

SecureAutomotive
from Secure Symbology, Inc.

BRAND PROTECTION

Counterfeit Auto Parts: A Growing Industry Epidemic

Counterfeit parts:
Seriously jeopardizing your business, your authorized repair shops and your customers.

The best news for the automotive industry is that a low-cost solution for protecting the company, its shareholders and its customers is available now.

Imagine authorized service centers servicing a vehicle with what they think are high-quality brake pads. But instead of friction material, the pads are made from compressed grass or sawdust. Or imagine installing an oil filter that contains crunched-up newspapers or rags and no filter element.

Brian Duggan, a director with the Motor & Equipment Manufacturers Association (MEMA), said distinguishing between real and counterfeit parts can be quite difficult.

"The problem is that the counterfeit products today have been designed to look like almost perfect replicas of the genuine product, so people don't know a counterfeit when they see one," said Duggan.

It used to be a common perception that counterfeiting was a victimless crime. Who really gets hurt buying a knockoff Coach purse or fake Rolex watch? But times have changed, and counterfeiting has become a serious issue. Fakes and knockoff parts have found their way into the aftermarket industry over the past several years.

Take Mordekhav Levy as an example. Levy was recently arrested twice in a 12-month period for selling counterfeit Ford Motor Co. parts, all packaged, labeled and distributed as genuine Ford parts. Levy, a wholesale auto parts dealer in Queens, N.Y., supplied these products to taxi and limousine fleets.

Counterfeiting in the automotive industry is not a new problem. In fact, it was one of the industries the U.S. government discussed in the 1980s when counterfeiting first became a visible threat to businesses. But the issue was swept under the rug way to soon.

Counterfeiting has made a huge comeback, thanks in particular to the enormous amount of goods coming from China and the rest of the Far East. Because of today's sophisticated global economy - with its easy and widespread access to technological advances such as computers, copiers and scanners - there are virtually no product lines that escape the reach of counterfeiters. Never before has it been so easy to re-engineer products or duplicate labels, packaging and logos with such speed, accuracy and relative anonymity.

"Counterfeiting cause's economic harm, defrauds consumers, constitutes unfair competition to legitimate business and poses a danger to public health and safety. And that's where the concern is with the aftermarket industry," Duggan said.

An Uphill Battle



Approximately half of the technicians asked to tell the difference between real and counterfeit oil filters were unable to do so. Here, Josh Tillery and Matt Newcomer, technicians at Peak Automotive, an ASA-member shop in Apex, N.C., successfully identified the fake filter but it took careful examination. This examination probably would not have occurred if they took it straight out of the box and had nothing to compare it to. The Peak Automotive technicians found that the counterfeit parts had poor welding and a decreased amount of filter element.

Just how bad is it? The problem of quantifying the costs associated with counterfeit parts is hard to do because of the lack of data of how much is actually out there. In 1997, the Federal Trade Commission estimated that counterfeiting cost the global auto industry $12 billion - $3 billion alone in the United States. It is the consensus of aftermarket parts manufacturers that those estimates are far too conservative today.

A new study by the U.S. Chamber of Commerce revealed that Ford alone is losing about $1 billion annually from counterfeit auto parts. "And that doesn't include the health and safety ramifications of fake or faulty items such as auto glass, brakes, tires, suspension and coupling mechanisms, and even seat belts. Driver safety is simply not quantifiable," said Joe Wiegand, Ford's global brand protection manager.

According to MEMA, FBI officials now put automotive parts at the top of counterfeiting activities, along with pharmaceuticals, computers and apparel. Initially, counterfeiters focused on cosmetic items like car accessories and body parts. But in recent years, they have moved to safety-related components such as brake pads and suspension components.

The cost of counterfeiting falls predominantly upon qualified OEM aftermarket parts manufacturers. In addition to lost sales in the United States, counterfeiting prevents manufacturers from expanding into new markets, not to mention the significant costs involved in investigating suspicious companies and the ensuing litigation.

"There are also significant costs involved with changing packaging, implementing anti-counterfeit technologies and fraudulent warranty claims," Duggan said. "But what bothers manufacturers the most is the destruction of their brand names and the potential threat to consumer safety. Service facilities have to be aware of what they are putting on vehicles and the ramifications that unsafe products can pose."

