



Secure · Enhance · Protect

WHITEPAPER

What is the ROI of Securing Your Brand?



The Costs and Benefits of Securing Your Brand

Counterfeiting generates \$650 billion in revenue annually, and the scale of the problem has grown over 10,000 percent in the past two decades.

Production and distribution of counterfeit, pirated and grey market products is a rapidly growing industry that undermines global trade across virtually all market sectors. Fortunately, brands are not alone in this fight, and OpSec Security offers a broad range of advanced technologies and solutions that effectively counteract the flow of illegitimate goods. The only real question that remains for companies seeking protection is whether the benefits outweigh the costs of implementing those protections.

We have drafted this paper to help brands evaluate the return on investing in security measures. While every market, company, and product line will exhibit its own unique vulnerabilities and degree of exploitation, there is nevertheless a relatively straightforward way to calculate the costs and potential benefits for your specific situation. OpSec is uniquely positioned to understand the return on these kinds of investments because it is the only security solutions provider that offers a comprehensive, end-to-end suite of protection technologies and services to some of the world's leading brands, as well as smaller companies seeking to grow their market share.

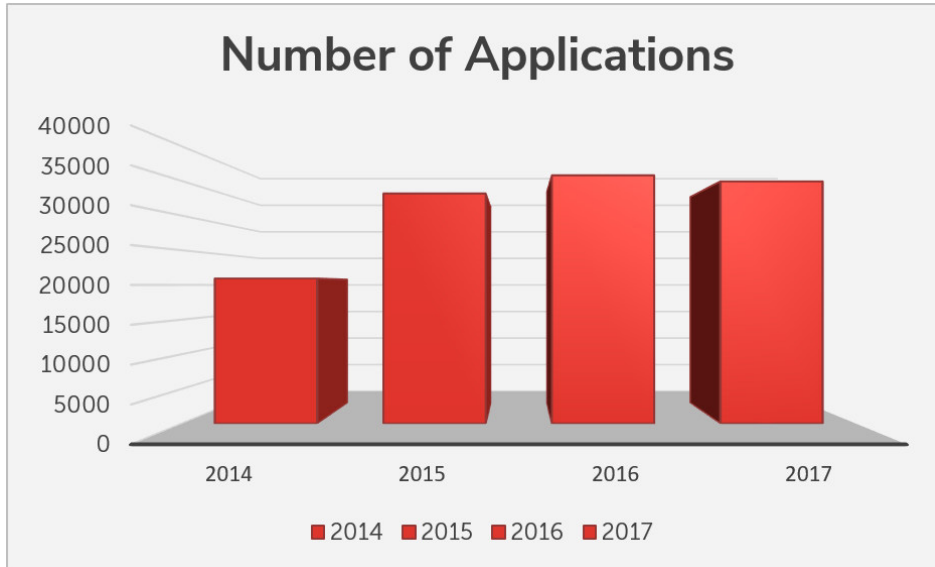
We will examine:

- The Scale of the Problem
- Examples of Solutions and Their Results
- The Numbers: Calculating the Return-on-Investment
- A Worksheet to Assess Your Potential Costs and Benefits
- Indicators that Your Brand May Be Vulnerable.

The Scale of the Problem

It is estimated that counterfeiting generated \$1.2 Trillion in 2017, approximately 3.3% of all global trade, and is expected to reach \$1.82 Trillion by the year 2020¹. The International Chamber of Commerce estimates that by 2022, counterfeiting and piracy will result in net job losses of 4.2-5.5 million².

In 2017, U.S. Customs and Border Protection officials made 34,143 seizures of counterfeit goods worth more than \$1.2 billion at U.S. ports, a rise of nearly 10% since 2016³. The cost to U.S. Economy, as a result of these counterfeit goods, is \$600 billion annually, equivalent to 3% of the U.S. Gross Domestic Product⁴.



The number of applications to the European Commission for action against intellectual property infringements has increased by 60% since 2014.

