

The Counterfeit Challenge

As the threat of counterfeits grows, so does the challenge of fighting them

The prevalence of counterfeit products has grown in recent years, as the Internet and a global marketplace have increased their accessibility. The impact goes beyond financial. In several sectors, serious safety risks come with counterfeit goods. This article examines the scope of the problem, as well as how distributors and manufacturers can work together to combat it.

By Jenel Stelton-Holtmeier

The problem of counterfeit products has grown in recent years, according to Scott Lynch, president of the American Bearings Manufacturers Association, which is part of the anti-counterfeiting campaign Stop Fake Bearings. "The more we look for, the more we find," he says.

Ongoing globalization and the growth of the Internet have made it easier to access counterfeit products; they've also made it more difficult to fight.

Exactly how big a problem counterfeits are is difficult to pinpoint. "It's not just in one area anymore," Lynch says. "It continues to baffle us as to how big this issue seems to be, how it continues to grow, and how there is a continued focus on our industry."

"Like any sort of illicit trade, it's hard to put a number on it because you don't really know what's going on," says Tom Grace, brand protection manager for Eaton's Electrical Sector Americas. "Because it is illegal activity, it's not directly measured in any way." That doesn't stop people from trying to put a number on the impact, however.

According to U.S. Department of Homeland Security, customs and border agents seized counterfeit products worth \$1.26 billion (based on the manufacturers' suggested retail price for the products) in 2012. But that just accounts for items seized by the agency in coordinated stings.

"We rarely have a customs interdiction," Grace says. "We usually find products in-

country already being distributed."

In the electronics industry, counterfeits are estimated to have an impact of almost \$8 billion, according to Steve Martin, senior vice president of sales for electronics distributor Components Direct, an Avnet company.

"I've seen a whole lot of numbers being tossed around, and to be quite honest, I've gotten quite numb to the numbers because in the end there really isn't a good solid number to see how big the problem is, how big the market is," says Dennis Polinski, global product manager for brand protection solutions at Brady Corp., Milwaukee, WI. Brady provides brand protection services to suppliers.

So how do you measure the immeasurable? The answer may not be in actual numbers, Grace says. "Most people just need to have more awareness of how broad the problem is," he says.

The 'Big Deal'

When the conversation about counterfeits comes up, a lot of people think manufacturers are just worrying about their bottom lines, Grace says. "And in some industries, like a T-shirt or a designer good, that's a more accurate statement, even if they try to make it sound like more of a risk by saying it's connected to organized crime," he says.

But in many applications, including bearings, electronics and electrical products, it can actually be a matter of life and death. For example, Eaton developed a board for use in underground mining that was targeted by counterfeiters. Basic safety tests were run on the counterfeit boards, and "they failed spectacularly," Grace says, "which is to say that they basically exploded."

If that had happened underground, in an enclosed space with nowhere for the miner to go, the results could have been catastrophic. "Fortunately we were able to interdict most of them before they got into the marketplace – about 800 got out," he says, but there were no

reports of any of the products being put into use.

The bearings industry has many of the same concerns, Lynch says. "We haven't had any major disasters in motor vehicles or planes yet," he says, "but we have had some issues with steel mills being shut down with pieces of metal flying everywhere because a counterfeit bearing was installed in a piece of machinery." Imagine if those fake bearings failed in an aircraft or a school bus, he says.

Pinpointing the Problem

If manufacturers think they aren't being counterfeited, Polinski says, they aren't looking hard enough. Nearly every type of product is available through unauthorized channels with no guarantee of its authenticity.

"These are not individual people making bearings. This is a complex network of criminals that know the rules and know how to get around them," Lynch says. "The problem is that as we gain ground, they change their processes. If we change our boxes, so do they. We need to continue to innovate and figure out ways to attack this issue and stay a step ahead of them."

"Just in doing this for 10 years, I've seen so many things that I never thought would be counterfeited," Polinski says, from tea bags to tools to "hairy crabs" – a delicacy in Shanghai. The sheer size and breadth of the problem can make fighting it a little intimidating.

That said, some of the biggest areas of concern are around products that are older or obsolete, says Orla Lathrop, director of strategic marketing for Components Direct. Of the estimated \$8 billion electronics counterfeit market, about half corresponds to excess and end-of-life products, she says.

"As parts become discontinued, it becomes harder to find those parts, but people still have those built into their product design," Lathrop says. For example, many military products are designed with a 15-year lifecycle, while the electronic components included in that design may only have an expected lifecycle of 18 months.

As a result, end-users end up looking to alternate channels to source the components, include the Internet.

The Internet has made it easy for anyone to look like a "credible and qualified storefront," says Anne Ting, executive vice president of marketing at Components Direct. And that can make it more difficult for someone to determine whether a company is an authorized distributor of a given product.

In addition, distributors and consumers are

being bombarded – sometimes multiple times a day – with promotional materials from suspect sources offering product at steep discounts. "It's challenging to keep up on everything out there," Grace says.

The source for many counterfeits is also becoming more difficult to pinpoint. "If you're going to try and pinpoint one area, China is the greatest concern," Martin says. "The Chinese government is not regulating it as strictly as it needs to be. But the problem has become much broader than that."

In recent years, more counterfeit products have come out of Eastern European countries and the Middle East. The path has also become more sophisticated, with counterfeit manufacturers shifting product through other countries before it moves on to the final destination, Grace says. This can allow for repackaging or labeling, or even just lend credibility to the product because it did pass through certain ports.

Even with increased training and enforcement at U.S. ports, more product appears to be traveling through the U.S. bound for other destinations. "We have a couple ideas as to why this is the case," Lynch says. "If they see the U.S. en route there, they may not look at it as closely," he says. It may also just be a product of the way shipping channels are set up.

That said, often "there is no rhyme or reason" to where counterfeits show up. ABMA has seen product seized in Alaska, even though none of the manufacturers would normally ship through there.

Fighting Back

The safety issue has many governments around the world willing to take a more active role in combating counterfeits, Lynch says. ABMA has worked closely with the U.S. government, from law enforcement at ports all the way up to the White House, to improve awareness and enforcement.

In China, the World Bearings Association works with authorities to focus on the source, working with law enforcement agencies to conduct raids on suspected counterfeit factories. The organization also works with customs agencies to prevent counterfeit products from leaving the country.

"China is one of the only customs agencies that inspects outgoing product as well as incoming product, so that's a big deal for us," Lynch says. Since 2008, more than 3 million counterfeit bearing products have been seized before leaving China.

WBA recently expanded into India, where

counterfeit activity has picked up.

The problem for distributors is that there is no single thing that they can do alone to combat the problem, even though their reputations are as much at risk as the brand owner's, Polinski says. But they don't have to sit idly by either.

One key step is strengthening the partnerships between distributors and manufacturers, Grace says. If a distributor is contacted by a suspect supplier, report it to the manufacturer. The manufacturer may not be able to respond to everything, but "information from the marketplace is how I get from point A to point B to combat the counterfeit problem," he says.

Distributors and manufacturers can also work together to make sure that excess and obsolete products have an authorized channel to meet the existing demand, Lathrop says. They should also ensure there is a process in place to control returns to ensure those products don't re-enter the channel.

And distributors can take a lead role in educating the end-user on using only authorized distributors for the products they are buying. In the end, Polinski says, more transparency and traceability in the supply chain will lower the risk of counterfeits.

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