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# Protecting your Brand from Cyber-Space Thieves



Pinkerton's intelligence analysts, along with its CyberSurveillance Group, pursues and recovers stolen, counterfeit, and diverted products for sale on the Internet, then helps clients mitigate threats in the future.

According to the FBI, theft within the U.S. retail industry is a \$30 billion problem often linked to organized crime syndicates. Counterfeiting is an even larger burden on businesses, draining an estimated \$200 billion and 750,000 jobs from the U.S. economy each year. High-end electronics, prescription pharmaceuticals, and even consumer "commodities" such as breakfast cereal are common targets. Increasingly, these stolen, counterfeit, and diverted goods are changing hands over the Internet.

Corporations are often well aware that their products are being illegally distributed on an ongoing basis. One manufacturer directly warns "Protect Yourself!" to Internet shoppers, telling them to be wary of "dealers, web sites and on-line auctions claiming to offer our products who are not authorized." The challenge in today's electronic environment is how to move from awareness to action. To fill the gap, Pinkerton offers a wide range of brand protection and product monitoring and investigation/intelligence services.

By watching for sudden spikes in product availability and downward spirals in pricing, the CyberSurveillance Group helps clients identify suspicious selling activity in real time. "We are able to tell you who the major sellers are of your products – in the U.S. and elsewhere – where they are getting the product from, and how they're getting it, including whether someone in the

organization is involved," says a senior executive for Pinkerton. The aim is to nab not just one broker, but also the source of illegal product further up the chain.

To that end, Pinkerton must develop appropriate cover as buyers, managing multiple identities with detailed backgrounds. It's a delicate game of "cat and mouse," says the CyberSurveillance Group supervisor. "We have to have a covert corporate name, a web page, a valid mailing address, listed and functioning phone numbers – where the correct name answers the phone – and clean computers. They are trying to move product, and we are simultaneously gathering information."

There can be no connection to the client or to other ongoing investigations. According to the supervisor, if a corporate security officer or someone else in-house were to conduct the cyber communication activity, the "bad guys" would immediately detect the unprotected investigative inquiry effort. "They are very savvy in tracking IPs and computer IDs," he explains.

Once a solid deal is struck, Pinkerton purchases suspect product on behalf of the client, working with local law enforcement as appropriate in criminal cases, or providing witness support in civil litigation. "We have the necessary contacts to move from knowledge of the activity to taking action: whether it's calling local law enforcement in for a buy-bust, or working with the courts to get a cease and desist order," says the supervisor. The global manager of investigations for a major computer company, concurs, saying, "We have certainly used Pinkerton investigative assets with significant success."

## Stolen, Counterfeit, and Diverted

In a recent example of stolen goods becoming available on the Internet, a Los Angeles street gang hijacked a truck carrying upwards of \$2 million in high-end electronics. Within 24 hours, the stock was gone, made available to online brokers who priced the product just below retail for sale in seemingly “mainstream” fashion online. Pinkerton noted the spike in availability and contacted the client, which then sought process improvement through the company’s logistics security services.

Hijacking is of course a serious criminal act, carrying the potential for violence during the crime. Financially, however, stolen goods hurt corporations less than counterfeiting or diversion to a “gray market.” The company is likely insured for the hijacking loss, and any goods re-entering the market are legitimate, quality product, readily serviced when required under warranty.

Counterfeiting, by contrast, can potentially harm the health and safety of the general public, as when substandard aircraft parts are sold as genuine or pharmaceutical products are falsified or repackaged. According to the supervisor of the CyberSurveillance Group, counterfeiters sometimes start out as contractors with legitimate business ties to a company. Eventually, the business relationship dissolves, but the contractor continues making product.

A senior executive and general counsel for a major health and beauty company testified forcefully on counterfeiting last year before a congressional subcommittee on crime, terrorism, and homeland security. Speaking of just one week’s activity in one Chinese province, he said, “...we recovered 100,000 counterfeit razor blades, 400,000 fake disposable razors, more than one million counterfeit batteries, and 40,000 fake toothbrushes.... Imagine how much bigger the problem is for all U.S. manufacturers and for manufacturers around the world.”

The crime carries multiple economic impacts. Companies lose the initial business, when consumers buy counterfeit instead of genuine products; then, substandard counterfeit goods come in for warranty, with the company bearing the cost to replace them; and finally, and perhaps most importantly, brand reputation is damaged. Considering that a counterfeit battery may last just one-tenth as long as a real one, “The consumer may simply avoid that brand in the future,” says the

supervisor of the CyberSurveillance Group. “The damage to future sales is often the top concern.”

Unlike counterfeit goods, diverted products are genuine; the economic loss occurs when a player in the supply chain takes advantage of the fact that corporations offer very different pricing as they do business throughout the world. “Basically, the product doesn’t get where it’s supposed to go,” he says.

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Breakfast cereal, for example, costs one price in the U.S. and another in Central America. If a company sells five containers of cereal destined for Central America, and two never reach that destination, the product instead comes back to the U.S. market, causing lost revenue due to discount pricing, shipping fees, and inaccurate marketing numbers. “For an established customer with an ongoing agreement, we can see the spike that indicates the sudden flooding of the market, then immediately get in to make a buy, or multiple buys, that will keep the diverted product out of the legitimate marketplace,” he says.

“Our recommendation is to develop a reputation as tough and aggressive on all forms of theft, including counterfeiting and diversion,” says the senior executive. “Clients that choose to pursue law enforcement and civil litigation rapidly become known as ‘hard targets’ – the criminals then tend to stay away and find easier prey. The investment in security is priceless to protect the all-important global brand reputation your customers count on to make their buying decisions everyday.”



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