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# The Dual Brand Reputation™ Approach: A More Effective and Efficient Path to Brand Protection for Medium-Sized Manufacturers and Brand Owners

William M. Mansfield, J.D., M.B.A

## Abstract

Most companies struggling against unauthorized fake products fail to create an effective brand protection program that actually reduces the impacts of counterfeiting. Instead, they often fall prey to approaches focused on activity metrics that do not succeed and were never going to.

There is a better method—one that I call the Dual Brand Reputation™ approach.

The Dual Brand Reputation™ approach recognizes the fact that all brands have two types of reputational strength. One of them is commonly recognized, that is, the capacity of a brand, in the minds of consumers, to suggest attributes, represent values, and promote a shared identity with other brand users. The second, and generally overlooked, element of brand reputation is what it means to counterfeiters: How much value can be stolen by misappropriating and misusing the brand and, most importantly, how dangerous is it to the counterfeiter to target the brand? Identifying, controlling, and growing this second form of reputational value is the path to genuine brand protection success.

The following three steps are key to this approach:

1. Develop a clear and achievable goal.
2. Have a rational understanding of what motivates counterfeiters and how they can be pressured to change their behavior.
3. Implement effective and impactful tactics to achieve your goal.

Ultimately, you win by developing a reputation within the counterfeiting community as a brand that cannot be profitably or safely targeted.

## Introduction

The brand protection industry has a massive blind spot. Much of the industry is focused on high-profile brands such as Apple®, Chanel®, Adidas®, etc. It also focuses on a few key industries that have long histories of fighting fakes—luxury products (purses and watches), pharmaceuticals, or consumer electronics. But the reality is that counterfeiting impacts much more than this. Anything that can be made and sold for a profit by a legitimate company can be made and sold by a counterfeiter for a profit as well. After all, the counterfeiters face far lower costs than the legitimate source. They do not need to invest in R&D or advertising (you did that for them). They rarely pay taxes, provide lawful working conditions, or follow employment and environmental regulations. They can make very little off any individual fake product and still make a large total profit.

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As the global supply chain has grown, improved, and gotten cheaper over the past 20 years, counterfeiting has hit many companies and brands that never expected to have to cope with the problem. This is especially true for medium-sized manufacturers and brand owners that have developed great brand value in a relatively small and specific field but may be unknown to the general public. The narrowness of their brand reach and importance of the brand's reputation to the customers mean that few are on guard for fakes, but the fakes out there are especially damaging. This creates a large pool of poorly defended medium-sized entities, with growing brands, that counterfeiters target in greater numbers each year.

This paper outlines a brand protection approach for adoption by these companies.

Very often these companies try other, ineffective approaches to brand protection that fail to create the only result that matters—significant reduction in the impact of counterfeits flooding the marketplace. Some of these approaches are discussed below, along with why they don't work or provide only a partial solution. In most cases, however, companies initially pursue these approaches because they seem to make sense and are marketed as comprehensive solutions. It is only when they fail to do anything more than provide useless metrics and cost significant amounts of money that their limited usefulness becomes fully apparent. At that point, it is best to step back and consider a better long-term solution to a problem that is certainly not going to go away on its own.

## **Step 1 - Develop a Clear and Achievable Goal**

### **The Goal**

"Eliminate all counterfeits" is not a goal. Not an achievable goal, anyway. And if a goal isn't achievable, what use is it?

All successful brands will face counterfeits. Just as more and more consumers see value in your brand as it grows, more and more criminals see greater potential for theft and misappropriation. The modern system of inexpensive global production, distribution, sale, and delivery has so lowered the costs faced by a criminal intent on hijacking your brand reputation that attempts are inevitable whenever you have a successful product in the market.

An achievable goal is to develop a reputation as a brand that counterfeiters are smart to avoid. That means developing a reputation within the counterfeiting community of being one of the brands that genuinely understands how to disrupt counterfeiters. This is a valid and achievable goal.

### **Counterfeiters as an Industry**

They may not have conferences in Las Vegas where they all walk around wearing lanyards, but make no mistake—counterfeiting is an industry. Like participants in all industries, they talk to each other. Information passes informally between criminal counterfeiters. And brands develop reputations within the industry.

