



When **imitation** is not the finest form of **flattery**

Counterfeiting has become a scourge of our time for many of travel retail's key product sectors. As a consumable, liquor is particularly vulnerable – as are those who buy the fake products. Cosmetics, fragrance, tobacco, watches and leathersgoods all face a mounting threat from often sophisticated fakery. We examine the problem through the eyes of a company dedicated to proving that imitation is not flattery.

By Martin Moodie

The spirits industry loses between US\$500 million and US\$700 million each year through counterfeiting. Those numbers, produced by the International Federation of Spirits Producers, dramatically underline a major commercial and consumer menace.

Policing and off-setting the counterfeit threat is a 365-day task for big brand companies – and for the specialists they employ. Adrian Simmons is just such a specialist. As Managing Director of UK company Total Brand Security he is committed to protecting world-

class brands against counterfeiting and parallel trading.

Counterfeiting is a shadowy and wholly illegal business, taking many forms across all continents and all categories. Due to the high price tag that premium Cognac brands command in Asia, for example, a large market share is lost through refilling schemes.

"Counterfeiting is a shadowy and wholly illegal business"

Simmons takes up the story: "What happens is that empty bottles are collected (the barman gets a couple of dollars for passing them on); they are then refilled, recapped and

Multilayered Security Sleeves – How they work

Total Brand Security (TBS), founded in January 2003, is active in the area of brand security and tracking and tracing.

The two founders – Adrian Simmons and Jacob Scherf – are veterans of Westvaco Brand Security, a specialist company that operated in the same domain until the end of 2002. The new company has continued similar activity, providing integrated technology systems and security programme management solutions to brand owners. These have flourished thanks to a growing assortment of technologies as well as existing relationships with brand and document security owners.

Adrian Simmons describes some of the security features of TBS's Multilayered Security Sleeves.

"These sleeves incorporate a specially designed secure hologram featuring with the brand logo/insignia. Our holograms are extremely fake-proof and cannot be reproduced in anything like their original form by any known copying technique. Their striking appearance makes it immediately clear that this product is protected. The hologram is an integral part of the sleeve and cannot be removed and applied elsewhere.

"Many colours are possible. Illustrated is an example of a gold coloured hologram.

"Another big advantage of our hologram sleeves is that we include a manipulation-proof serial number as a basis for traceability. We use laser engraving for this and the paper-thin aluminium coating is removed using a

special laser. The number can neither be removed nor otherwise manipulated as it becomes an integral part of the sleeve.

"It is also possible to engrave a data matrix which can be machine read to give a full track-and-trace record for each of your products.

"The brand logo and design on the sleeve will use two colours. In addition to these we add a special security UV/IR ink, as used in the banknote industry, which is virtually impossible for a counterfeiter to obtain. This gives an additional security feature for brand personnel or detectives to analyse in the market. Special readers are supplied to customers in order to make this possible.

"The holograms are specially perforated, and once the perforations have been opened it is impossible to put the hologram back together. The sketch below shows how the hologram's perforations are a foolproof tamper-evident system.

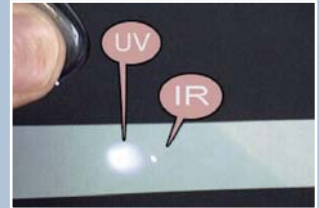
"Note that this is just an illustration and all sleeves can be designed according to customers' wishes.

"Holograms are designed to be tamper evident; to this end they are also partly stuck to the glass below the plastic skirt. To achieve this the holograms have a special adhesive that is activated with heat during the shrink process to make it adhere to both the plastic skirt and the bottle (adhesion to the bottle will not be as strong as to the plastic). On removal a hologram will break up, making it impossible to re-use."

Example of a hologram inside a security shrink sleeve



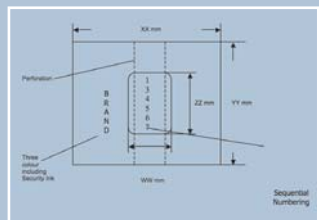
Datamatrix laser-engraved hologram



Example of the UV and IR ink read with special reader



Example of a special reader; the coin gives an idea of its size



Example of sleeve for brand

resold at very good profit margins. On the one hand this creates a revenue loss for the brand owner; on the other there is the potential of a liability problem should the fake product turn out to be poisonous – for example if methanol is used instead of ethanol.”

Counterfeit trading has plagued the wine and spirits industry for decades, Simmons says. Contamination, raw alcohol and inferior ingredients are just a few of the potential problems, while bottles that are refilled and re-corked may not have been adequately cleaned or washed. The risks to consumers are often deadly.

