Counterfeit Goods Create Real Problems: How GS1 Standards Help Industry Reduce Imitation Merchandise Online

Counterfeit products have long plagued the retail sector so it's no surprise that imitation merchandise has become a massive headache for online retailers. For the consumer, the damage caused by an imitation product can be as innocuous as the loss of a few dollars or disappointing product performance. On the other hand, it can be as serious as long-term physical injury. An imitation sweater is one thing. But what about a beauty product with toxic chemicals and harmful substances, or a consumer electronics device that hasn't been certified safe, or a pharmaceutical drug with a contaminated or wrong active ingredient? These various scenarios elevate counterfeit risk to an entirely new and worrying level.

Today, industry and consumer awareness of this pressing issue is driving the need to tackle the spread of counterfeit goods head-on. As the retail industry evolves, online marketplaces, retailers, brand owners, suppliers, and regulators are leveraging the work of GS1®, the global information standards organization, to address the problem directly. By adopting and implementing GS1 Standards to accurately identify authentic products in the global supply chain, these parties are enabling product traceability and authenticity.

GS1 US®, the organization that brings together communities of stakeholders to develop and implement industry-wide solutions, holds a truly unique vantage point on the counterfeit issue. It has a bird's eye view of the entire supply chain which allows it to work with business communities to identify a myriad of industry challenges (including anti-counterfeiting practices) and look for workable solutions.

Leveraging the power of GS1 Standards, retail trading partners can share data and mitigate counterfeit goods by tracing source materials back to their point of origin, and tracking products from the moment they are shipped from the factory floor, thereby increasing the ability to audit and validate receipt of goods and make accurate, verified product information available to e-commerce applications and retail storefronts. This combination of industry-wide collaboration, accurate product identification information, real-time inventory visibility, and trusted product data provides consumers with the visibility and confidence they need to make their purchase decision.

The Organization for Economic Co-operation and Development estimates global value of all counterfeit goods at $1.77 trillion

Today's consumer has come to expect an authentic, easy, and seamless product research and purchase experience across all channels, whether shopping online, in-store, or via mobile. Hyper-connectivity is driving the consumer shopping experience. That demand has created a plethora of shopping options, but more options also mean a higher potential for counterfeit goods.

The counterfeit issue is particularly systemic within the online marketplace. Many pure play e-tailers have different operating models and business processes than their traditional brick-and-mortar retailer counterparts. In many cases, the online retailer does not take actual ownership of the inventory—it simply facilitates the transaction, fueling the opportunity for counterfeiters to expand their operations and contaminate the marketplace with fake goods.

When counterfeiters combine legitimate pictures with tempting low prices, it's understandable why online shoppers fall victim to imitation products. The counterfeiters' ability to remain anonymous and infiltrate web-based commerce sites creates considerable challenges for online marketplaces, brand owners, and regulators.

Furthermore, alongside the explosion of online shopping options, the retail industry has also witnessed the rise of interrelated global supply chains that facilitate more products, from more suppliers, from many more countries across the globe. The proliferation of options for the consumer shopping cart, in conjunction with the much broader landscape, make it far more challenging for the retail industry to identify, capture, and share accurate product information with these complex supply chains.

Consumer Brand Loyalty Expects Trusted Product Information

The Organization for Economic Co-operation and Development (OECD), founded almost fifty years ago to stimulate economic progress and world trade, defines counterfeit as the unauthorized representation of a registered trademark carried on goods identical or similar to goods for which the trademark is registered, with a view to deceiving the purchaser into believing that he or she is buying the original goods. It's worth differentiating here between counterfeit goods versus gray market goods. Gray market goods are genuine products that are typically manufactured abroad and sold through unauthorized channels but imported into the U.S. without the consent of the brand owner.

So what's most at stake when a consumer purchases a counterfeit good? Trust and confidence. Consumers expect safe, genuine products and trusted product information. Trust disappears when a consumer is duped into purchasing an inauthentic, inferior, or even worse, unsafe product. As the saying goes, 'trust is hard won and easily lost.'

When selling a product to a consumer, a brand owner makes a brand promise—a commitment from the brand to deliver a genuine item to the consumer. When that commitment is broken, it negatively impacts consumer perception, depletes goodwill, undermines loyalty, and damages the brand, all of which jeopardize future sales. Trust is foundational to protecting the brand and capturing future sales and long-term loyal shoppers.

For online marketplaces, brand owners, and regulators, counterfeit products pose major threats to health and safety. Examples include small appliances without ground-fault circuit interrupters to protect against electrical shock; airbags in cars that malfunction; and fake cosmetics that cause skin rashes, burns, disfigurement, and long-term serious health problems such as high blood pressure and infertility. Moreover, the list of consumer safety issues associated with counterfeits continues to grow each day.

Better Search Experience

Make product information search engine friendly

Improved Product Information

Create and deliver reliable, accurate product information

Optimized Consumer Fulfillment

Greater inventory visibility to better match inventory with consumer demand

Smarter Analytics

Understand your customers

Safer Products

Reduced confusion from counterfeit products

In today's retail marketplace where the consumer can buy a product through a host of different channels, it's more important than ever for brands to protect product authenticity by implementing proactive anti-counterfeit strategies.

Regulators Focus on Consumer Safety

With unsafe products originating from all corners of the globe, the new retail reality has made combating counterfeiting a truly worldwide challenge. No one government, company, organization, or approach can eradicate it. It calls for a collaborative effort.

Today, U.S. regulators spend millions of dollars policing and fighting counterfeits in an effort to protect citizens from unsafe consumer products. Regulators are responding to lost exports, taxes, and jobs. In countries where the counterfeits are manufactured, regulators are also attempting to mitigate the growth of underground economies and illegitimate employment at sub-standard wages, alongside reduced competitiveness due to a heavy reliance on counterfeit products.

