

Risks and threats for products:

A 3-step assessment guide for brand owners and executives



# INSIGHTS

## Understanding the Landscape

According to the World Economic Forum<sup>1</sup>, beyond 2020, based on the purchasing power parity (PPP) terms, Asian economies will become larger than the rest of the world combined for the first time since the 19th century. Asia is set to become the next economic powerhouse. China, India, and ASEAN all play significant roles. However, Asia is also a known hotbed for counterfeiting and grey market activities. These illicit activities are prevalent across countries and industries, representing a multi-billion-dollar global industry.

COVID-19 was observed to have negatively impacted many industries. However, the counterfeit market is thriving, sadly at the expense of companies and consumers. Sales of counterfeit products were already growing prior to COVID-19 but it boomed further during the pandemic period and will continue in foreseeable future. The mega trends of digital transformation and E-commerce further fuel growth of fake products globally.

With these illicit activities, the stakes are high for companies, authorities and consumers. Millions of dollars' worth of

## GLOBAL COUNTERFEIT MARKET SIZE

- *Trade in fake goods is 3.3% (\$522 billions) of global trade and rising - Organisation for Economic Co-operation and Development (2019)*
- *Over 80% of counterfeit products come from China and Asia – Forbes (2018)*

products are transported from one country to another affecting consumers' health, safety and organisations' revenue. Due to a complex global supply chain, understanding the risks associated with products are critical to protect brand integrity and public safety. It is therefore increasingly essential to proactively identify which products are at risk of being counterfeited and determine the possible entry points of fake products along supply chain.

**This white paper provides you with the 3 steps to sharpen your risk assessment strategy and share insights to develop an intellectual property asset protection plan.**

The goal is to define appropriate controls to minimise the risks and threats of counterfeit products.

## Step 1: Identify Your Product Risks

To identify your product related risks and threats, there are 4 key areas to consider, namely:

- a) Time
- b) Location
- c) Product Life cycle
- d) Supply Chain

### a) Time – Expected product life

In many markets, counterfeit fast-moving consumer goods (FMCG) are more common than luxury fakes. This is due to their shorter product life, higher demand (especially in developing countries) and often easier to copy. These factors offer a greater potential profit for the counterfeiters. You can determine your risk factor through the following:

- **Is my product high in volume and low in cost? If so, then it can be easily copied and sold in large quantity.**
- **Is my product in high demand? If it is, it will be an attractive target to counterfeiters, regardless of its price.**

The above questions help to first filter which of your products are at risk of being counterfeited. Next, let's look at the location factor.

### b) Location (Production and Sales)

The main consideration for location is to review where is your crucial product parts manufactured and your biggest sales market. The business environment are vastly different for emerging and advanced economies.

Regulatory and enforcement on IP infringement is often lacking in developing countries. If your products or parts that contain valuable know-how are manufactured in potential risky area, it is important to ensure that they are produced in a secured environment with audit control.

Furthermore, consumer demand for products in emerging and advanced economies are different too. For emerging markets, consumers are more price sensitive. FMCG fakes are more popular with consumers and so offer a greater potential profit for infringers. Below are some checklist questions to ask:

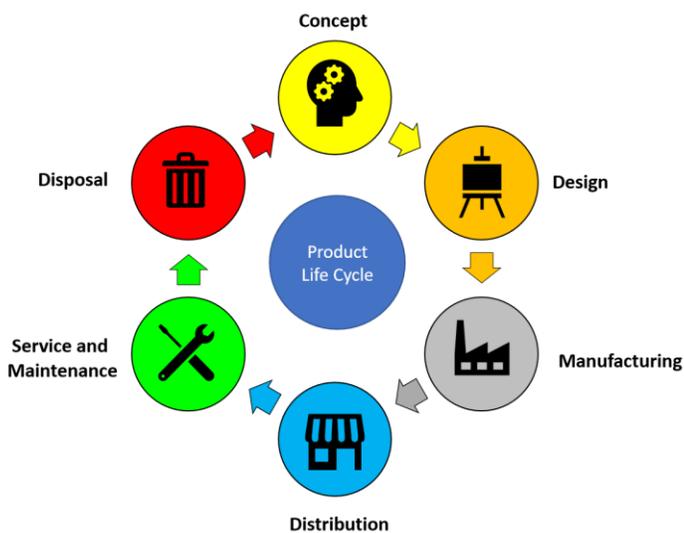
- **Does my product have a large market share? If yes, then there is more incentive to produce knock-off (imitation) by others.**
- **In my biggest sales market, is my product locally made or imported? Middle class consumers in developing economies perceived imported goods as having higher quality. Hence they are willing to pay a**