The European Commission reported 34,931 applications for enforcement action in 2017, almost 60,000 seizures of suspected intellectual property violations, and more than 30 million detained articles with a domestic retail value of more than €582 million⁶.

The trade in counterfeit products erodes company revenues and creates profits for organized crime gangs. It can also pose serious risks to the health and wellbeing of the general public where fake medical, electrical, automotive, or food products are being traded.

Law enforcement helps those who help themselves

While there are a number of well-intentioned efforts by national governments and international alliances to combat these problems, the scale and sophistication of counterfeiting and grey market activity are simply beyond the capabilities of law enforcement, which is fighting a losing battle. Ultimately, brand protection is a “self-service” jurisdiction – companies must be proactive in protecting their interests and their products because no one else is going to do it for them.

Determining how to protect a brand and evaluating the value to think that perhaps the cost of doing nothing (and allowing counterfeiters and grey markets to have their way with your products) might be less than the cost of undertaking brand protection – nothing could be further from the truth.

These tools are powerful and they can deliver improved revenue, stronger brand reputation and loyalty, and ultimately a stronger market position relative to your competitors. As a result, in most cases, the benefits of engaging in brand protection greatly exceed the costs.

You can increase revenue and your profits, and your OpSec representative can show you how.

“Counterfeit trade takes away revenues from firms and governments and feed other criminal activities. It can also jeopardise consumers’ health and safety,”

Marcos Bonturi, OECD Public Governance Director

There is a Solution for Every Problem

OpSec technologies and solutions have been employed to defeat virtually every type of counterfeited, pirated, or grey market diversion of product imaginable. As a result, we are well equipped to evaluate your specific situation, and to help you assess your risks, and the costs and benefits of taking control of your brand. Here are four examples of incredible client success stories.

CLIENT EXAMPLE

Manufacturer suffering from grey market diversions

Problem: A manufacturer came to OpSec concerned about diversion of their key product line to grey market channels. This was reducing the client's revenue, profit margins, and brand reputation.

Solution: In employing a variety of track and trace solutions, OpSec enabled investigations that resulted in: multiple arrests and terminations, closure of rogue distribution centers, and improved behavior at "problem" accounts.

Result: These protections resulted in a multi-million dollar improvement to revenue, and as a result, the client directed OpSec to expand its services to its accounts in Europe.

Lesson: Brand protection measures not only helped leverage the power of law enforcement to shut down rogue operators, they also improved the bottom line.

CLIENT EXAMPLE

Inability to detect unlicensed product

Problem: A well-known licensor was concerned that it had no way of identifying counterfeit product from legitimate product in the field, and clearly had difficulty controlling its licensee manufacturers.

Solution: OpSec implemented proprietary, multi-layered security heat-seal labels via its secure service bureau, and printed and delivered 250,000 labels per day, as needed. It imposed strict controls on label quantities to prevent unauthorized overproduction, and utilized tracking software to manage daily orders and changes, factory scheduling requests, scrap and inventory quantities.

Result: The label was used to support numerous investigations, raids and legal proceedings against former partners, and saved the company thousands of dollars per month by consolidating brand security processes and labels. And, the product ended up looking more attractive, as well!

Lesson: Brand protection solutions can help you control your product at any point in the manufacturing and distribution supply chain, and can save costs in consolidating processes in addition to the revenue gained by restricting sales to your legitimate product.

Brand protection solutions can help you control your product at any point in the manufacturing and distribution supply chain.



CLIENT EXAMPLE

Premium brand losing market share to counterfeits

Problem: A premium brand came to OpSec as a result of discovering counterfeiting and an emerging problem with product diversions.

Solution: OpSec implemented a multi-layer authentication product with overt, covert and forensic features; assigned unique serial numbers to each label; established a secure distribution network; and applied tracking software to manage ordering, shipping, tracking, in-field tracing, and label usage by manufacturers.