It's not just emergent markets that are affected. In the UK during the run-up to Christmas several warnings were issued over the sale of fake Champagne, which involved putting counterfeit labels on bottles of cheap sparkling wine. Over the years there have been many serious frauds involving refilling, substituting less valuable vintages in high-priced bottles, and faking labels.

Counterfeiting: the size of the problem

- Counterfeiting of liquors and spirits has been recognised as a major problem for many years
- Losses through counterfeiting in the drinks sector are estimated to be in excess of 8% of total sales
- With spirits being highly taxed, losses through counterfeiting, diversion and smuggling significantly reduce government tax revenues
- Additionally brand owners face potential brand name damage, loss of sales and exposure to product liability claims
- In extreme but surprisingly frequent cases loss of life has been caused through ingestion of fake or contaminated drink
- The problem is an enormous one, and it continues to grow
- Major international spirits producers have formed a group to co-ordinate the industry's response to counterfeiting.

"Sometimes the retailer himself will not know that he is dealing with counterfeit products"

Finding a solution

London-based Total Brand Security (TBS) has developed its own solution to the counterfeit menace in the wines and spirits industry. Called the multilayered security sleeve, it is particularly designed to address the key issues of counterfeit products, refilling and the grey market.

According to Adrian Simmons the multilayered security sleeves offer several critical advantages. They integrate well into the current design of the product under scrutiny; they are quick to implement (around eight weeks from agreement to delivery); and small, medium or large runs are possible.

“We have a very flexible manufacturing facility, able

to produce as few as 5,000 sleeves right up to production runs of many millions,” notes Simmons. Additionally, and importantly, different layers of security can be implemented over time. This makes it difficult for the counterfeiters and grey marketers to keep up with the changes.

The Moodie Report asked Adrian Simmons about the impact of counterfeit on travel retail.

The Moodie Report: Liquor is clearly a prime target for the counterfeiters, but what about the other sectors sold in travel retail?

Adrian Simmons: The other two important sectors are perfume & cosmetics and luxury products. Both of these sectors are prone not only to counterfeit but as you know to grey marketing. TBS has a range of different solutions in order to better track products in the marketplace. This can be done both covertly as well as openly.

Where are the worst problems geographically?

As most people realise, China is a big producer of counterfeit products. These products are sold largely for the Chinese local market but more and more of them are being exported and infiltrating existing distribution channels.

The problem then is that a consumer can in fact be buying a counterfeit product in a duty free shop without realising it. The consumer trusts the duty free retailer and never knows that it is in fact a counterfeit product.

Sometimes the duty free retailer himself will not know that he is dealing with counterfeit products because they

are being infiltrated earlier on in the distribution chain.

But how serious is counterfeit in this channel, given that retailers buy through bona fide subsidiaries, agents or distributors?

No market is fully protected in today's environment. Travel retail products are often high-value, low-volume shipments that can easily be shipped all over the world.

The margins on such shipments are such that it can be quite lucrative to move them from one market to another. This opens up possibilities for infiltrating the distribution channels with counterfeit product. There needs to be multilayer security on the products so that the different distribution levels can verify for themselves that they are actually dealing with the product they expect to be dealing with.

There are lots of different ways to this, and TBS is one of the world's most adept at solving these issues.

There was a well-documented case in Australia recently when Customs raided a counterfeit-cosmetics importing operation. Besides the obvious health risks, it was clear that counterfeit was playing a role in the growth of the discount cosmetics market. How close do the two – discounting (often grey-market-fed) and counterfeit – go hand in hand?

Our experience is that they go very closely hand in hand. Discount cosmetics are often produced in low-cost countries and therefore they are prone to moonlighting – this is when the OEM produces the same item during an extra shift without the consent of the brand owner. TBS has special ways of implementing technologies that can protect the brand owner against such problems. We implement special technologies, similar to those used in

the production of banknotes, that make it impossible for moonlighting production to take place.

How much does government support for the crack-down on counterfeiting vary around the world?

Typically it is in the government's interest to crack down on counterfeiting as they can gain additional tax revenues. The tobacco industry is a good example. But there are always suspect countries where corrupt tax officials help promote such counterfeiting rings. This has been seen in Eastern Europe as well as in South America and certain Asian countries.

What are the biggest challenges facing your business and your work?

One of the biggest challenges is convincing brand owners of the need to invest before seeing a return on investment. Typically when we go into projects we see a return of at least five times the capital outlay. We have a number of such examples that have been proven in the marketplace to be very cost effective.

If you had one message to brand producers, what would it be?

The only way to combat counterfeiting in the marketplace is to be proactive and install different security layers on your products. The more layers of security you apply the more likely it is that the counterfeiter will leave you alone. This will very quickly help you gain market share, increase your profits, and most importantly of all gain customer confidence.

Brand security can be turned into a positive for your marketing image and, used wisely, can be very effective for your bottom line. ■



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