

British Brands

THE NEWSLETTER OF THE BRITISH BRANDS GROUP

Helping brands deliver the 'innovation inside'

Andrew Pharoah, Hill & Knowlton

'It's the economy stupid.' The poster on the wall of the 'war room' in Little Rock reminded candidate Clinton that, in the final analysis, presidential candidates are elected on their ability to deliver a strong economy. This is a lesson which political parties often learn the hard way; witness Labour's period in opposition for all of the 1980s and much of 1990s. That's one of the reasons why Downing Street poll watchers monitor as keenly what the polls say about perceived economic confidence as they do the intention to vote.

Whilst the economy is the foundation on which political success is built, there is rather less debate about how to create the climate in which brands can play their full role in driving innovation and growth. That is not to say there is no discussion about the economy, economic management and the principles of macro-economic stability. Indeed at the time of the Budget and in speeches to the CBI, competitiveness, innovation and enterprise featured strongly. But in this debate there seems to be an implicit assumption that innovation is what happens in the universities, research parks and in small companies, and that the FTSE100 or Fortune 500 need no incentive to innovate. After all, 'they are big enough to look after themselves.'

An election is often an instructive time to examine political priorities. Debate centres on how resources should be allocated and how

revenue will be raised. Rarely do we consider how policy can help wealth generation. In fact business and politics continue on their different and disconnected tracks, with discussion of the former relegated to page 22 (if it's on the front page it will be more likely because of a corporate scandal). In election campaigns business is unlikely to feature strongly and where it does it will be around business manifestos and business endorsement (as a proxy for economic competence or an endorsement for economic performance).

This paucity of debate does the body politic no favours. Going back to first principles, as Sir Digby Jones of the CBI is often keen to point out, without business there would be no tax revenues to spend and no public services to spend them on. It is economic activity which creates all wealth in society. Business isn't just a sectional interest but rather the foundation on which society is built.

Within business, brands have a special role; to put it simply they are the fuel of economic life, as integral to our economy as 'intel inside' is to the laptop of today. Brands enable companies to differentiate themselves and their products and services – and so realise reward for their investment in innovation. Looking back at the last century, the power and importance of brands is obvious. They have dramatically transformed the

lives of individuals – every substantial innovation, new product or new medicine that was put in front of consumers was done so by a brand – and in the process have driven economic growth. The value of this contribution might not be recognised by all but even the most damning critique would not argue with the contention that brands are a powerful force.

In elections brands dominate debate... or rather, to be more accurate, it is through the articulation of their brands and the varied disciplines of marketing communications that political parties seek to build support. This is in sharp contrast with the near absence of any discussion of the policies and measures needed to create a climate in which brands can continue to help drive innovation.

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Ask a dozen CEOs what they want from government and once you've moved beyond the expletive you'll hear a familiar refrain; sustainable economic growth, low/stable taxation and regulatory/legislative predictability. Scratch a little further and a broader agenda will emerge. The CBI has, for instance, recently published a business manifesto setting out its ten priority challenges, which range from improving the supply side through enhanced skills and better transport infrastructure, to making it easy (and attractive) to do business in the UK.

CBI's top ten challenges

- 1 Bring about a skills revolution
- 2 Improve Britain's transport infrastructure
- 3 Boost Britain's competence in science and innovation
- 4 Begin to tackle the pensions crisis
- 5 Work with business to address climate change
- 6 Achieve meaningful deregulation of business
- 7 Keep the labour market flexible
- 8 Create a tax environment conducive to business growth
- 9 Build efficient public services
- 10 Make the European Union work for business

So that's the business agenda, or at least a powerful articulation of it, but what's the brands manifesto? Should there even be such an agenda? After all isn't it just a case of what is good for business will be good for brands?

Brands are one of the most dynamic forces in the economy; they are the drivers of innovation; the parents of growth; and a symbol of freedom. Their benefits are so huge that recognition of their importance has become implicit. However a lack of an explicit debate combined with some poor choices by some of the companies involved has contributed to a climate in which it is fashionable to sneer at the benefits brands bring. This is as prevalent in the pages of national newspapers as it is within the corridors of Whitehall. This (unintentionally) offers intellectual cover to those who wish to 'steal' from brands. It is for this reason that a specific brands agenda is needed; an agenda which goes back to first principles and

confidently makes the case. I offer three pointers:-

Value innovation – innovation is crucial to the success of an individual, company or country. Innovation is integral to economic growth but how much is it really valued? The shocking truth is that most innovation fails; it doesn't make it past testing to reach the consumer. Even that which reaches the consumer is not guaranteed success, as *Persil Power* demonstrated. With innovation comes huge risk. For investors to continue to allow companies to innovate there needs to be reward, and for that reward to be realised, intellectual property needs to be protected. Defending intellectual property rights of the strong (as well as the weak) and the established (as well as the new) never made front page on the *Daily Mail* – in fact quite the contrary. The populist tone of railing against the 'excess profits' brings more immediate reward. In open and competitive markets high profits are a result of meeting a consumer need and being able to utilise innovation effectively, whether it be innovation in product, service or approach. It is only when Ministers are willing to defend intellectual property rights in the face of mock outrage in the media that we will know that innovation is truly valued.