Some are known as easy targets, as they do not take action to protect their brand. Sometimes this is an intentional choice by the company (some fast fashion companies, for example, know that their fashion cycles move far faster than even the best counterfeiting enforcement response, so they don't bother). More often, lack of brand protection is the default position. These brands either ignore the fakes or respond so poorly that the result is the same to the counterfeiter.

Other brands are known as giant targets that, while they do fight back, one can steal from profitably with a bit of care. Many large brand names fit into this category. They are constantly deluged with fakes. They occasionally take big, loud actions in response to visible counterfeiting and create a great deal of noise. But, in the end, many counterfeiters escape without any meaningful retribution.

There is another category populated by a few companies that fight hard and smart against counterfeiters by using the tactics described in Part 3 of this paper. These are companies that consistently keep pressure on the counterfeiters in ways that achieve results and leave counterfeiters no reasonable choice but to take their

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“business” elsewhere. This reputation is neither easy nor quick to develop, but once it is achieved, the return on investment is immeasurable (literally immeasurable, as one cannot put a price on the counterfeiting that did not take place). This is the best position for any company that is serious about long-term growth for their brand.

It is the true goal.

## **Step 2 - Have a Rational Understanding of What Motivates Counterfeiters and How They Can Be Pressured to Change Their Behavior**

### **Profit Effort Risk (PER) Analysis and Opportunity Costs**

Essential to developing a forbidding reputation among counterfeiters is to gain a clear understanding of counterfeiters and what drives them to counterfeit your company’s brand.

Counterfeiters are—at bottom—rational business actors. They are not super villains. They do not have a vendetta against your company in particular. When you are being counterfeited it can certainly feel like that, but it is almost never true.

Counterfeiters never specialize. Consider—if you had a giant glue-making machine and you made counterfeit glue, would you specialize? Absolutely not! For a counterfeiter—who pays no license or royalties for all of the intellectual property they misuse—diversification is an easy choice. They will produce as many types of fake glue as they can possibly sell.

This means that you beat the counterfeiters not by completely destroying the counterfeiter’s business, but by (the much more achievable goal of) getting them to produce one less fake brand of counterfeit product than they were before—your brand. In short, you don’t have to put them out of business; you just have to put them out of the business of stealing from you.

This is accomplished by focusing on the counterfeiters’ “PER Calculation”:

$$(\text{Profit} / \text{Effort}) \times \text{Risk}$$

Counterfeiters look at these three factors when trying to identify fruitful counterfeiting targets:

*Profit* – How much can I make?

*Effort* – What do I have to do to make it?

*Risk* – What negative things might happen to me?

Move any of these variables in the direction that is unfavorable to the counterfeiter and you alter the final calculation. Counterfeiters, whether consciously or not, face the same problem of opportunity costs as all legitimate businesspersons. Choosing to steal from you uses up resources that could otherwise be used to steal from your competitors. When you alter the PER Calculation enough (e.g., reduce profits or increase efforts or risks for counterfeiters), you are no longer the optimum target for them. Once you become established in this position, you become known in the counterfeiting community as a brand it is better to avoid.

This is how you win.

## **Step 3 - Implement Effective Tactics to Achieve Your Goal**

### **Moving the Variables—What Works**

Viewing counterfeiters as rational actors, essentially illicit competitors, helps us clarify what actions we can take that will discourage them from targeting a specific brand. Counterfeiters face many of the same business pressures as legitimate businesses.

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Before looking at the most relevant variable here, RISK, we will quickly address the other two.

*Profit* – This can be most directly impacted by lowering the cost of the authentic item. Clearly, the final price of a fake cannot be more—and must often be much less—than the original. This approach, however, is a losing game, as counterfeiters can go much lower than an authentic producer. After all, they do not pay taxes or legal wages, invest in R&D or advertising, or follow environmental regulations, etc. Their “bottom line” for profitability is much lower than that for the authentic product. This is a race to the bottom that cannot be won.

*Effort* – Several smart brand protection actions can move this variable. Disruption to the illicit supply chain is the most important. Effectively closing favored import, export, and transshipment points to counterfeiters through port protection efforts can force counterfeiters and their networks to adjust routes. While this will not stop them in and of itself, it will change the PER Calculation.

