Introducing

How To Combat Counterfeiting And The Gray Market In The Fashion Industry

Cope With The Challenges

WHAT IS COUNTERFEITING AND WHY IS IT A PROBLEM IN THE FASHION INDUSTRY?

Most consumer goods industries are plagued by counterfeiting. However, the U.S. Customs and Border Protection reported in 2021 that the fashion industry is the most vulnerable to counterfeiting, resulting in an estimated $60 billion in annual losses.

Counterfeit goods are items such as clothing, footwear, accessories, or makeup that are produced and sold by an unsolicited third party with the intent to replicate a designer product. The item can only be deemed counterfeit if it bears the brand logo. "Fakes", "dupes", and "replicas" are terms used in the fashion industry to refer to counterfeit goods.

Counterfeiting undermines the ingenuity and hard work of the original designer. It can also be harmful to both consumers and the economy. If your product is not protected by a secure authentication technology, counterfeiters can easily replicate it.

When a counterfeiter sells a product emblazoned with your brand name, they profit from your creativity and marketing while also diverting a sale away from you.

HOW DO YOU TELL IF YOUR PRODUCTS ARE REAL OR FAKE?

DILUTION OF BRAND IMAGE AND CONSUMER CONFIDENCE

Fake luxury goods are commonly produced from lower-quality materials, which can hinder your brand's identity and consumer confidence. Because these items are unregulated, the materials are not held to the same safety and quality standards as authentic items, putting the consumer at risk. Fake products in the cosmetics industry can cause severe skin reactions.

Many people purchase counterfeit goods under the misguided notion that they are genuine. Anti-Counterfeit Authority data reports that 30% of consumers are unsure whether they purchased counterfeit goods. Counterfeiters claim to sell genuine goods on Instagram and online resale marketplaces. Customers are sometimes introduced to brands for the first time by resale companies. Because resale businesses lack extensive authentication processes, counterfeits spread.

Loyal customers of luxury brands value product exclusivity, so the spread of counterfeits results in a loss of status. Brands are held accountable for the control of counterfeits. Red Points reported in a consumer research survey that 31% of consumers believe it is the brand's responsibility to remove fakes from online marketplaces. In addition, Red Points found that 47% of consumers would talk negatively about a brand if they found fakes online. The higher the number, the greater the risk for your business. Consumers will have less respect for your brand if your products are being counterfeited without consequence.

DO CONSUMERS THINK HIGHLY OF YOUR BRAND NAME?

NEGATIVE IMPACT ON THE ECONOMY

Those involved in the black market do not pay sales taxes, resulting in revenue loss for the government. This revenue is frequently recurrently used to fund other illegal activities such as terrorism, drug and sex trafficking, and money laundering. In addition, counterfeiters do not provide ethical working and pay conditions.

Counterfeit goods are typically manufactured in other countries, resulting in job losses in your own country and a direct impact on the fashion industry. The Sourcing Journal reported that over 518,000 jobs have been compromised in the EU from counterfeiting in the fashion industry. Because the success of your company affects your employees, every counterfeit sale has an impact on your company, whether you are aware of it or not.
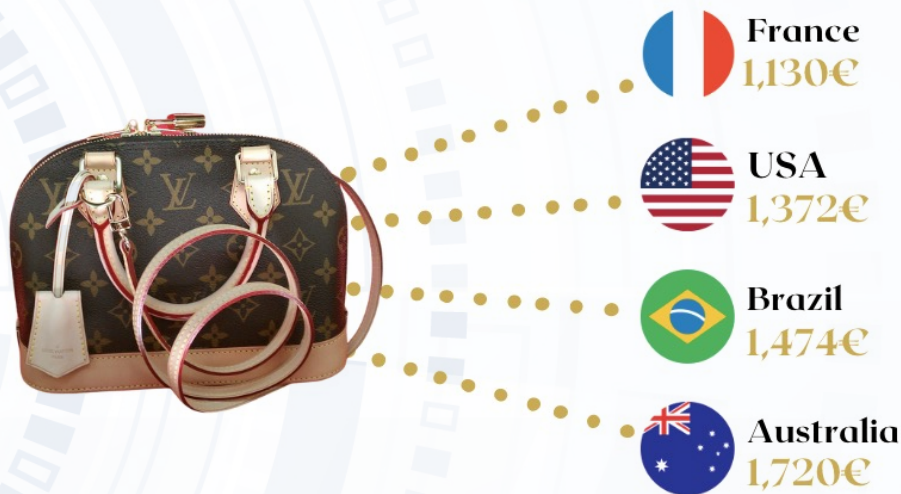
WHAT IS THE GRAY MARKET?

The gray market, also known as parallel trade, is the sale of genuine, legal products at a 15-35% discount through unauthorized channels. Official distributors may overestimate a product's demand in one country, resulting in excess inventory. Or sometimes, the manufacturer will produce extra goods with the aim to profit on their own through outside buyers. This results in parallel trading, in which the wholesaler exports goods without obtaining a license from the original owner of the intellectual property. Profits are then funneled away from the original designer or brand.