Trust the consumer – When faced with big problems it is tempting to seek simple solutions. But hard cases make bad law. The debate over obesity provides a topical example. A simplistic solution advocated by some would be to restrict commercial communications by food companies but, as with most issues surrounding lifestyle choices, reducing freedom of commercial communications would at best make a minimal difference. What is behind the debate is as much to do with a dismissive view of advertising as it is with the rights and wrongs of the issue. For brand manufacturers the ability to communicate with consumers is critical; it is to innovation what freedom of speech is to democracy. Without effective commercial communications brands cannot market innovation. Just as brands need to behave responsibly, politicians need to trust the consumer to make choices.

Access to markets – the final area in which brands need support is potentially the most difficult because it is here that manufacturer brands can come into conflict with retailer brands; where business is split. For most manufacturer brands access to consumers is provided through other brands. While some high-value items have the ability to supply direct, most branded goods rely on a retail channel to sell to their consumers. If that channel did not exist it would have to be invented because it is by far the most efficient way of providing a venue in which the willing seller and purchaser can meet to do the deal. However the balance of power between the channel and the producer has changed dramatically in recent years. Increased retail concentration, together with the development of own label offerings, means that for many manufacturer brands the channel is also the major competitor. There is no simple solution to this complex interrelationship. However for brands to flourish there needs to be a recognition of this particular dynamic, a commitment to responsible behaviour and a willingness to ensure that competition regulation does its job.

Creating the right climate isn't just one-way traffic. Whilst brands need support, they also need to help themselves. This is partly about ensuring that responsibility is a core value but it is also about being a little more willing to argue their case in the court of public opinion and overcome a timidity which is neither merited nor a successful strategy.

Andrew Pharoah, Head of Corporate Practice, Hill & Knowlton Europe, Middle East and Africa

British Brands Group

The British Brands Group represents the interests of brand manufacturers in the UK. Membership comprises companies of all sizes across a wide range of product sectors.

The role of the Group is to build in Britain the optimum climate for brands to deliver choice and value to consumers, through constant innovation and fair competition.

The Group is the UK representative of AIM, the European Brands Association based in Brussels.

From the Chairman

Andrew Redpath *Chairman, British Brands Group*

Over recent weeks political parties have fought for our votes with their plans for our health, education and the safety of our society. These plans and promises come at a cost, with Government spending itself an election issue.

Andrew Pharoah's article on the cover of this issue provides a timely reminder that the money for these policies must come from somewhere, and that that somewhere is business. He argues that the economy is the foundation on which political success is built and that, within business, brands have a special role. Brands enable companies to differentiate themselves and, most importantly, to bring innovation successfully and efficiently to market, in a form that consumers can understand and trust.

This role is critical to a successful economy. Current UK policy on innovation tends to focus on our science base and skills as the source of our national competitiveness. This however is just half the story. To achieve the economic growth we seek, this output must match closely what the market needs and is prepared to pay for. This is the realm of branding, where consumer and competitive pressures drive the innovation process, new products and services are designed to deliver meaningful consumer value, and that value is communicated in a way that inspires confidence and encourages trial.

The role of branding in driving innovation and economic growth is sufficiently important to warrant a specific brand agenda. Andrew gives three suggestions: an explicit recognition of the value of innovation and the intellectual property that sustains it; the importance of market forces (and the dangers of interfering with them); and free and fair access to markets.

These themes echo those in *A Manifesto for Brands* published by the British Brands Group in March. The manifesto outlines the contribution that brands already make to the UK – protecting consumers, providing choice and diversity,

delivering innovative solutions and providing a responsible approach to business. It goes on to propose a six-point plan on how brands can deliver even more, not through special treatment but in the provision of a fair, competitive marketplace.

A fair market is desirable not just for moral reasons but to safeguard competition itself and the significant investment and risk involved in bringing innovations to market. It is these innovations that deliver quality and constant improvement to consumers and drive competition. Such a market has yet to exist in the UK. It remains too easy for the unscrupulous competitor to free ride on the hard-won reputation of the brand, deceiving consumers into thinking that a competitive product has the qualities of the well-known brand when it does not. Such deceptions take the form of common knock-offs of familiar packaging or misleading claims on pack that suggest the product performs as well as the brand. This deficiency in UK legislation has persisted for too long.

The relationship between fairness and vigorous competition comes under further scrutiny in the OFT's long-awaited report on the audit of supermarkets' compliance with the Code of Practice, introduced three years ago after the Competition Commission found widespread evidence of anti-competitive practices. In its disappointingly inconclusive report, the OFT stresses the importance of maintaining vigorous competition in the sector, seemingly to vindicate its decision not to implement the remedy originally proposed by the Competition Commission in 2000 and its reluctance to enforce the Code rigorously.