Result: Numerous investigations and raids resulted in the discovery and removal of thousands of counterfeit units. The new authentication label offered better security than their previous solution at a lower cost, which saved the customer tens of thousands of dollars.

Lesson: Counterfeit operations can seriously erode a brand's market share and competitive positioning, but they can be defeated through methodical and appropriate security solutions. Sometimes, the thoughtful application of a lower-cost solution can deliver even better bang for the buck than more expensive measures – there are always options.

CLIENT EXAMPLE

Premium consumables brand suffering international-scale diversions from legitimate distribution channel

Problem: Counterfeit, grey market, black market, and aftermarket violations were substantially hurting revenue for a preeminent international brand, and were eroding brand reputation and channel partner relations.

Solution: OpSec helped the client implement track and trace technology with product authentication solutions collected e-commerce data to expose online IP infringements leading

Calculating the costs and benefits of protecting your brand is fairly easy, and you'll find that the numbers work in your favor.



to further investigations; compiled a comprehensive map of illegitimate networks, including operators' home addresses, web links and platform information; and conducted price variation analyses to expose sellers advertising below market pricing, enabling covert purchases to retrace the supply chain and establish violations.

Result: Investigations based on OpSec's strategies resulted in the client severing relationships with distributors engaged in \$2M in questionable practices. Employees were terminated, arrested, and convictions resulted in a \$2M restitution judgment; accounts were closed and re-opened to legitimate account partners, obtaining bids of \$300k. Over 130 improper resellers/distributors were issued cease and desist orders; improper importation of products was reduced by 60%.

Lesson: Counterfeiters and grey market operations are big business, and as a result, the financial rewards of pursuing and shutting down criminal networks can be enormous. Brands need access to a full spectrum of security solutions to truly extract these problems down to their roots.

The Numbers: Evaluating the Costs and Benefits for Your Brand

It is fairly easy to demonstrate the real costs and potential benefits of implementing protective measures, and the math may surprise you.

As an example, let's say that the total annual market for widgets is 10M units, where the "total market" includes all legitimate products plus all counterfeit and grey market products. These widgets generally sell for \$20 wholesale, and there is a 50% margin, so there is a total market value of \$200M, with a profit margin of \$100M.

In this example, Brand A is producing one million widgets annually, which represents 10% of

the total market. If implementation of a selected protection technology will cost Brand A \$0.02 per widget, the total cost of that specific solution would be \$20,000. To evaluate what this cost actually means, the brand needs to ask a very simple question:

What additional portion of the total market, including all legitimate and counterfeit units, does the brand need to capture (or re-capture) in order for the protection measure to break even or to generate a profit?

Here, the \$20,000 cost of protection for Brand A represents 0.02% (two hundredths of one percent, or two ten-thousandths) of the total margin existing in the market. This means that in order to recover its protection costs, Brand A only needs to increase its unit sales by 0.02% of the available market, or 2,000 units (which will deliver a \$20,000 margin).

If Brand A can reasonably anticipate that the protection measures it is considering will enable it to grow its sales by 0.02% of the available market, then the protection measure pays for itself, and any additional market gain will effectively generate a profit for the company.

While the specific costs of various protection measures vary from solutions to solution, and market to market, it quickly becomes apparent that even minimal improvements in market share are likely to cover the direct costs of the security measures employed, and in many cases minimal growth should also produce a windfall for the brand owner.

Brand security measures are not only good for ensuring the quality of your brand and reputation, but they easily deliver improved revenue and competitive positioning.

Brand A's Cost-Benefit Analysis

This table summarizes Brand A's analysis in the example above.

Total Widget Market	Brand A's Widgets	Brand A's Cost of Protection
Total market 10M units	Market Share 10%	Per unit \$0.02
Price per unit \$20.00	Units 1M units	Total cost \$20,000
Total market value \$200M	Value \$20M	Units needed to break even 2,000 units
Margin percent 50%	Margin \$10M	Cost as percentage of market margin 0.02%
Margin value \$100M		

Your OpSec representative can assist you in estimating what various protection measures will cost, and what that expense represents in terms of market share needed to break even, or to generate additional profit.