premium. Counterfeiters often target imported goods.

### c) Product Life Cycle

For product life cycle, there are 6 main phases which organisation need to be aware and identify the threats related to each phase. Unattended threats and risks in early phases can have a significant negative impact on the integrity of the product and affect your investment returns.

The phases are as follows:



**Concept phase** is primarily product ideation to search for promising ideas based on technical and commercial feasibility. It also includes suitable strategy, marketing approaches and targeted users.

- The key risk in this phase is stealing of Research & Development (R&D)

information or getting information from staff poached or via hacking into company workstation.

**Design phase** covers activities from product description to dimensions, artwork models, software drawings, component parts etc.

- A threat typically involved are theft of design data, prototype and samples.

**Manufacturing phase** is the creation of the end product through assembly line with suitable raw materials.

- Spiteful/ill-intent suppliers or customers pose the risk of passing information to competitors (including counterfeiters).

**Distribution phase** is the process and service of getting the product available for customers who needs it. This can be achieved either directly by the producer/service provider or through intermediary channel partners (distributors).

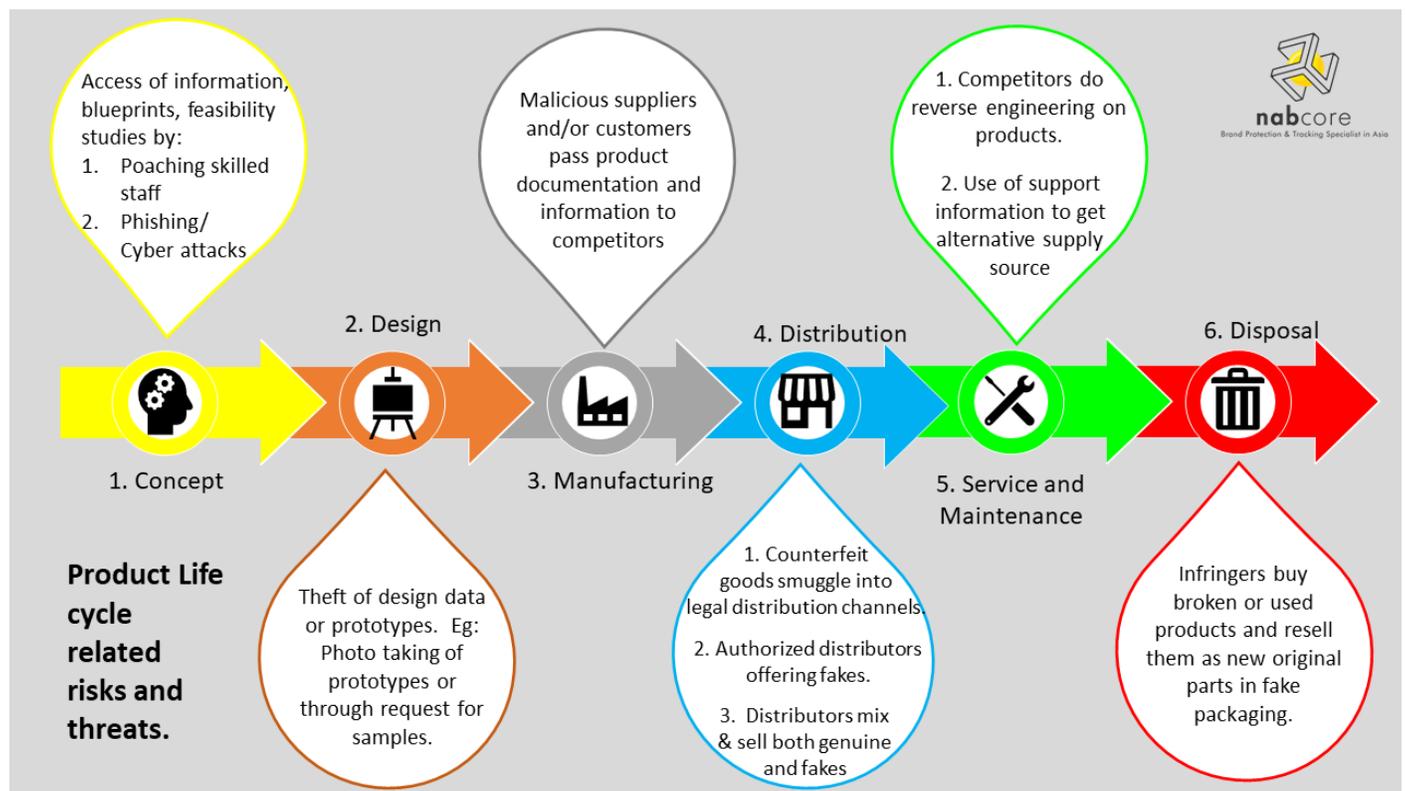
- The common risks occurring in this phase includes: (a) distributors mixing real and fake products to sell. (b) distributors smuggle counterfeits through distribution channels for others to resale.