LEGALITIES OF THE GRAY MARKET

If the brand authorizes the manufacturer or wholesaler to sell its intellectual property, the brand can lose control over the product's resale. Parallel trade is illegal in the United States if the original designer owns a trademark, and the products are sold by an unauthorized reseller. The IP owner may also object if there is a material difference that causes consumer confusion. Parallel trade is illegal in the European Union if the original designer did not give permission for the first sale or location of such sale.

LOUIS VUITTON SPEEDY 25 BAG PRICE COMPARISON IN VARIOUS COUNTRIES (CURRENCY CONVERTED TO EUROS)

France 1,130€

USA 1,372€

Brazil 1,474€

Australia 1,720€

RELEVANCE IN THE FASHION INDUSTRY

Luxury goods such as clothing, footwear, and accessories are vulnerable to parallel trade.

Usually, products sell for different prices in different countries, so the gray marketer will sell them in the wrong country where they can make a profit. The rise of e-commerce marketplaces, such as Amazon and eBay, has made the gray market more accessible. The gray market is also common with drop shipping, as the seller can source the product at the least expensive price and ship it to another country. Many consumers consult all options before making a purchase, especially with the ease of price comparisons online. Consumers often value price over source. The customer is going to purchase from a gray market seller over you in most cases.

Brands suffer similar consequences to counterfeiting, such as revenue losses, to the gray market. The gray market, or parallel trade, is an issue that affects many companies in the fashion industry. Your brand can attempt to tackle this issue by closing price gaps across countries, eliminating third-party sales, or engraving serial numbers to track items. However, nothing will be as secure or reliable as invisible, digital serialization. If your brand implements an invisible serialization, then you can track gray market activities without the risk of tampering.

HOW DO I ADDRESS THESE ISSUES WITHIN MY COMPANY?

If your brand name is well-known, it is probably a victim of counterfeiting and the gray market. The first step in choosing an anti-counterfeiting technology is to identify the problems within your brand and consider potential solutions.

Identifying the Problem

- Is your company losing money as a result of counterfeits or the gray market?

- Do customers have difficulty determining whether goods bearing your brand name are authentic or counterfeit?

- Are consumers being harmed as a result of the circulation of counterfeit goods carrying your brand name?

- Has your company lost customers as a result of brand dilution caused by counterfeiting?

- Is it difficult for your company to track goods from the manufacturer to selling locations?

- Are your competitors adopting anti-counterfeiting technologies?

If your brand suffers from these issues, it may be time to implement a technological solution. The next step in selecting an anti-counterfeiting technology is to consider the following details.

Identifying the Budget

- How much money is your team prepared to spend to combat counterfeiters and improve the brand image?

- Is this for marketing or for security?

- Will the costs of implementing a technology outweigh the costs of losing profits to counterfeiters and the gray market?

Identifying the Timeline

- What is the deadline for implementing this technology?

- How long do you have before your competitors implement technologies?

Identifying the Volume

- Do you intend to incorporate the technology into each of your products?

- Do you want to use the technology on high-value products or those that are frequently counterfeited?

On-label or On-product

- Do you want the technology to be applied to the physical product, such as a handbag, shoe, or article of clothing?

- Alternatively, do you want the technology to be applied on the product label, the authentication certificate, or the product's packaging?

Overt or covert

- Do you want the technology to be visible, or overt, in terms of marketing?

- Do you want the technology to be invisible, or covert, for aesthetic reasons?

- Is it critical that the technology be invisible to counterfeiters?

The table below shows the advantages and disadvantages of overt vs covert technologies. This is something you need to consider while choosing your technology.

	COVERT TECHNOLOGIES	OVERT TECHNOLOGIES
ADVANTAGES	Security by obfuscation – counterfeiters do not know that the technology is present No need for especially skilled users as the user is assisted by a machine Intrinsically more secure than overt technologies You can change the technology more easily	Demonstrates to customers that you are doing something against counterfeiting
DISADVANTAGES	Not easy to use for marketing purposes	Easily counterfeited Difficult to change the technology Changes to manufacturing

THINGS TO CONSIDER WHEN SELECTING A SUPPLIER

Once you have answered these questions, you will be able to narrow down your options for anti-counterfeit technology suppliers. It is important to ask yourself these questions when considering a company in which you will be creating a long-term partnership.

The Legitimacy of your anti-counterfeit supplier company

- Has the company been in operation for a long time?

- Is the business profitable?

- Are the technologies proven to be counterfeit-resistant?

- Is the company's technology protected by a patent?

- Is the company willing to sign a formal Escrow agreement?

- Is the company willing to provide customer testimonials or references?

The Deployment Process

- How long is the process?

- How easy is the process?

- Are there different types of technologies?

- Does it require additional manufacturing steps?

- Are there additional production costs?

- Does the company offer additional services?

- Is the technology detectable by a mobile device?

ISSUES TO CONSIDER WITH TRENDING AUTHENTICATION TECHNOLOGIES

Fashion brands are aware of the problems of counterfeiting and have attempted to combat them with various technologies. Some of these popular technologies have flaws. Many are costly, time-consuming, insecure, or all the above.

