Managing your brand security
Executive summary

For many companies around the world, counterfeiting is a large and growing problem. Counterfeiting is currently estimated to cost the global economy $700B annually, and is expected to grow to over $1T in trade losses by 2010. As serious as these figures sound, they still do not capture the full story; substantial amounts of hidden costs are not included.

Although existing product supply chains are highly complex, companies need to effectively implement holistic solutions that minimize counterfeit product manufacturing and verify authenticity. Effective implementation of an anti-counterfeiting solution will have three benefits:

1. Defensive: Protect brand equity—Verify products in the field are genuine
2. Direct ROI: Prevent fraudulent claims and returns—Profitability
3. Offensive: Build “premium” brand—Pricing power

These three benefits can be realized through the creation of new business capabilities and technical solutions that enable ultra-covert level product security, and are easily and affordably deployable. Moreover, ideal solutions should be virtually impossible to counterfeit, and should not alter existing product manufacturing and distribution processes.

Protect your brand equity and reputation

Companies spend decades and billions of dollars to build and maintain their reputations. And, like many things, brand equity is much harder to build and maintain than it is to lose. Hits to brand equity have deleterious effects on many aspects of a business.

Counterfeit drug sales in 2008 were estimated at $40B worldwide. These counterfeits often include drugs whose composition varies from the legitimate product. When a problem arises with one of the counterfeit products, the legitimate producer is held responsible, and may have to recall perfectly good products or fight lawsuits defending a faulty product that they didn’t manufacture. In the event that a problem arises with the legitimate product, counterfeits in the market add to the amount of drugs that need to be recalled and investigated, thereby increasing costs. Studies show that approximately three percent of pharmaceuticals are returned every year, and almost all are credited at the current list price. Counterfeit drugs are very dangerous, with the potential to cost people their health and even their lives.

Counterfeiters are also wreaking havoc in the world of consumer products. The U.S. Customs annual report lists the value of all seized counterfeit and pirated products for 2008 at $273 M.
Retailers estimate that over 5% of all returns are fraudulent. Further, a recent case of counterfeit wines in South America unearthed $100M of wine fraud. The repercussions of such findings are shocking—if $100M is just one shipment of fraudulent wine, imagine the magnitude of counterfeit operations.

From the consumer’s perspective, a counterfeiting scandal may be perceived as the result of careless operations by a large, unethical drug company. This perception can lead to a loss of short- and long-term market share to competitors. In addition, the company would have to spend extra marketing dollars in efforts to regain the consumer’s trust, which may or may not return to status quo.

Besides the hit to profits resulting from consumer dissonance and additional marketing expenditures, there is a market impact that can often be even harder to overcome. Analysts and investors who mistrust a stock can drive the company’s rating down and keep it there for years at a time, or until serious revamped efforts are made on the part of the victimized company. Repeated problems can lead rumors to circulate and create a “crisis risk.”

**Challenges in dealing with counterfeiting**

Challenges in dealing with counterfeiting can be seen from three different perspectives: the manufacturer, the consumer, and the counterfeiter.

**Manufacturers**

Because it is difficult to estimate exactly how much is lost to counterfeits for a given product, and because of the nature of the many hidden costs, companies incorrectly perceive the damage done to their corporations. They, therefore, underestimate (or are completely unaware of) the needed response. Some manufacturers are ahead of the curve, but a significant number are slow to recognize and locate counterfeits. Given the complexity of the supply chain, there are many points during the manufacturing and distribution process at which counterfeits can be introduced. If a given “counterfeit dump” leaks in at the beginning, counterfeits from that installment could end up on 20 different companies’ shelves. The distributed nature of counterfeiting within the supply chain results in a problem that no single entity owns. Difficulty in determining an ROI resulting from investment into anti-counterfeiting, and the lack of a single “owner” of the problem, frequently leads companies to either not invest at all, or to invest insufficiently. This current state of disarray and lack of attention makes life relatively easy for the counterfeiter and their unaware buyers. In many cases, manufacturers have recognized the problem and have a high interest in protection, but don’t know where to start.

**Consumers**

When the word counterfeiting is used, people immediately think of two people getting hurt—the manufacturer of the legitimate product, and the consumer duped into purchasing the fake. However, consumers are often completely aware that what they are purchasing is not legitimate, but have incentives to buy the counterfeit that supersede the potential liabilities. These incentives include easy access to a pseudo-premium product and price discounts, both of which are substantial benefits.