**Service and Maintenance phase** covers the support needed to ensure that the product functions are maintained or restored in the event when there is any failure. Retrofitting of products (such as large machines) to prolong their life-span also falls in this phase.

- Reverse engineering on the software or hardware products is a considerable risk.
- Users share product support information with supplier’s competitors in order to seek alternative source for the product.

**Disposal phase** is the disassembly of products into components and individual parts. It can include reuse of usable parts, recycle or dispose those that are no longer usable.

- Broken parts are collected or bought. They are then re-pack and resell as new original spare parts; often in fake packaging.



Summary on related risks across key product life cycle.

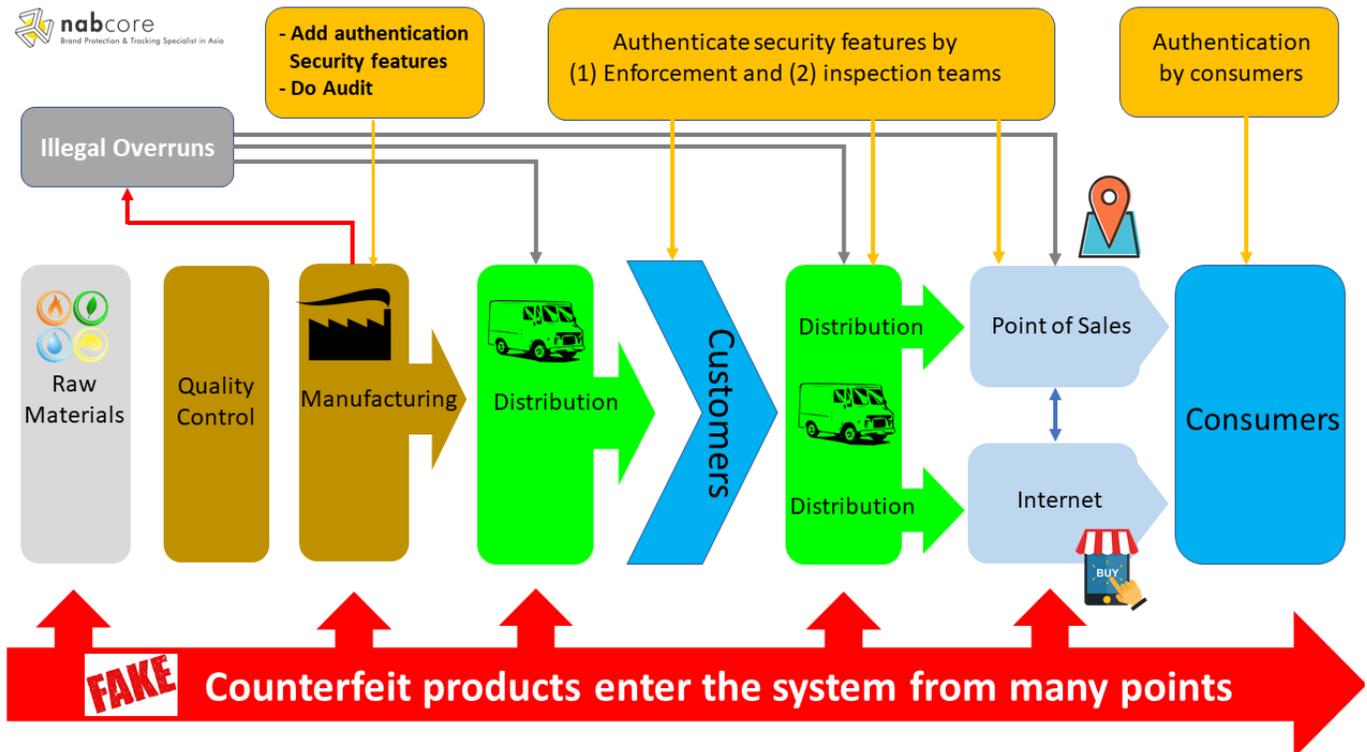
## d) Supply Chain

Supply chain is considered the backbone for a company's operation and customer fulfilment. Suppliers, distributors and service providers have significant impacts on the trustworthiness of your product.

Suppliers provide the components and services to manufacture your product while customers use the final product. As the product owner, you will have to ensure supplier fulfil their service support and material performance. For customers, you will need to engage, educate and empower them to verify the authenticity of your products.

Here are some questions to ask yourself:

- **Is my raw materials and products delivered through a complex supply chain? If it does, then there are multiple opportunities for counterfeit products to enter. (Pls see Figure 4 for details)**
- **Is my product sold on the internet? If it is, you have a high potential to lose control over distribution to consumers.**
- **Does my product lacks of security features for user to authenticate? If yes, then anyone can easily copy your product and does not deter counterfeiters to attack.**