Calculating Your Market Share Needs in Relation to Security Costs

Following the analysis above, you can use the form below to calculate what percentage of market share you will need to recapture in order for a security solution option to pay its own way, or to generate additional profits.

- A. The total market size: _____ units
(including all estimated counterfeit and graymarket products)
- B. Market price per unit: _____
- C. Total market value: _____ = (a) x (b)
- D. Market margin percent: _____
- E. Market total margin value: _____ = (d) x (c)
- F. Your market share (%): _____
- G. Your annual units sales: _____ units
- H. Your annual revenue: _____
- I. Your margin value: _____ = (d) x (h)
- J. Estimated cost of protection measures per unit: _____
- K. Total estimated cost of protection measures: _____ = (j) x (g)
- L. Cost of estimated protections as a % of total market margin: _____ = (k) / (e)
- M. Number of additional units you need to sell in order to break even on protection costs: _____ = (l) x (a)

The Secondary Financial Benefits of Brand Protection

Note that the above analysis focuses exclusively on the direct financial costs and direct revenue benefits of any given protection strategy, but this is only half the story. Implementation of security measures for your brand triggers a host of secondary, indirect effects that may in fact have greater financial and intangible value than the specific quantity of units and sales immediately recaptured.

You can shift markets in your favor. As security solutions begin to constrict the market for “your” counterfeits, criminals will inevitably redirect their activities to markets and brands where there is less economic risk. In other words, the market for illegitimate products behaves much like any other market: supply will follow demand.

Brand security measures strangle the illegitimate market for a given product, and the “bad guys” move elsewhere in response.

If Brand A has implemented protection measures, and Brand B has not, which brand do you think is most likely to suffer from future counterfeits and grey market operations? (Hint: You don’t want to be Brand B!)

Implementing a brand protection strategy poses a threat to counterfeiters, forcing them into other markets.



Protect your most valuable asset. A brand's reputation and relationship with its customers, manufacturers, distribution channels and other partners throughout the chain of commerce may very well be its most valuable asset, and this is what illegitimate products place most at risk. When a brand loses its reputation, it loses much of the value proposition that it has to offer and the potential for future sales. Preventing and rooting out illegitimate products is essential if a brand hopes to maintain the fundamental and hard-earned goodwill that makes its business activities possible.

Spur your market to crush counterfeits. When any one brand in a market undertakes security measures, that brand immediately acquires a competitive advantage over its rivals. If those competitors are smart, they will recognize this imbalance, and will try to level the playing field by also pursuing their own security measures. When multiple brands collectively pursue brand security, their entire market sector benefits as criminal operations flee that "hostile" market in favor of greener pastures. In effect, any dollar a brand spends in security programs is likely to trigger at least one or more additional dollars to be spent in further protecting that specific market environment, and the payoff ends up benefiting all legitimate market players.

Leverage the power of law enforcement⁸. As indicated above, law enforcement is largely out-gunned when it comes to seeking out, preventing, and prosecuting trade in illegitimate products by itself. However, when a company undertakes its own security programs, and uncovers evidence of criminal activity, that evidence can easily be used by law enforcement to directly take down the individuals and operations that are negatively impacting your brand. By investing in some minimal security programs, you gain the additional potential to harness the entire machinery of law enforcement. That's a lot of power to have in your back pocket when you need it.

**Brand security measures
give you an advantage over
competitors.**

Even minimal improvements in market position resulting from security measures can fully pay for the costs of these solutions, and will very likely generate additional profit.

The Warning Signs: A Checklist of Indicators

It is difficult to determine the full scale of your brand's loss of value due to counterfeiting and market diversions prior to undertaking a thorough security solution evaluation, but there are a number of indicators that can help you gauge your vulnerability. Any one of these factors may be sufficient to indicate that you are at risk.