TRADITIONAL BARCODES AND QUICK RESPONSE (QR) CODES

Traditional barcodes and quick response (QR) codes are widely used by fashion industry brands as simple marketing tools. Because these codes are visible, counterfeiters can easily replicate them. As a result, these technologies are vulnerable to counterfeiting.

5.2 RADIO FREQUENCY IDENTIFICATION (RFID) TAGS

RFID tags identify and track products by using radio waves. RFID tags and readers, as well as the development and maintenance of RFID systems, are costly and time-consuming for the brand owner.

5.3 BLOCKCHAIN

Blockchain enables the secure transfer of data or money. A common misconception is that using blockchain can protect against counterfeiters. It cannot, however, protect physical items, only the data embedded in the blockchain.

Non-fungible tokens (NFTs) are blockchain-enabled digital representations of assets. NFTs are unique and cannot be replicated. The creation of an NFT with a corresponding physical product does not protect the physical product.

Compare our technologies with other anti-counterfeiting technologies here.

ALPVISION TECHNOLOGIES

AlpVision technologies are covert anti-counterfeiting solutions that protect over 30 billion products globally annually, including tobacco, pharmaceuticals, and precious metals. The Cryptoglyph and Secured QR codes are used on printed products. The AlpVision Fingerprint is integrated with the physical product. Our Brand Monitoring System (BMS) enables businesses to track authentic and counterfeit products by monitoring how their technology is used.

CRYPTOGLYPH®

The Cryptoglyph technology has the following advantages:

- Invisible

- Smartphone-based authentication

- Printed features (Tags, certificates, boxes)

- Uses microdot printing with standard ink and varnish

- No change to print suppliers

- Easy to deploy worldwide

- Simple to use, no training required

Variable Cryptoglyph is also available to print a unique Cryptoglyph on each package

- This is recommended if you want to track individual products

- Cannot be seen or erased by the reseller

More information about the Cryptoglyph® can be found on our website.

ALPVISION FINGERPRINT®

AlpVision Fingerprint® technology has the following advantages

- Invisible

- Smartphone-based authentication

- On product feature

- Protects millions of identical products with a few images

    o   If the product is made with a mold (ie. Perfume bottle)

- Protects individual products with a few images

    o   If each product is made individually (ie. Leather handbags)

- Maintain manufacturing process

- Simple to use, no training required

- Track and trace

- Applicable retroactively

More information about AlpVision Fingerprint® can be found on our website.

SECURED QR CODE

The Secured QR code Technology embeds combines the Cryptoglyph technology with standard QR codes. It has the same advantages as Cryptoglyph® and is used if the security needs to be tightly linked to serialization.

- Embeds the Cryptoglyph technology with standard QR codes
- If a product already has visible QR code tags, this can be a smart choice to add security
- Same advantages as Cryptoglyph
- Used to add security to existing traceability

More information about the Secured QR code can be found on our website.

POTENTIAL USES FOR ALPVISION SOLUTIONS IN THE FASHION INDUSTRY

AlpVision solutions can be useful for many aspects of your brand, such as tracking products.

BENEFITS OF THE BRAND MONITORING SYSTEM (BMS)

Our Brand Monitoring System (BMS) is integrated with the mobile app and can be customized to provide useful information. The BMS can provide the location, time, product information, results, user, and scan image.

- The BMS enables your company to track not only genuine goods but also the gray market and counterfeiting.
- Consumer insights can help your company with future product development and marketing.
- The platform can also connect with existing systems, such as supply chain information.

More information about the Brand Monitoring System can be found on our website.

USERS OF ALPVISION SOLUTIONS FOR YOUR PRODUCTS

Test Purchases:

- When conducting test purchases, the AlpVision mobile application can be used to easily identify counterfeit or gray market goods.

Physical Inspections in Store:

- Retail associates can use the AlpVision mobile application to communicate authenticity to customers, ensuring trust in your brand. This allows you to track sales conversions as well.

Customs Inspections:

- Customs officers all over the world use AlpVision technology. During a customs inspection, the officer sends a photo to a server, which authenticates it. This can prevent the spread of counterfeit goods or unauthorized imports.

Customer:

- Your customer can use the AlpVision mobile application to scan the product or packaging to determine its authenticity.

- The mobile application's accessibility fosters a closer relationship with your customer and provides them with the assurance of authenticity.

Resale Authentication

- Instead of physically inspecting the bag, resale authenticators can scan the product or packaging.

- Furthermore, your customers will find it easier to resell your products, resulting in more purchases.

- Brand owners can use the variable Cryptoglyph and Fingerprint to identify illegal resellers

CONCLUSION

This document concludes by outlining the critical steps in choosing an anti-counterfeiting technology for your company. Determine first whether and how counterfeiting, as well as the gray market, is impacting your business. Second, ponder the project's objectives, including the budget and scope. To choose a company, follow these steps to reduce your list of alternatives. It also is essential to consider the drawbacks of trending technologies.

This guide is intended to assist you in choosing the anti-counterfeiting technology that will best serve your objectives.

If you are interested, we are willing to discuss and see whether our technologies are a good fit. If not, we might suggest different technologies.