Possible entry points of fake products along the supply chain

While we should always attempt to identify every real risk, we too know that resources are always limited. Hence, it makes business sense for you to focus on risks that required to be tackled immediately. The priority should always be to first identify your high value products, determine the reliability of your supply chain, followed by assess brand exposure and potential lost revenue to the risks.

Risk can be determined by comparing the severity of its impact with the possibility of happening. For example, a high impact risk is when counterfeit products cause harm to users and damage your brand. Bad publicity from such incidents often results in consumers avoiding your products for a long time. Other mild and unlikely risk that may not happen should not necessarily be prioritised. Hence, it is important to have a framework to assess those risks.

## **Step 2: Assess the risk**

Risk assessment is about being proactive. The objective is to determine the likelihood, impact, and overall threat of each identified risk factor associated with your products. It is important to first assess how susceptible each product is to the threats and use the information to create a high-risk portfolio. Below are the 3 key points for the assessment framework:

- **Aggregate risk exposure.**
- **Determine potential damage to organisation**
- **Map supply chain environment**

By aggregating risk exposure, you can easily determine which product has the most risk. Each product should be scored on its risk areas - Time, Location, Product Life Cycle

and Supply Chain that are highlighted earlier in Step 1. You can conduct a review of your products and categorised based on the 4 key risk areas and assess their risk level. Alternatively, you may want to use our indicator list. **To assess it – [please click here](#)**. With your indicator list set-up, you should be able to identify and prioritise products at risk.

