
Responding to the hidden threat: how luxury brands are fighting back against counterfeiting

While the luxury goods industry is booming, this success only makes it a more attractive target for counterfeiters. The good news is that there are increasing opportunities for luxury brand owners to engage in international anti-counterfeiting efforts

Recent estimates value the global luxury goods industry at more than \$300 billion a year, with global industry revenues predicted to grow by as much as 50% more quickly than global gross domestic product (GDP) (see Bain and Company's 2013 report). This extraordinary growth trajectory, coupled with the industry's apparent immunity to the impact of the global recession, has led to the recognition of the luxury industry as an international economic force to be reckoned with.

However, this startling growth has an unwelcome downside – the growing threat from counterfeiters. Dealing with counterfeit products is nothing new for luxury brands, but the scale of the problem is a continual challenge as they fight to maintain the levels of revenue growth that analysts – and the markets – have come to expect.

This article considers the rise of modern counterfeiting and explores strategies that luxury brand owners are adopting to combat the threat. It also explores the opportunities for fashion and luxury goods companies to engage in international efforts to protect the industry from counterfeiting.

The rise of modern counterfeiting

As luxury brands expand their geographic reach and their products are introduced to new populations, it should be little surprise that the market for counterfeits continues to grow. In their 2013 book *Protecting Your Intellectual Property Rights, Understanding the Role of Management, Government, Consumers and Pirates*, Chaudhry and Zimmerman attribute the increase in sales of counterfeit goods to seven key factors: globalisation and lower trade barriers; low-cost technology that results in low investment and high profits; consumer complicity; expansion of channels and markets; powerful worldwide banks; weak enforcement; and high tariffs and taxes.

Globalisation has been a key objective for the luxury industry, heralding the development of truly global luxury brands that are recognised all over the world. Global and multilateral trade agreements – including the European Union's progressive deconstruction of internal trade barriers and major free trade

agreements such as the North American Free Trade Agreement – have accelerated global trade in recent decades. But increased trade flows in turn have created increasing opportunities for counterfeiters to exploit. In addition, free trade zones, which are particularly prevalent in developing markets such as China and South Korea, now often also serve a darker purpose, as incubators for counterfeiters.

Technology has also had a major impact. The Internet has contributed to the rise of a networked, sophisticated generation of counterfeiters, who adapt quickly and distribute products in ways that are harder to detect and prevent than sales through more traditional channels. A 2012 European Commission report states that around 70% of all seizures of infringing counterfeit goods in the European Union in 2012 related to postal and courier traffic, most likely a result of online sales. Many such seizures concerned luxury and branded goods, including shoes, bags, wallets and other items of clothing.

However, the precise scale of the problem remains difficult to assess. Commentators estimate sales of counterfeit luxury goods to be between \$300 million and \$600 million, but the numbers are difficult to verify. The lack of historical data – stemming from an old view of the counterfeiting of luxury goods as a soft crime – makes it particularly difficult to measure the growth trend in counterfeiting. Even as recently as 2008, *The Economist* was urging brands to “look for the silver lining of piracy”. Commentators argued that counterfeits contributed to the marketing of brands without significantly damaging profits, or that no damage could be caused by counterfeit products because consumers knowingly bought fake products and would be unwilling to pay the price of the genuine item. That view fails to take account of the sophistication of the market for counterfeit luxury goods, with counterfeit products ranging from low-quality imitations sold cheaply to so-called ‘real fakes’ – high-quality copies that cannot be distinguished from the original product without authentication features – that are frequently sold both online and offline at a price only slightly lower than the genuine product. It also fails to take account of the human cost of counterfeiting, with a clear link between counterfeiting and organised crime and terrorist organisations.

Make no mistake, the threat to luxury brands is real – loss of sales, loss of goodwill, damage to corporate brands, trademark dilution and the costs of enforcing IP rights. Counterfeiters make no exceptions for size. Small luxury brands are just as likely to be targeted as their larger counterparts and the impact can be devastating.

