving their office. Such a system should operate at item level, giving the option of being able to scan a single item, crated up, palletted and still inside the container. If any of the items should not be there, the system immediately sets off an alert.

Each item within the client's supply chain is tagged (covertly or overtly) with a unique identifier. This "licence plate" data identifier may be carried on any machine readable tag, such as a barcode, via microchip technology into a RFID. Once tagged, each item can be scanned and checked at various points in the supply chain and in the field.

Items not bearing the authorised 'tag' are then obviously counterfeit. And with advances in technology working on the side of good this time, companies are using ever more sophisticated

methods of tagging items in ways it is impossible to fake. For example, thermochromic inks and Thermotext® windowed thread which change colour when rubbed with the finger, fluorescent print which displays a machine readable mark when viewed under ultra-violet light, or fluorescent fibres scattered throughout packaging paper, which glow a variety of colours when viewed under ultra-violet light.

In today's global marketplace, outsourcing can be the key to continued development and growth for many companies. Ensuring that your outsourcing strategy has the right levels of protection and security built in to it should enable you to control the risks and seize the opportunities on offer.

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