According to Duggan, virtually all aftermarket products impact safety - from belts and hoses to brakes and electrical components. "The last thing anyone wants is an accident that occurs because of fake parts," he said.

Counterfeit automotive products are just a piece of the entire counterfeiting epidemic. The U. S. Chamber of Commerce estimates that counterfeiting costs U.S. businesses $200 billion to $250 billion annually, and counterfeit merchandise is directly responsible for the loss of more than 750,000 American jobs.

Since 1982 the global trade in illegitimate goods has increased from $5.5 billion to approximately $600 billion annually, according to the International Trade Commission (ITC). Bank robberies, by contrast, generally involve less than $70 million per year. The ITC adds that approximately 5 percent to 7 percent of the world trade is in counterfeit goods.

And it's just not hitting U.S. businesses in the wallet - it's also a matter of national security. Low risk of prosecution and enormous profit potential has made criminal counterfeiting an attractive enterprise for organized crime groups. Recently, there have also been reported links between counterfeiting and piracy and terrorist organizations that use the sale of fake and unauthorized goods to raise funds and launder money.

According to a report from the International Anti-Counterfeiting Coalition (IACC), "In order to survive, a terrorist organization must first develop and maintain reliable and low-key sources of funding. Behind the suicide bombers, hijackers and gunmen stand criminal entrepreneurs and financiers in suits who understand the best way to bankroll Armageddon is through the capitalist system."

If It Sounds Too Good to be True ...

While a better price may be appealing to a service facility looking to increase margins, it's important to realize that a zipper not working correctly on a fake Coach purse is a lot different than brakes not working on a car going 65 mph.



Can you tell which is real and which is fake? The fake oil filter is on the left, and the real one is on the right. The fake filter has very little element, which will not protect the engine; the real one has more element, which will protect an engine.

If the industry thinks safety concerns over counterfeit parts are overblown, it need only look to the aviation industry for proof that such problems can be serious and widespread. Between 1973 and 1993, the Federal Aviation Administration attributed 166 aircraft accidents to what it calls "unapproved parts;" that is, counterfeit or knockoff parts identified as substandard.

In one instance, "unapproved" bolts and bushings in a charter airliner were identified as the reason it disintegrated over the North Sea, killing all 55 people aboard. In another case, counterfeit parts installed during routine maintenance were the cause of a helicopter crash over New York's Hudson River, killing a traffic reporter and the flight crew.

What Does One Do To Counteract the Growing Counterfeit Problem?

Counterfeiters reproduce products that have one if not both of the most desirable traits to them, that being volume and profit margin. Global counterfeiting is a reported $600 billion to a $1 trillion dollar a year problem that is growing at an estimated 20% a year, so it is obvious that counterfeiting of valid products is not going to be going away any time soon.

Fortunately there is a solution to the overall counterfeiting problems that are destroying great companies and negatively effecting, and sometimes killing, those that believe they are purchasing authentic products.

With the proliferation of the worldwide internet, the ingenuity of IT professionals, and the development of highly complex yet simple to implement patented intellectual property, valid product manufacturers can now track their products via an electronic pedigree item-level serialization process that insures that their consumers are receiving high quality products, while at the same time monitoring the invasion of counterfeit products that enter into the supply chain.

There Is A Low-Cost Solution - Available Now!

There is one company that offers a complete *low-cost* turnkey solution to item-level track and trace, which has been thoroughly tested and proven.

Under the stringent demands and regulations of the FDA and the pharmaceutical industry, Secure has perfected the EPC Track & Trace System over the last four years via real world testing and packaging line implementation. The Secure Solution was developed in conjuction with Cardinal Health PTS, now Catalent Pharma Solutions, a Blackstone Group Company, the pharmaceutical industries largest contract packager in the world.

Due to the similarities of all packaging and shipping processes, and the strategic design features of the Secure Track & Trace System, being able to guaranty the origination and pedigree of your automotive products has never been easier.

This system can be installed and fully functioning in your packaging facility within ninety days of a packaging line review.

To find out more about the Positive ROI Secure Solution, and to put your product track and trace anti-counterfeiting program into high gear now, contact Secure at Info@Securesymbology.com or visit us on the web at www.securesymbology.com