Strategies to combat counterfeiting

Although luxury associations are now developing alliances to tackle the issues, the luxury industry traditionally has not adopted a unified approach to combating counterfeiting. Historically, this reticence may stem from an inherent secrecy about design and production methods that pre-dates the emergence of the industry as a global economic force. Whatever the reason, there is still significant divergence among the enforcement positions of luxury brands across the globe. Some brands – such as LVMH and Burberry – allocate significant amounts of their budgets to combating counterfeiting, while a handful echo *The Economist* and maintain that copying pays homage to the brand and thus do little in the way of enforcement.

Frustratingly, it is not possible to develop a blueprint for an anti-counterfeiting strategy that will work for every brand. To be effective, a strategy must be tailored to take account of the brand's target markets, the types of counterfeit product being produced and how the counterfeits are being manufactured, distributed and sold. That requires upfront investment to clarify the scope and scale of the counterfeit problem, followed by the development of a bespoke strategy that combines elements of IP protection, supply chain and manufacturing management, exports and customs controls, and retail market controls. In the current financial environment, the investment must be demonstrably justified by protected revenues, with internal legal teams generally called to make the case for investment to the board. So what elements does an effective strategy combine?

IP protection

A strong IP portfolio is clearly the cornerstone of an effective anti-counterfeiting strategy. There is nothing novel about this – best practice has long dictated that luxury brands conduct periodic audits of global registrations, paying particular attention to territories such as China, which operate a first-to-file policy. Just as software security firms hire hackers to test their systems, it is possible to hire trademark and name search experts to identify potential knock-off registrations as a first line of defence.

Exports and working with Customs

The need to work with customs officials has also been recognised as a key component of an effective anti-counterfeiting strategy. Given the cross-border issues, it is essential to stem the flow of counterfeits into and out of key markets. This involves registering trademarks with Customs and, perhaps more importantly, spending time educating and training customs officials on how to spot counterfeit goods. Customs officials are increasingly open to collaboration with luxury brands; many countries have become more focused on the need to stop counterfeit products flowing across their borders in order to protect inbound investment. In 2010 the Mexican customs authorities were awarded the Yolanda Benitez Trophy in recognition of their efforts to combat counterfeiting. Uthoff, Gomez Vega & Uthoff explains that the recognition was due to the regular training seminars attended by Mexican customs officials, which were designed and provided by associations of rights holders, which maintained contact with the officials and shared information about new licences, authorised distributors and new brands and products.

Such coordinated support from rights holders helped the Mexican customs authorities to target their enforcement activities more effectively, leading to improved rates of seizure of counterfeit goods at the border. Many brand owners are enthusiastic about this kind of enforcement, with some – such as True Religion Brand Jeans – producing anti-counterfeiting kits to share with local state and federal agencies in the United States. Such kits include genuine

parts (eg, button faces, button backs, labels and tags) and tips on how to distinguish real True Religion jeans from fakes.

Supply chain, manufacturing and distribution

Since so much leakage occurs in the manufacturing, supply and distribution chain, effective controls are important. However, this can prove a challenge for some brands. Brands need to understand where counterfeit products are coming from – whether third-party factories or authorised production facilities that produce unauthorised originals at the end of the working day. They also need to understand how counterfeit products get to market. This frequently involves auditing distribution or production facilities or working with investigation agents in emerging markets to identify third-party manufacturers. It is relatively easy to discover the region in which goods are being produced. For example, in China, we know that a high volume of counterfeit products come from Guangdong province, Fujian province (particularly Jinjiang) and Zhejiang province (particularly Wenzhou), but the exact locations can be difficult to identify without local knowledge.