To determine the potential damage of the product at risk to your organisation, you can evaluate based on the following:

- 1. Revenue loss**
- 2. Brand erosion**
- 3. Product liability**
- 4. Additional cost**

Loss of rightful revenue to counterfeiting and grey market is usually the top concern for many business executives and owners. It is followed by damages to the brand. Brand is the most valuable intangible asset that a company own. The trust between consumers and your product is a strategic

and corporate risk. Poor product performance, injuries or even death caused by fake components and products not only result in loss of trust, in some cases, huge financial liability. Top management should be aware of the risk and take actions to prevent such issues from happening.

Damages (Issues)	Risk examples	Benefits when tackling the issues (ROI)
Revenue loss	<ul style="list-style-type: none"> <li>- Fake products steal sales.</li> <li>- Distributors selling both fake and diverted products.</li> <li>- R&amp;D investment and marketing expenditure helping to move knock-off sales.</li> </ul>	<ul style="list-style-type: none"> <li>- Revenue recovery</li> <li>- Prevent future loss</li> </ul>
Brand Erosion	<ul style="list-style-type: none"> <li>- Loss of consumer trust</li> <li>- Cannot command premium price</li> <li>- Erosion of brand loyalty</li> <li>- Loss of market share.</li> </ul>	<ul style="list-style-type: none"> <li>- Protect reputation,</li> <li>- Enhance brand position</li> <li>- Gain customer support.</li> </ul>
Product Liability	<ul style="list-style-type: none"> <li>- Litigation costs</li> <li>- Potential penalties</li> <li>- Damage claims</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid lawsuit</li> <li>- Bad publicity.</li> </ul>
Additional Cost	<ul style="list-style-type: none"> <li>- Conduct unnecessary product recalls</li> <li>- Unclear actions to response when products are under attack</li> <li>- Wasted time due to lack of insights</li> <li>- Additional drain on resources</li> </ul>	<ul style="list-style-type: none"> <li>- Avoid and reduce unnecessary cost</li> </ul>

Summary table on the damages of the product at risk

Senior management, brand protection managers and marketing team should be involved in assessing the risk of counterfeit attacks and determine the value of all proposed solutions. As part of the task force, it is important for you to ask the following questions:

- **What if our company is unable to determine the authenticity of a suspicious product?**
- **How beneficial would it be for the enforcement team to be able to verify genuine products quickly and reliably?**

- **If a counterfeiting incident had occurred, how beneficial would it be for your top management to highlight some security features that consumers and law enforcement agencies can verify on the authenticity and safety of your products?**

By identifying your product at risk, assessing potential damages and evaluating reliability of your supply chain form the basis to prevent threats from

counterfeiting. With the above in place, a brand protection strategic plan can be implemented to prevent loss and drive business forward in the market. The goal of assessing risk in step 2 is to develop a set of responses that can reduce the damages, enhance your company's ROI, ensure consumer safety and brand integrity.

### **Step 3: Develop the Action Plan**

The final step is to develop an action plan based on management, insights and technology to tackle the threats faced by the products. The 3 components that form the action plan are (1) Deterrence, (2) Regulatory, (3) Enforcement

Deterrence is primarily making counterfeiters hard or tedious to copy your product. A successful deterrence requires support from stakeholders such as distributors and consumers. Implementation of brand protection program that allows distributors and

#### **GOLDEN ADVICE**

*It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently.*

*– Warren Buffett*

consumers to easily verify genuine products greatly help to prevent fakes. A large fraction of the related threats can be overcome with a multi-facet program covering:

- (1) Product authentication,
- (2) Distribution tracking,
- (3) Consumer education.

[Product authentication](#) offers security features such as visible, hidden, tamper proof on the product or its packaging. These features allow distributors and consumers to verify visually or using a device (eg Smartphone).