- Are you contracting for manufacturing with factories that are not owned by your brand? (These pose a counterfeiting risk as two legitimate units may be delivered out the front door, while one illegitimate unit slips out the back door.)
- Are you having any manufacturing done in China? (China is consistently viewed as the largest single source of counterfeit manufacturing in the world.)
- Are your sales decreasing while your competitors' sales remain level? (The individual members of any given market tend to rise and fall together. Unaccountable disparities may reflect the presence of illegitimate goods.)
- Are you finding your product in unauthorized or unexpected market channels? (If you didn't place your product there, someone else did, and you should know who it is.)
- Are you 100% confident that your licensees are accurately paying royalties on all licensed units? (In the absence of comprehensive accounting of units, distribution and sales, and security seals it is relatively easy for unlabelled products to escape license fee scrutiny.)
- Are customs officials giving your products increased scrutiny? (Customs officials only manage to detect a tiny portion of the existing traffic in illegitimate goods. If your brand is showing up at all, it's likely to be the tip of the iceberg.)
- Have your warranty claims increased? (And are the product returns your authorized product or counterfeits?)
- Have consumer protection agencies contacted you regarding defects or other consumer complaints? (If the quality of "your product" appears to be slipping, it's possible it isn't your authorized product at all.)
- Are you seeing unauthorized or unaccountable price fluctuations across markets? (These discrepancies can indicate diversions of your product from authorized channels, and improper cross-border trade.)
- Are you finding your product in geographic markets that you had not authorized or anticipated? (If you didn't authorize or know about that traffic, it is worthwhile to determine who did.)
- Are your competitors encountering counterfeit or improper distribution of their similar products? (Similar products and brands tend to encounter similar market pressures, risks, and vulnerabilities. If your competitor is experiencing these problems, you probably are, also.)
- Can you account for the specific movement of your products throughout the wholesale and retail supply chain? (If there are gaps in your ability to monitor that chain, those are the places that grey markets love to exploit.)



Conclusion

The sheer size and rate of growth of trade in illegitimate goods – whether counterfeit products, or properly manufactured products diverted to improper channels – is enormous and poses a threat to virtually all market sectors.

While the scope of this problem is daunting, it is possible to calculate the costs and benefits of protection, and the math works very much in your favor. Even modest investments in security can produce immediate and direct results in terms of recovering and protecting revenue and reputation. And the secondary effects deriving from implementing security measures create momentum in the marketplace to your benefit, which can easily result in larger financial and intangible benefits. As shown above, even minimal improvements in market position resulting from security measures can fully pay for the costs of these solutions, and will very likely generate additional profit.

Small investments in brand security can produce immediate results.

1. Global Brand Counterfeiting Report 2018
2. <https://iccwbo.org/publication/economic-impacts-counterfeiting-piracy-report-prepared-bascap-inta/>
3. <https://www.cbp.gov/document/stats/fy-2017-ipr-seizure-statistics>
4. <https://www.cnbc.com/2019/03/13/heres-how-the-trade-war-could-lead-to-a-boom-in-counterfeit-goods.html>
5. <https://cdn.iccwbo.org/content/uploads/sites/3/2017/02/ICC-BASCAP-Frontier-report-2016.pdf>
6. Report on the EU customs enforcement of intellectual property rights: Results at the EU border, 2017

About OpSec

For nearly forty years, brands, institutions, and governments around the world have relied on OpSec to ensure the integrity of goods and documents. In a world of rising fraud and black-market alternatives, we are the layer of truth that powers revenue-generating relationships. This is only possible through a unique combination of proven security experience, deep industry expertise, the market's broadest range of solutions, and a commitment to digital and physical integration leadership. For brands that depend on sustained relationships with customers, OpSec secures integrity, enhances loyalty, and protects revenue. For more information please visit www.opsecsecurity.com.

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