Once the brand owner has identified the product source or potential leakage in the distribution networks, it needs to consider factory raids, possibly with assistance from local enforcement officials, to target locations where counterfeit goods are produced and distributed. However, indiscriminate raids against alleged counterfeiters will be ineffective unless they are followed up with meaningful punitive action (eg, if the local officials or administrative agency involved imposes a sizeable fine, and/or if the raid is followed by a civil or criminal action). Brand owners must assess whether a particular counterfeiter is a good candidate for enforcement action by taking into consideration a range of factors, including the scale of the operations (eg, whether the counterfeiter is exporting counterfeit products to other regions), whether the target has significant traceable assets and whether the local authority is likely to take the case, pursue it aggressively and impose effective and dissuasive penalties.

Retail

Working to prevent the production and flow of counterfeits across borders helps to prevent unauthorised goods reaching the marketplace. However, the final step is to restrict sales of these goods both online and offline.

Monitoring: An effective online monitoring programme (eg, the programme that Covington operates for its luxury brand clients) requires access to sophisticated technology that aids:

- identification of key sites, including legitimate sites, where counterfeits may be offered and developing effective takedown systems (eg, 1688.com (Alibaba China), ioffer.com and overstock.com);
- the monitoring and identification of additional relevant sites and forums, and potentially also advertising networks and payment providers that illegal sites use with a view to taking action to cutting off the revenue stream; and
- pre-emptive measures, such as monitoring newly registered domain names in order to identify at an early stage potentially problematic sites that misuse brands in domain names.

Enforcement: Once infringing sites are identified, cease and desist letters can be sent. These must be accurate, which may necessitate a programme of test purchasing to provide evidence of the sale of counterfeit products. Brands can also take advantage of programmes that some legitimate sites offer to remove illegal offerings more efficiently (eg, eBay's VERO programme or initiatives such as the 2011 sting operation conducted by Taobao, in partnership with Gucci, Chanel

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In 2012 Comité Colbert, together with the French National Anti-counterfeiting Committee, set up an advertising campaign in French airports that referenced several French luxury brands in an effort to remind consumers that purchasing counterfeit products can constitute a criminal act

and 87 other brands), as well as to have links to infringing offerings de-listed in search engines. If regular takedown notices are unsuccessful and further efforts are necessary, escalated enforcement actions – including more formal legal complaints – may be appropriate. This may involve filing a complaint under the Uniform Domain Name Dispute Resolution Policy to recover domain names that misuse trademarks, or targeting advertising networks and payment providers and calling on them to stop providing services to illegal sites on the basis of violations of their terms and conditions. Coordination with law enforcement also can be useful. For example, as part of its Operation in Our Sites, the US government's National IP Rights Coordination Centre has, among other things, worked with the industry to seize the domain names of websites selling counterfeit goods over the Internet. In a 2011 action, 18 domain names were seized in relation to sites selling counterfeits of many well-known luxury brands, including Breitling, Chanel and Louis Vuitton.

Engagement with consumers and legitimate traders: Another important component of any strategy involves educating and raising the awareness of customers and legitimate traders about counterfeiting. Both regulators and industry groups have been involved in anti-counterfeiting advertising campaigns in recent years. For example, in 2012 Comité Colbert, together with the French National Anti-counterfeiting Committee, set up an advertising campaign in French airports that referenced several French luxury brands in an effort to remind consumers that purchasing counterfeit products can constitute a criminal act. The campaign also featured slogans such as: "Real ladies don't like fakes!" In 2011 eBay and the Council of Fashion Designers of America collaborated on the "You Can't Fake Fashion" campaign, launching a limited edition line of bags by top designers to raise awareness of counterfeit goods. In 2013 the online "I Won't Buy Fakes" campaign was created to educate shoppers about the cost

of counterfeiting. As well as publicity campaigns, brand owners can engage in anti-counterfeiting initiatives aimed at having a practical impact on shopping habits. For example, Brand-i is a shopping directory supported by the UK Trading Standards Institute that lists only online stores known to sell genuine products. Similarly, a US smartphone app, uFaker, lets consumers earn rewards for reporting fakes and allows rights holders to track the flow of counterfeit goods.