Distribution tracking provides you with the visibility of the products selling into the markets. Being able to track and trace individual product helps to prevent grey market and identify rogue distributors doing illicit trade. [Smart tracking](#) is achieved by giving every product a unique digital identity code (eg serialization or random codes) that is trackable on system.

Consumer education primarily depends on a well-executed [marketing engagement](#) to create awareness. As the brand owner, you will need to share and communicate how your organisation is protecting its product to the stakeholders. The approach needs to be engaging or may even incentivise users to identify and purchase your original products.

Development of a holistic plan needs to consider regulatory component. Its scope covers both internal and external actions. Below are some points to factor in your plan:

- Incorporate contractual obligations in supplier and distributor agreements that penalise actions detrimental to your policies and efforts to combat counterfeiting.
- Identify the points in the supply chain where threats are the greatest.

- Define the best course for action to tackle the threats
- Recognize risk scenarios and allocate resources appropriately
- Conduct unannounced audits on downstream distribution partners.
- Draft a communication plan which covers potential causes of risk, impacts and contingency actions.

For the external scope, it includes the following:

- Register your intellectual property (IP) – example Trademark in your major sales markets and production locations.
- Support efforts that increase the statutory penalties associated with counterfeiting or related threats.
- Actively work with government agencies (eg. Customs) and large E-commerce marketplace

Enforcement is the last component aims to deal with large majority of threats that is coming from the more committed syndicates. Combating the threats from these criminals require a more aggressive actions supported by appropriate solutions. Organisations can support their executives and government agencies in their enforcement work to protect the brand and products in cost effective and

efficient way. Such approach includes solutions as follows:

- Implement multiple integrated physical and digital authentication technology components in areas that represent the highest threat potential.
- Implement systems to allow for analysis and alerts on any form of attacks for early intervention.
- Support the links that connect brand protection executives responsible for managing risk, to field inspectors and authority agencies to allow quick and fast investigation.
- Share insights and information gathered to authority and lawyers for prosecution if needed.
- Set up a flexible investigative force that can be scaled quickly and focused at the right place and time
- Conduct raids against individual distributors or retailers to suppress counterfeit sales.

Upon enforcement actions, as brand owner, you may conduct administrative proceedings against parties of the counterfeit supply chain such as packaging factories. Often it is for infringement that meets a certain threshold or seriousness to the state.

## INTERESTING STATISTICS



Having legally defensible evidence in an organised way for court submission becomes crucial in civil and criminal litigation.

With the action plan established, it is important that you collect information and monitor data. This would present opportunities to better understand future risks and to respond promptly.

## Closing thoughts

Counterfeiting has no borders. It affects everyone, whether you are big enterprise or small company. The complexity of your supply and distribution channels provides a greater opportunity for the counterfeiters to thrive. Your strategy should be robust, interlocking and well-implemented in order to quickly authenticate suspicious products in the field. A [smart brand protection](#) program empowers consumers to easily identify genuine products, help organisations to track distributions and build brand loyalty. The values created go beyond counterfeit protection. It drives business growth. A holistic approach of IP registration, integrated physical and digital product authentication, consumer engagement and enforcement are needed to tackle counterfeit issues effectively. This risk assessment guide will help you to establish a stronger action plan paramount to your company needs. Brand protection is often being overlooked. The rewards will come to those who take the effort, flexibility and mindset to get them.



**INTERLOCKING SOLUTIONS**  
THAT PROTECT YOUR BRAND, JUST LIKE CURRENCY

Nabcore is a brand protection and tracking specialist in Asia. Based in Singapore, we work with brand owners to provide interlocking solutions to prevent loss revenue due to counterfeit and engage consumers to effectively drive business growth. With deep domain knowledge and unique anti-copy solutions, we have implemented multiple projects across various industries in Asia and globally. If you wish to find out more, please feel free to email us at [contact@nabcore.com](mailto:contact@nabcore.com) to post any questions.



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