Certain packaging security options can increase effort. This approach, however, is often overrated. Every few years a new technological “silver bullet” is released that packaging experts claim will eliminate counterfeits. But all of these tech solutions suffer from the same weakness—humans.

In a world where most consumers don’t even bother to expend the minimum effort necessary to register products for a free warranty service, we can’t expect them to go through all the steps needed to adhere to the requirements imposed on them by these high-tech solutions. Instead, most will simply ignore the additional security or authentication measure entirely. Alternatively, counterfeits are generally sold under the implied, and sometimes stated, assumption that they are real—but not entirely legitimate. Selling fake goods as stolen, overruns, mislabeled, or designed for a different market allows counterfeiters to explain away any discrepancies consumers encounter.

Regardless of the specifics of the tech solution (holograms, QR codes, serialization, blockchain, etc.), the reality remains the same. The claim is that adding this to your packaging will make it impossible or at least too expensive for a counterfeiter to replicate, but often the counterfeiting continues unabated.

It is important to note that these measures can add value when the tech solution is intended to better enable friendly forces (e.g., trustworthy distributors, quality control staff, key enforcement authorities) to authenticate your product before sale to the end user or consumer. Reasonable efforts at secrecy can allow the identifying element to provide authentication with a minimum of false positives.

However, it is when you expect your customers to participate in the tech solution that this approach often falls apart. “Silver bullets,” such as QR codes your customers are supposed to scan or scratch-off identification codes they are supposed to check online, sound good, but they often fail in the field. Consumers overwhelmingly do not use them. And even when they do, there are easy measures competent counterfeiters take to circumvent these solutions.

For example, if you include a QR code that a customer checks to ensure that the product is authentic, a counterfeiter need only include their own QR code on the counterfeit product or packaging that connects to their own site, which mimics yours and always (and falsely) reports that the product the code was found on is authentic. The situation is the same with any scratch-off or bar code.

So when tech solutions are aimed at internal “pre-point of sale” vigilance, they can be very useful, but they are generally an expensive waste when intended for outside involvement.

*Risk* – This is the key factor. Counterfeiting is an illegal activity and therefore counterfeiters are uniquely susceptible to brand protection actions that increase the risk part of the PER Calculation. However, not all risk-increasing actions are created equal. Mid-sized companies are especially vulnerable to wasting money on these endeavors, as their smaller budgets provide less room for error. You do not have unlimited resources, so you must carefully choose the actions you will take.

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### **The Counterfeiters' Point of View**

The key early step in designing a brand protection program is to put yourself in the counterfeiter's shoes. Look at your product, process, and organization from the point of view of a counterfeiter. What do you have of value that they can exploit to make an illegal profit? What would make that process less profitable, more difficult, or riskier?

Surprisingly, the vast majority of brands never take this elemental step. They focus on what they value, not what the counterfeiter values. They think like the law-abiding persons they are, and do not consider the greater number of behavioral options a criminal has. This leads them to focus, incorrectly, on actions that would certainly deter a legal competitor, but have no impact on a counterfeiter.

### **Aim for Criminal Penalties**

Criminal sanctions, especially jail time, should generally be your aim.

Product counterfeiting is often chosen as an illicit money-making endeavor because it offers high profit margins with low risk relative to other, similar illicit distribution activities, such as drug or gun trafficking. There is some evidence that product counterfeiting provides a solid financial base that allows organized crime to move in and out of these more high-profile (and high-danger) activities—essentially, it provides the seed capital for a wide variety of unlawful economic crimes.

So making stealing from you no longer the “safe choice” is the quickest and most effective way to move the PER Calculation to a result that no longer tempts counterfeiters.

Many businesses, particularly mid-sized enterprises, do not consider this strategy, as historically, there have been few support mechanisms to aid them in taking this path. After all, if you want to file a civil lawsuit (which we will discuss later), there are numerous law firms out there to help you do that. But few provide a similar service when you seek criminal sanctions. And the assumed starting point for such a process seems (rightfully so—as we shall see) either too “low” (your local police officer) or too “high” (the F.B.I.) to meaningfully engage on this issue.

### **Engage the Right Level of Law Enforcement**

The answer, as it turns out, is to look to the middle. Certain state attorney general offices and police departments in large cities often have units specializing in intellectual property crime. The authorities have the knowledge, experience, and expertise necessary to prosecute counterfeiters. It isn't easy, but when a criminal prosecution works—and jail time is served—it makes a major difference. Strongly consider this approach whenever possible.