Technology: In addition, luxury brands are developing creative and practical measures to tackle anti-counterfeiting. Many use technology to enhance product security (eg, radio frequency identification tags, security tags, holograms, watermarks and special fibres), with much being made of the potential of terahertz spectroscopy. Such technologies make it difficult to replicate products and allow customs officials, distributors, retailers and consumers to verify the authenticity of goods.

Scope for international engagement against counterfeiting

Even the best monitoring and enforcement strategies will be effective only if underlying trademark and related laws are strong, and if rights holders and law enforcement authorities have adequate legal tools to enforce rights. More needs to be done at the policy level to enshrine strong and consistent trademark rights and effective enforcement of these in the European Union and across different global markets.

Efforts are already underway in this regard. The European Commission has proposed amendments to the Community Trademark Regulation that would strengthen the ability of registered trademark holders to prevent goods bearing unauthorised, essentially identical trademarks from entering the customs territory of the European Union, and to stop counterfeit items being given fake labels in the first place.

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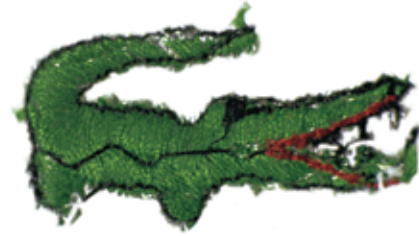


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Negotiations of two trade agreements have also provided important opportunities to secure meaningful advances in trademark protection and enforcement globally. These are the Trans-Pacific Partnership (TPP) – which involves Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, Vietnam and the United States – and the Trans-Atlantic Trade and Investment Partnership (T-TIP) between the European Union and the United States. Each agreement will likely not only exert a significant influence on the signatories, but also serve as a model for other trade agreements. Luxury brands should monitor developments and engage with negotiators to ensure that their trademark protection and enforcement priorities are being addressed.

In identifying priorities, it is helpful to consider certain elements of the recently concluded US-Korea free trade agreement. The United States has a tradition of including strong IP provisions in its trade agreements and this was no exception. Examples of useful provisions include:

- authorising the seizure, forfeiture and destruction of counterfeit goods and the equipment used to produce them;
- streamlining the process for customs officials and prosecutors to bring trademark infringement cases without needing to wait for rights holders to become formally involved, and further measures to stop counterfeit goods from transiting through ports and free trade zones in covered territories; and
- introducing enforcement measures, including minimum rules on civil and administrative proceedings, and strengthening, deterrent criminal penalties against trademark counterfeiting.

Some of these measures may appear basic to readers accustomed to US or EU laws, but they are by no means universal, even in more developed economies. In early 2013, for example, Canada tabled the Combating Counterfeit Products Act, which would provide Canadian border officials with new powers to help them work directly with brand owners to take enforcement actions against shipments of counterfeit goods and brands entering the Canadian market.

It is likely that the United States will seek to include similar provisions in the TPP in order to raise the bar of protection in participating countries and serve as a model for future trade agreements. As the TPP negotiations are already quite advanced, opportunities to suggest entirely new provisions may be limited. However, it would be prudent for luxury brands to engage in the process to ensure that participating governments understand the importance of including strong trademark and enforcement provisions in the agreement. Similarly, regarding the T-TIP, while the United States and European Union have indicated that they are unlikely to include a full IP chapter, given that there are already high standards for protection and enforcement in these jurisdictions, the T-TIP could help to address IP challenges in third countries; from that perspective, it could also be a useful vehicle for luxury brands to address challenges in these markets.

In short, as counterfeiting continues to evolve and grow as a threat in today's globalised, wired world, the luxury goods industry needs to adapt and react accordingly. An effective response requires multiple prongs of action, including careful registrations of marks, targeted local enforcement measures, cooperation with customs and local authorities, online monitoring and enforcement, cooperation with law enforcement officials, engagement with consumers and traders, and zealous protection of rights holders' interests. In the future, new agreements will help to determine not only frontier controls, but also internal laws governing how rights holders and law enforcement can combat counterfeiting. Luxury brands should work now to ensure that the right tools are in place for the future. [WTR](#)

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