

Minding the Supply Chain: Gray-Market Goods, Production 'Leakage', and Global CI

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CI specialists are in a prime position to detect and counter overseas rip-offs that target their brands.

"You don't have to sell 'parallel imports'; that's no way to make money," explained the importer. I was in the office of a large beauty products importer and the General Manager was letting me in on the secrets of his success.

"All you have to do is go to a trade show in Europe or the United States and find the Original Equipment Manufacturers making the original stuff, and buy it from them. They will sell it to you. Then you bring the bulk powder or perfume back to China and get identical plastic containers made but use your own brand name on the containers. We make 80% profit. When we sell it to the distributors, we explain that the make-up in the container is exactly the same as the famous, expensive luxury goods."

The man had a point, I had to admit. He was in effect offering the exact same products as famous French and Italian fashion houses at a fraction of the cost. As long as consumers in Asia (and probably other parts of the world as well) do not associate the luxury trademark with real, tangible benefits, they might as well be using the same product in a generic container.



September 2007: CBI watches as Chinese authorities take care of a few questionable products.

Worried about what your main competitors are introducing back in the United States? What if that is not the biggest threat to your market? Competitive Intelligence professionals can often tell you everything about the Fortune 500 company that is their main competition back in the U.S., but don't even know about the factors that wreak havoc on their markets overseas.

The company described above will never show up in Fortune magazine, will never introduce a breathtaking new product. The General Manager will never be interviewed by CNBC. Yet his company enjoys market penetration in all the major cities of southern

China as well as Hong Kong and Taiwan.

Competitive intelligence: What a way to make a living! First we are charged with finding out what our competitors are up to, and then we learn that doing business overseas is an entire new situation...but it doesn't necessarily have to be so. The tool box we carry around in our heads contains many tools that can be used on either side of the ocean.

These tools include:

Brand and Promotion

Brand awareness, so necessary to successful sales in the West, is still being developed in Asia, and brand loyalty is a dream. So long as consumers in China, Hong Kong, and Taiwan exhibit low brand awareness, cosmetic perversions like "Calxern Klavin" nail polish will be a threat to genuine, imported nail polish. The "Calxern Klavin" nail polish (the ingredients of which were seen to include the notation "Contains U.S.A.") was being sold in large department stores in Taiwan in the spring 2000 season. Incredibly, this product was being advertised in flyers as "CK" nail polish, and if the consumer was not be fooled by "Calxern Klavin" on the actual product, she might be lured into the store by the "CK" abbreviation.

Never advertise, promote, or publish your own trademark in an abbreviated or colloquial fashion. Once the overseas consumer starts talking about an "LV purse" (Louis Vuitton) or a "CD watch" (Christian Dior), a little brand awareness has been chipped away and the door has been opened for imitations such as the one described above.

Find a reputable local advertising agency to help you select an appropriate name for your trademark overseas. The value of a pertinent, ethical name for your product that does not offend or irritate is the first step in successful brand awareness.

Supply-Chain Management

Take the initiative when it comes to protecting your products. Ask for the budget to hire a reputable investigative firm to conduct pretext visits to your own suppliers to ensure they are living up to the terms of their contracts.

In the case of the beauty products company described above, the General Manager was able to offer the same products as cosmetics companies that have invested decades of work and millions of dollars into product and market development. Can you blame the consumer for buying a non-branded lipstick for 20% of the price of the original?

Insist suppliers and sub-contractors adhere to contracts that forbid them from overproducing and selling unmarked products out the back door. Adopt a zero tolerance policy that will allow no room for excess products, or components, or even the packaging, to leak into the market.

Market Research

Put your knives away, I'm not equating market research with competitive intelligence! I am pointing out that you cannot, will not, make intelligent marketing, advertising, and product promotion decisions without good information from the market floor. You must know what the average consumer sees when he or she arrives at the store with the intention of buying your product.

When the consumer enters the store in Taipei looking for your (for example) bar soap, is she offered the choice of a competing product for half the price because it was parallel imported from Indonesia?

Are counterfeit products a problem? A decade ago the market for foreign liquor, previously hermetically sealed, was flung open in Taiwan. The consumer had no problem affording the fine cognacs and whiskey which were available for the first time, but had no idea what they were supposed to taste like. So long as it was brown, expensive, and gave them a headache the day after consumption, nobody questioned whether the liquor was genuine or fake.

If sales in a region are not what you were expecting, the competitive intelligence professional must get out of the office and see first hand what the situation in the market is.

Use of Available Resources

Oliver Stone had it right in the movie Wall Street. Information is the most valuable commodity in the world today, and it is the companies that react the fastest that will have the advantage.

The competitive intelligence professional must undergo an attitude adjustment when shifting attention overseas as some of the problems you will encounter do not resemble those you are used to dealing with. Generic perfume is not a threat to branded products being sold in Los Angeles but they are in Shanghai. "Calxern Klavin" nail polish is not going to dilute the market in Chicago, but it might in Beijing. Be ready for surprises.

To recap:

-Listen to your sales force.

If they are not making their monthly quotas, ask them why. It may be that they are not working hard enough, but it may also be that the mobile telephone batteries they are trying to sell are available from a Malaysian parallel importer for half price.

The companies that can gather the most information about their competitors, their markets, and their consumers are the ones that can react quickly. The ones that don't find themselves looking from the outside in at a lucrative, expanding market in Asia and the rest of the world.

-Control O.E.M. suppliers.

You are the trademark owners. You set the standards for your competition. When looking for a manufacturer in another part of the world, ensure the manufacturer will adhere to the strict quality controls you insist on and never take for granted they will monitor themselves.

Hire professional investigators to make pretext visits to your own authorized manufacturers. Ask these investigators to buy your own products. If the manufacturers will agree to sell to third parties, you have an unauthorized distribution problem on your hands.

-Competitive Intelligence is a contact sport.

Get out from behind your desk and make trips overseas. See for yourself what your target market sees. I've witnessed more than one luxury brand completely lose its image as a high-quality, exclusive product in Asia simply because cheap knock-offs are available on every street corner. When every high-school girl is wearing your "exclusive" trademark, how exclusive is it?

CI is more than analyzing balance sheets; it is knowledge of the conditions on the shop floors. Roll up your sleeves and get out there!

Defining Terms

Parallel imports -- diverted products supposed to be sold in one country or territory but which are being sold outside their designated area. Coca-Cola intended for the American market but being sold in Japan is an example.

The reason this is such a problem in Asia is that there is the disparity between living and pricing standards. Should Unilever (for example) wish to sell LUX soap in Taiwan, they charge a set price for it and market it as an everyday use product. That same product, however, cannot be sold for the same price in Indonesian, where the standard of living is much lower. The same product in the same packaging at the same price is a luxury item in Jakarta, affordable only to the upper crust of society.

If Unilever wishes to develop the soap market in Indonesia, it must lower the price of LUX. This creates an opportunity for importers to buy LUX in Indonesia and sell it to Taiwan. It is the same product, but the price disparity is significant.

Parallel imports tend to wreck an established market in developed countries where the same product can be purchased for two different prices.

O.E.M. -- Original Equipment Manufacturers.

Authorized, licensed factories that are charged with making branded products on behalf of trademark owners. These are genuine trademarked products (or components) enclosed in trademarked packaging. The problem is that strict control must be maintained over O.E.M. factories. Once these factories overproduce and sell genuine goods out the back door, the trademark owner faces a price war between his own goods! If, for example, Ford is supposed to sell 100,000 headlamps in Shanghai and all of a sudden the market is flooded with 300,000, the price is under pressure to be lowered.