A Collective Effort

It is a mutually beneficial proposition for online marketplaces, brand owners, and regulators to work together to reduce counterfeit merchandise. Because of the interconnectedness of the world's retail supply chains and changing retail ecosystem, the solution calls for industry-wide standards. To that end, there are common measures industry can take to drive positive change.

GS1 Standards help reduce the proliferation of counterfeit goods by tracking products across the supply chain and tracing their histories from factory to consumer, making it much easier to verify product authenticity and ensure satisfied consumers. GS1 Standards generate supply chain visibility, efficiency, safety, and collaboration.

For more than 40 years, GS1, a global not-for-profit organization, has enabled more than two million companies to do business better by leveraging their supply chain standards system, providing a common, universally accepted language for the exchange of information. GS1 works with industry to meet the challenges of commerce and satisfy the expectations of consumers before, during, and after the point of sale, whether they're shopping online, in-store, or via mobile.

Today, industry trading partners and regulators are leveraging a range of powerful standards-based solutions to reduce counterfeit goods for consumers—no matter where or how they shop:

Identify
- Both traditional and online retailers are moving towards requiring brands to assign a GS1 Global Trade Item Number® (GTIN®) to identify every product.

- These same businesses are also insisting that all "for sale items" have a GTIN as platform listing prerequisite.

Authenticate
- This prerequisite enables online marketplaces to validate the accuracy and authenticity of the product's GTIN before listing that product for sale.

- They also include the GTIN on their webpage and/or app displays using structured product markup language.

Trace
- Ensuring product authenticity means essentially being able to identify products at the item level with Electronic Product Code (EPC®)-enabled Radio Frequency Identification (RFID), rather than at the batch level. As such, many of today's brand owners are applying EPC-enabled RFID tags to their physical products (those sold in stores or online).

  - EPC-enabled RFID allows brand owners to assign a unique serial number to each item, which is then stored in a common database.

- These tags, when used at the source of manufacture, help identify the products upstream and verify their authenticity, which enables traceability at the earliest point of the value chain and delivers near-real-time inventory visibility along with highly trustable authentication.

Trust
- Today, brand owners are sharing trusted product information with their trading partners and consumers through web and mobile applications, leveraging data exchange networks like GS1's Global Data Synchronization Network™ (GDSN®). These networks are populated with accurate, complete, and trusted product information.

  - Synchronization is the electronic transfer of standardized product and entity information between trading partners and the continuous synchronization of that data over time.

  - Continuous synchronization means that data sync is not "one and done"—it is intended to be an ongoing business process.

Everyday, millions of consumers go online and expect accurate, trustworthy product information. Successful organizations must respond by providing a seamless shopping experience that delivers safe, genuine products and trusted product information. Businesses that use the GS1 System of Standards help ensure that their consumers find and buy authentic products—fostering consumer loyalty and opening opportunities for future sales.

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Global online marketplaces are in a race to grow platforms and make more products available to more people. But there is burgeoning agreement throughout the retail sector that counterfeits present a real hurdle to those ambitions.

The impact of imitation products on the market valuations of the world's largest public online marketplaces has been well-reported, and is based on analyst concerns that counterfeits threaten future earnings. Facing potentially massive lawsuits from luxury goods brands and the loss of consumer trust, investor pressure is driving a more concerted effort to improve business processes and clean up the counterfeit issue.

The largest online marketplaces are now spending millions of dollars to improve business processes in an effort to clean up counterfeits and meet stakeholder demand by insisting sellers use correct Global Trade Item Numbers (GTINs) where applicable.[1]

GTINs are the numbering sequence within a barcode and are more commonly known as U.P.C.s. They are the foundation of GS1 Standards and have identified products at point of sale in the brick-and-mortar space for more than 40 years.

Besides mitigating the counterfeit headache in online marketplaces, implementing correct GTINs has two related side benefits. One, it leads to much better visibility for sellers by putting products in front of more potential customers. Two, it leads to better targeting because correct GTINs help searches match products to the most relevant, interested consumer, and in turn, drive a higher rate of conversion.

About GS1

GS1 is a neutral, not-for-profit, global organization that develops and maintains the most widely-used supply chain standards system in the world. GS1 Standards improve the efficiency, safety, and visibility of supply chains across multiple sectors. With local Member Organizations in over 110 countries, GS1 engages with communities of trading partners, industry organizations, governments, and technology providers to understand and respond to their business needs through the adoption and implementation of global standards. GS1 is driven by over a million user companies, which execute more than six billion transactions daily in 150 countries using GS1 Standards.

About GS1 US

GS1 US, a member of GS1 global, is a not-for-profit information standards organization that facilitates industry collaboration to improve supply chain visibility and efficiency through the use of GS1 Standards, the most widely-used supply chain standards system in the world. Nearly 300,000 businesses in 25 industries rely on GS1 US for trading-partner collaboration that optimizes their supply chains, drives cost performance and revenue growth while also enabling regulatory compliance. They achieve these benefits through solutions based on GS1 global unique numbering and identification systems, barcodes, Electronic Product Code-based RFID, data synchronization, and electronic information exchange. GS1 US also manages the United Nations Standard Products and Services Code® (UNSPSC®).

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1. "How to Win Against Counterfeiters, Online fakers are coming after everybody—but even the small and scrappy can fight back," *Inc. Magazine*, March 2015.

GS1 US Corporate Headquarters

Princeton Pike Corporate Center, 1009 Lenox Drive, Suite 202
Lawrenceville, NJ 08648 USA
T +1 937.435.3870 | **E** info@gs1us.org
www.gs1us.org

Connect With Us

6 14141 02204 5