Just as with any other complicated and opaque process, your chance of success can be greatly increased by drawing on the experience of key experts. Knowing how to prepare and present your case to criminal authorities can make a huge difference. To the extent possible, you always want to take every step you can to make it an easy choice for the prosecutors and police to choose to help you. Proper investigation and case preparation do this. The return on this investment is potentially massive, as once the authorities take the case and move forward, your own costs are minimal.

So, whenever possible, put the counterfeiters in jail!

### **Seizure and Destruction**

As part of either a criminal or a civil prosecution, there is often the option to have the authorities take direct possession of the counterfeit materials. This is most dramatically done in the form of a police raid on the counterfeiter's premises. Besides the obvious disruption of the business and loss of product, a raid also creates a sense of danger in the mind of the counterfeiter. It shows both a willingness and an ability by the brand owner to mobilize government resources to take strong action and can move the needle on the PER Calculation.

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The seized items generally go through a process that eventually results in their destruction. How, when, and (most importantly) who pays for such a destruction varies greatly and you should have proper guidance to make sure the seized items don't later find themselves back on the market through illicit channels. Also important to note is that, whenever possible, you should attempt to get the means of production (machinery, tools, dies, etc.) used to create the counterfeits seized and destroyed as well. This is often overlooked, but when achieved it is much more harmful than just taking a single batch of goods.

### **Customs**

Customs agencies around the world guard their nations' borders. While things such as guns and drugs are most often associated with their interdiction work, the agencies very often have units or activities aimed at stopping the shipment of counterfeit goods as well. You usually have to register your trademarks and other intellectual property with a given Customs agency in order to have them watch out for fakes. You will also want to provide training to all key ports on how to distinguish real goods from fake. Key ports include all ports that your product visits along your legitimate supply chain. It also includes ports that are likely parts of the illicit supply chain through which fake versions of your product travel. This is another area where expert assistance can allow your brand to leverage vast government resources for little expense.

### **Register and Enforce Your IP Rights in China**

There is a great deal of misunderstanding about China when it comes to counterfeit products and brand protection, which must be addressed if you are to have a successful brand protection program.

It is true that many, if not most, counterfeit products are made in China. This is not, as is sometimes claimed, because the Chinese government does not "care" about stopping fakes. Instead, it is because much, if not most, of *everything* comes from China. Over the last four decades, China has positioned itself as the factory to the world and has become very successful at low-cost manufacturing. And this is just the type of manufacturing ecosystem exploited by criminal counterfeiters.

As opposed to the dominant existing narrative, impactful brand protection is 100% possible in China. The Chinese brand protection system is structured differently, but it is effective nonetheless. The key to success is to work with experienced Chinese counsel to register your IP rights in China and engage expert support that is well versed in the on-the-ground implementation of enforcement efforts in the country. China is no place for amateurs.

In the end, particularly if you manufacture there, China is the most important area to address.

### **Go to the Source**

The single most important action you can take in order to permanently shift the PER Calculation and develop a forbidding reputation among counterfeiters is to identify the very beginning point of the illicit supply chain and target the manufacturer directly. The producers of counterfeits are usually hidden behind layers of distributors, wholesalers, and exporters. They feel safe, and as long as they feel safe, they will continue to produce counterfeits of your product. It does not matter to them if an occasional customer gets raided or has their online listing removed. There is always another buyer willing to buy the fakes they make.

But if you can marshal the investigatory and government support to raid *their* location, seize *their* production equipment, and arrest *them*—you have dramatically changed the situation. Suddenly, the entire counterfeiting community hears that you are one of the few serious threats to them. You are a brand that cannot be targeted without consequence. You are a brand to fear and avoid.

That is how you win!



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## Moving the Variables—What Does Not Work

The two most popular approaches in brand protection are also the two that often have no practical impact when it comes to altering the PER Calculation—online takedowns and civil lawsuits. These approaches are very often the first response of a brand trying to tackle the existence of fakes for the first time. They feel like the right thing to do, but 20 years of work in the brand protection industry has shown that they aren't.