**Counterfeiters**

Counterfeiters have the best of both worlds: unaware or complicit consumers and inactive, or ambivalent manufacturers. With the technology boom and ease/speed of access to information, counterfeiting is becoming easier every day. In addition, profit margins for selling counterfeit products are huge, providing large free cash flow that can be used to grow the operations. Given the international nature of operations, penalties for getting caught are few and far between, and are not substantial enough to deter the counterfeiters.
The optimal anti-counterfeiting solution changes the game

Anti-counterfeiting solutions today are offering manufacturers an effective and cost-efficient means to eliminate counterfeiting. These solutions are enabled by emerging technologies that allow real-time, lab quality testing to be conducted in the field. These technologies are easy to install during the manufacturing process, they are virtually impossible to replicate, and allow a product’s legitimacy to be verified in a few seconds. Here are five game changers:

1. New anti-counterfeiting technologies enable a deterrent strategy that will defend against both counterfeiters and conscious consumers of counterfeit goods. Public knowledge that this technology is being used by company XYZ will serve much the same purpose as signs outside houses warning thieves that a security system is keeping watch. Threat of detection will drive counterfeiters away from companies that have implemented effective anti-counterfeiting solutions, and toward those where such measures have not been taken. Consumers will have to play a trickier balancing game, weighing the now greater risk of getting caught versus the price and convenience benefits of the counterfeit goods.

2. New technologies utilize chemical markers at very low concentration levels, thereby making it virtually impossible for counterfeiters to identify and replicate. The appearance of the labels or cartons is not modified in any way. Thus, costs and delays associated with packaging recertification can be reduced or eliminated, leading to a much quicker time-to-market.¹

3. New technologies leverage people and resources that are already in place within the company. Due to the simple nature of ‘reading’ devices used to check for product legitimacy, no special training or new personnel are needed in the field. Anywhere in the distribution chain, an employee with a reader will be able to conduct what are essentially high-security, forensic level diagnostics on-site and in real time.

4. New technologies enable “choke point execution.” Whether inspecting luxury handbags at point of import, wines at auction, or cosmetic cartons at retail outlets, on-site instant authentication greatly diminishes a counterfeiter’s ability to operate in these markets after anti-counterfeiting solutions are in place.

5. An optimal anti-counterfeiting solution will allow companies to offer genuine product guarantees. Over time a reputation will be built of being a safe provider. The integrity of the brand is at stake. A strong brand drives higher customer loyalty and better share prices for the organization.

¹ If markers are used at sufficiently low concentrations on labels or cartons with potential food or drug contact, dietary exposure will be less than the US FDA threshold of regulation for food contact notification. Therefore, an FDA food contact notification would not be required.

Forensic level security with covert level ease-of-authentication

The solution is as impregnable as a conventional forensic security feature, but without the need for laboratory-based authentication. Authentication is simple with a field-deployable, covert, hand-held reader.
Achieving the vision

Kodak provides solutions that enable forensic level security with ultra-covert level convenience. Moreover, in line with European Federation of Pharmaceutical Industries and Associations Packaging Standard (EFPIA) recommendations, our solutions directly address “Authentication,” and can be layered with other technologies that offer “Tamper Protection” and “Serialization” for additional security.

One example is Kodak’s Traceless System, a two-part solution that incorporates ultra-low levels of a marker formulation and a hand-held, ultra-sensitive, imaging reader. The markers are proprietary and are supplied simply and securely in the customer’s chosen carrier (i.e. ink or chemical process component). Due to low marker levels, integration is possible with no effect on the characteristics of the host material, and only the Kodak Traceless Reader can authenticate the marker. Further, for each application, marker configurations are formulated to provide multi-layer security that is virtually impossible to replicate and that will provide robust product protection for many, many years.

The Kodak Reader is proprietary, programmable, multi-functional, ultra-sensitive and micro-imaging, capable of detecting unique marker image properties. Authentication is automated pass/fail verification, independent of human intervention. Marking formulations and reader settings are customized for each deployment to maximize robustness and security. The Kodak Reader can be upgraded and reprogrammed for customer-specific development projects, such as pattern recognition for serialization with unique codes and patterns.

Value to the organizations

It is important to note that while an optimal solution may offer an ultra-covert, drop-in simple technology, there are other aspects of the proposition that brand owners should know. These aspects revolve around identifying the value generated by formulating an anti-counterfeiting strategy. The value for organizations that wish to maximize the results of their anti-counterfeiting campaigns:

**Defensive:** Protect brand equity—Verify products in the field are genuine

**Direct ROI:** Prevent fraudulent claims and returns—Profitability

**Offensive:** Build “premium” brand—Pricing Power

Delivery options and benefits are numerous:

**Benefits**
- No disruption to production or product design
- Easy ramp-up to full scale manufacturing
- Easy deployment across a brand’s many products and packaging configurations
- Secure marking, even on optically challenging substrates
- Economical use of marker in large print areas and even in bulk items (i.e. molded plastics)

**Delivery Options**
- Printing inks and varnish
- Paper pulp or woven fiber
- Digital printer toners or inks
- Molded or extruded plastics
- Powders and liquids
- Textiles
- Thermal print consumables

