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Reduce product counterfeiting: An integrated approach

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Abstract There is substantial interconnection between the reduction of product counterfeiting and quality management. This article seeks to demonstrate how integrating anti-counterfeiting initiatives into quality management strategies can reduce risk in the supply chain. We explore issues pertaining to product counterfeiting, the practical application and constraints of anti-counterfeiting initiatives within the supply chain, and the intersection of anti-counterfeiting initiatives with quality management programs. Gaps in current management strategies to address these issues are identified, and a potential remedy to address these deficiencies is proposed. Practical suggestions regarding the application of quality principles to offset counterfeiting should reduce risk in the supply chain.

1. Counterfeiting and its pervasiveness

Counterfeiting is defined as "the unauthorized representation of a registered trademark carried on goods similar to goods for which the trademark is registered, with a view to deceiving the purchaser into believing that he or she is buying the original goods" (Grocery Manufacturers Association & A.T. Kearney, 2010). In the past, counterfeiting was undertaken by relatively small and independent firms. During the last 10 to 15 years, however, the counterfeiting industry has been transformed from 'mom and pop' businesses to large, well-organized firms with international distribution networks, according to consultant Christine Simpson (personal communication, 2011).

Counterfeiting affects a broad range of stakeholders in ways that extend well beyond direct effects on legitimate firms. Consumers who inadvertently purchase these products are acquiring lower quality items that are unregulated, potentially unsafe, and do not carry the product guarantees and warrantees that they believe they are purchasing. Owners of counterfeiting firms do not usually adhere to labor, tax, or other laws. Employees often work in unsafe environments, are not paid fair wages, and do not have national insurance contributions paid on their behalf. Subsequently, governments receive lower tax revenue and ultimately increase their spending on welfare, health services, and crime

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prevention (Hardy, 2010). Even legitimate firms that would like to operate in an industry in which counterfeiting is occurring are negatively affected; if counterfeit products have a substantial market share, they may effectively serve as a barrier to entry of legitimate competitors (Staake, Thiesse, & Fleisch, 2009).

There is now strong evidence of links between counterfeiting activity and criminal operations. Interpol has reported links between counterfeiting and terrorist cells in the Middle East, Europe, and Latin America (Orchard, 2010), and corporate investigations have identified links with organized crime in Asia (Chaudhry, Cordell, & Zimmerman, 2005). The attraction of these groups to such activities is simple: counterfeiting products is a relatively high yield/high profit and low risk money-making venture (Canadian Anti-Counterfeiting Network, 2007). Given that counterfeiters are normally careful not to produce and sell counterfeit products in the same jurisdiction, it is difficult to identify and penalize them. Even when successfully prosecuted, the penalties are usually minor (Chaudhry, 2013).

While not identical, the terms counterfeiting and piracy are used interchangeably in this article. Technically, counterfeit products and pirated products are protected by trademark and copyright laws, respectively. Statistics on the pervasiveness of counterfeiting and piracy are sketchy. Due to the illicit nature of these activities, available data on the source, destination, and value of counterfeited products are, at best, estimates. Such estimates vary widely, but they are consistently staggering. The Organization for Economic Co-operation and Development estimated that in 2007 the international trade of counterfeit and pirated goods could be valued at $250 billion, not including goods produced and consumed in the same country or pirated non-tangible digital goods (Organization for Economic Co-operation and Development, 2009). In the U.S. alone, the annual impact of counterfeiting has been estimated at $200 billion (International Anti-Counterfeiting Coalition, 2005). These illegitimate products have put at risk 2.5 million legitimate jobs in the G20 nations (Hardy, 2010). A consumer survey in the United Kingdom found that £3.5 billion—approximately U.S. $5.4 billion—is spent annually on counterfeit clothing and footwear rather than on genuine items (Orchard, 2010). The profound economic impact of counterfeiting is emphasized in the preamble of a recently proposed Anti-Counterfeiting Trade Agreement that notes, "the effective enforcement of intellectual property rights is critical to sustaining economic growth across all industries and globally" (Foreign Affairs, Trade and Development Canada, 2013).

The aggregate economic impacts are obviously substantial, but reflect only part of the loss experienced by businesses. These values do not reflect costs such as ongoing investment in anti-counterfeiting technologies, loss prevention programs, legal investigation and enforcement, civil and criminal legal action, and lobbying for more stringent anti-counterfeiting legislation. Less quantifiable are the negative impacts of defective counterfeit products on an authentic product's perceived quality, a firm's brand image, and customer loyalty. Furthermore, high quality counterfeit products can reduce the exclusiveness of authentic products and thereby decrease consumer willingness to purchase genuine items (Wilke & Zaichkowsky, 1999). Finally, firms may suffer from reduced growth and growth potential because investments in research and development are either limited due to widespread copying (Chaudhry et al., 2005) or are redirected to anti-counterfeiting features rather than product enhancements or new product development.

Statistics on counterfeited and pirated products that are collected, tabulated, and subsequently released vary widely. Data on U.S. customs seizures by commodity and country of origin do not reflect the total value of counterfeit trade in these products, but they are useful for illustration purposes. The data clearly demonstrate that counterfeiting has become a substantial problem: According to Travis Johnson (personal communication, 2011)—vice president and director of legislative affairs at the International AntiCounterfeiting Coalition—the total value of products seized at U.S. borders in 2010 was $188,125,346. Two-thirds of these seizures, by dollar value, originated from China. Perhaps not surprisingly, apparel, footwear, and handbags accounted for over 50% of the value of the seized products (T. Johnson, personal communication, 2011). Two societal trends contribute to the perpetuation of counterfeiting. First, challenging economic conditions focus company spending on 'essential' activities (thereby giving counterfeiters the opportunity to gain ground) and consumer spending on the lower prices offered by counterfeiters. Second, according to Lorne Lipkus (personal communication, 2012), a partner at Kestenberg Siegal Lipkus LLP, the popularity of the Internet combined with privacy legislation make it increasingly difficult to identify the home base of counterfeiting operations.

2. Victim and willing consumers of counterfeit products

Consumers of counterfeit goods can be separated into two groups. The first group consists of consumers who purchase counterfeit products unknowingly, believing the goods are authentic and made by