### **The Whac-a Mole Machine**

The most prominent players in the brand protection world are the companies offering protection for your IP rights online. These companies offer a very tempting path to the brand under siege by fakes. Most final sales now take place online, so these companies are happy to skim the Internet and provide you with thousands—sometimes tens of thousands—of examples of violations. They are also more than willing to work with the various platforms to get these listings removed.

At least briefly.

The problem with this approach is that this often has no discernible impact on the counterfeiter behind the listings. It is child's play to create a system that instantly relists the removed items. It's just as easy to auto-generate new fictional "sellers" to place the listings under. In the end, the process is expected, automated, and not even noticed by the infringer. You spend time and money, but neither the counterfeiter nor the consumer sees any impact resulting from your actions—hence why this approach is most commonly likened to the arcade game "Whack-A-Mole." You keep whacking and whacking the moles, but more always pop up.

So, if this is so useless, why is it ubiquitous? The problem is that this approach provides one very valuable (to some) outcome—metrics.

Many companies have little more strategy than to just "do something" about counterfeiters. Having 10,000 fraudulent listings removed creates the paper trail necessary to claim "something was done" to consumers, the board of directors, the general counsel, or whoever is pressuring them. The fact that the 10,000 listings were immediately replaced and that the counterfeiters are not only not stopped, but are not even aware of the effort, does not matter. These "comfort metrics" meet internal needs rather than actual external brand protection goals.

Providers specializing in identifying online sales of counterfeit goods can be useful as part of a well-planned overall approach to counterfeiters, but not by doing only online sweeps and take-downs. Instead, these companies can provide useful leads that can be traced back to the source of the infringements. Ground assets can then take direct action against the manufacturer to cut off the supply of the fakes. Just as with the Whac-A-Mole machine, the way to win is not to get a bigger hammer or hit moles faster; it is to reach behind the machine and pull the plug.

### **When to Sue (and, More Importantly, When Not To)**

Much of the enforcement advice given to brands focuses on cease and desist letters and lawsuits. While both of these actions are the right choice sometimes, they often are not. So how do you know when to use these approaches?

It depends entirely on the counterfeiter you face.

A true criminal counterfeiter will not be moved by either of these tactics. Criminal counterfeiters often keep cease and desist letters as an amusing trophy. They will no more end their behavior in response to your request than a drug dealer would.

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This situation exists because the traditional follow-up action to a cease and desist letter, the lawsuit, does not intimidate them either. Criminal counterfeiters are effectively immune from suit. They do not keep assets static and collectable. They regularly sweep bank accounts so that the profits from their illegal activities are moved and untraceable. Their operating locations and equipment are protected by a maze of ownership transfers. They expect to eventually be caught, so they are always prepared to go out of business and reform (at least on paper) so as to thwart your efforts.

So what type of counterfeiter is a cease and desist letter or lawsuit useful against?

Counterfeiters that are at least somewhat legitimate can be handled in this way. Counterfeits for some companies represent only a small percentage of their business. They may once have been criminal counterfeiters who are now transitioning into legitimate business, with either an existing brand or their own in-house brand. This is a surprisingly common business path for many.

Counterfeiting activities may also represent only a small portion of a company's total operations when the illegal activities were undertaken by a few specific individuals within the organization without explicit buy-in from higher up. It may be that no one wanted to ask too many questions about the sudden spike in profitability from that area of the business when they didn't know any better, but that is a far cry from active willing engagement in violating the law.

The long-term behavior of these types of counterfeiters can be altered with cease and desist letters or lawsuits in many cases. They are planning to stick around and are at low risk of disappearing as true criminal counterfeiters do. They are also more likely to have assets that can be frozen or seized until a judgment is issued.

## Summary

Effective and efficient brand protection is possible, and it is worth the effort for any brand that intends to continue growing in success for the long term. Unfortunately, the most common approaches to brand protection generally offered either require a large in-house staff exclusively committed to this work, or consist of expensive, but ultimately futile, actions. Medium-sized enterprises cannot afford the expense of the first and cannot afford the waste of the second. But the Dual Brand Reputation™ approach provides a focused, cost-effective, long-term alternative to brand protection that can serve their interests and create a secure foundation for their valuable intellectual property and allow dramatic brand growth for years to come.

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