**Benefits**
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- Easy ramp-up to full scale manufacturing
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Defensive
The ability to ensure that existing products in the supply chain and ultimately in the hands of the consumer are genuine. Given the highly complex nature of the supply chain, there may be several “vulnerabilities” where a counterfeit product might be introduced. A tight supply chain, although optimal, is not always a viable solution—as a result organizations have an inherent need to protect themselves against potential lawsuits, bad press coverage and even revenue erosion. A complete counterfeiting solution offers a defensive strategy that enables anyone in the value chain to verify if the products in the supply chain are indeed authentic. Besides this primary benefit, a defensive play also acts as a deterrent strategy for counterfeiters who may, over time, redirect their malicious efforts elsewhere.

Offensive
Depending on the industry, some organizations may garner a higher margin from their customers by guaranteeing that their premium brand is indeed authentic. For example, a winery could charge a markup for their wine collection as a result of anti-counterfeiting technology embedded into their bottles. The winery could in turn pass the higher price and the “certified” bottle to a distributor who eventually can offer the same guarantee to its customers. At the end of the supply chain, the customers are presented with a high-end product which is guaranteed to be authentic but requires a slight price premium. This model could be successfully applied to a host of industries including processed materials, collectibles, clothing, electronics, automobiles etc.

Direct ROI
If a security solution is not in place, some brand owners are forced to pay customers for warranty claims on counterfeit products. Therefore, the return of defective non-genuine products unknowingly (and in some cases knowingly) by customers has a direct impact on the bottom line for an unprepared organization. By introducing an optimal anti-counterfeiting solution that doesn’t change the product characteristics and sustains for years, a brand owner can be assured that they are only liable for genuine claims and in turn positively impact their anti-counterfeiting return on investment.

Align organization to solution to realize value
While the technology may provide the technical support to address an organization’s counterfeiting challenges, in reality the company itself holds the key to maximizing value from its anti-counterfeiting efforts. By being aware of a few critical questions, the organization can arm itself to take counterfeiters head on.

- What is the go-to-market strategy to counteract fraud and counterfeiting? How is this strategy similar to or different from competitors’ strategies?
- How much value is lost due to counterfeiting at the host organization? What economic models exist to determine the amount of value preserved/created by adopting such anti-counterfeiting capabilities?
- What are the metrics used to measure the overall success of such programs? Which of the metrics is more critical than the others?
- Is there consistent buy-in at executive levels across the different business units? Is one business unit more active than another?
- What might be some strategic, organizational or manufacturing challenges to address?
- What is the implementation roadmap to “operationalize” an anti-counterfeiting strategy rollout? Does this plan span across different geographies, divisions and/or product portfolios?
- Is there a long-term post-implementaton vision? Are metrics defined to measure progress?

The knowledge of these targeted questions, coupled with an optimal technical solution, will help transform the organization from a victim to an industry leader.
Roadmap to change
In Kodak’s experience, once stakeholders recognize and understand the strategic, overarching issues, the journey to implementing a security solution can begin. A team of experienced business consultants and technicians can help maximize value for the host organization and drive change. In fact, the first step is to develop a roadmap that includes a plan for managing the risks associated with change.

A senior steering committee must be convened to develop and execute the roadmap. The committee’s ownership helps ensure that issues encountered along the path are resolved, and that communications flow smoothly to convey project status and re-emphasize the benefits of change.

Kodak builds a phase and gate process into its roadmaps to mitigate risk. At each phase of plan execution, the project value is validated and the completeness of deliverables is reported to all stakeholders. This helps ensure that before the team makes any investment or implements changes, all are aware of the action’s value and risks. This also presents an opportunity for corrective action or redirection before additional assets are expended.

The plan should be developed within the phase and gate context. Work, to be performed in phases between each milestone, should not overstretch the capabilities of the organization. Instead, work must be organized in increments that the organization can reasonably expect to absorb. The plan should also develop contingencies based on probabilistic outcomes to guard against surprises.

This approach enables the security solution to be implemented in an accelerated yet controlled manner. The organization can validate value, prove the model works, and easily scale to end state with minimum disruption to current operations. Moreover, early trial successes can be celebrated to help maintain momentum.

Summary
While all brand owners may realize that counterfeiting is a huge problem, the proactive companies recognize that it is imperative to act. To overcome the challenge, it is critical to understand the market forces between manufacturers, consumers and counterfeiters. Moreover, a game changing solution is needed to offer ultra-covert level product security that is easily and affordably deployable in the existing field environments. In addition, the solution should be virtually impossible to counterfeit, and not alter existing product manufacturing and distribution processes. Once a commitment and agreement have been established, Kodak can help transform the host organization from a victim to an industry leader in brand security.
For more information about Kodak’s security solutions:
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