No one would argue against vigorous competition. Problems, however, arise when one trading partner is vastly more powerful than the other and the smaller is economically dependent on the larger. When the larger uses its muscle to impose conditions, change terms once goods have been made and extract money, competition is no

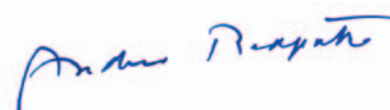
longer vigorous, with consumers and smaller retailers losing out, as well as suppliers.

The OFT berates suppliers for being too timid to bring forward complaints under the Code. However this is the fundamental nature of the market: in a dependant relationship as between supplier and UK supermarket, a supplier will never endanger that crucial economic relationship until it has nothing to lose. A 'climate of apprehension' prevails, as found by the Competition Commission.

Having introduced a remedy different to that recommended by the Competition Commission, the onus must remain firmly on the OFT to ensure the remedy it did introduce works. Putting the onus on suppliers will simply allow the practices to continue and the OFT's goal of vigorous competition to remain elusive.

Addressing abuses of buyer power becomes more acute as the influence of large supermarkets grows. One example is the move of two supermarkets, Tesco and Sainsbury's, into the convenience sector. The ability to leverage their superior buyer power in the supermarket sector into the convenience sector raises the prospect of lower consumer prices but threatens smaller retailers and the independent wholesale sector that supplies them, damaging diversity, choice and competition. In the article 'Large supermarkets in the convenience store sector', Paul Muysert and Mike Walker of Charles River Associates suggest it is time for a full analysis of the facts by the authorities and that all may not be well for consumers and competition.

At the very least, with the continued expansion of supermarkets through creeping acquisitions, some formal analysis is required to indicate the point at which the perceived benefit of any acquisition will be outweighed by the risk of increased retail margins, increased consumer prices, and reduced competition.



Sell your branded soul

Vincent Grimaldi de Puget, *The Grimaldi Partners Inc*

'How do smart people like you fall for it?' asks a radio announcer, referring to branding. Branding is often perceived as a manipulation of the mind, perhaps even a corruption of the soul. Is it?

Misleading advertising or hard-selling something that nobody needs or wants is questionable practice. That said, branding does not belong to the dark side of management. To the contrary, branding is an effective way of communicating between two busy parties: the buyers and the sellers.

Today's buyers are increasingly overwhelmed with data, information and choices. In the UK, for example, a household may receive 250 TV channels, supermarkets carry 15,000 to 25,000 items, the number of titles handled by the average magazine wholesaler is now over 8,000, and over 40 billion web pages are linked to the Internet. How can the mind reasonably process that outpouring of data? The answer is that it can't! That is precisely why branding has become so helpful.

Branding acts like an indexed dictionary in the mind of the buyer. Rather than looking at every product, zapping every TV channel, flipping every page published daily in the press, we seek short cuts to the information we need.

Moreover, this mental dictionary is rather specialised: the brain stores information in categories – for example, food, flowers – and retrieves it in the same way.

Finally, as every word of our dictionary receives a definition, every brand name leads to an association of memories, creating a brand image in our mind. Conversely, when all the attributes of that image are assembled, the mind may recall the initial brand. Thus, if you seek a masculine beer that makes you one of

the lads, John Smiths will probably pop into your mind.

Therefore, it is the task of branders to get their brand name remembered at the top of the list – or the top of the mind – when the individual is in the market to buy. This is precisely where branding meets marketing.

For example, if you decide to buy a new car, Renault hope that you will consider it first among the dozens of great car makes that dealerships have to offer. Renault's 'va-va-voom' campaign achieved exactly that among young buyers. The brand was perceived as being cool, inclusive and reliable, which was relevant for the audience that Renault wanted to appeal to. Consequently, the results jumped off the chart.

As such, branding is more than just a promise of what the product or service will provide. It is a dialogue between two trading groups who need to communicate effectively in a highly noisy environment.

In truth, this dialogue is not always as romantic and dramatic as the verses between Romeo and Juliet. Particularly in the mass market – basically, most of the consumer products – the voice of the consumer is too often heard through the distorting filters of market research, sales force feedback and complaint letters. In turn, the brand communicates with the artificial warmth of a retail environment, a product, or an ad campaign. In sum, there is little of the face-to-face interaction that makes us human.

Some marketing communication is nonetheless creative enough to touch the heart. For instance, some stores, such as Ikea or Toys 'R' Us, have managed to become weekend destinations.

For marketers and customers, the advantage of communicating through brands is its

efficiency. Rather than being a cold definition, as in the fictional dictionary mentioned earlier, the brand embodies an entire story, complete with functional and emotional considerations. People who buy Next sweatshirts for example will frequently share the same anecdote: their younger children wear the sweatshirts that have become too small for their big brothers. There is no need for long explanations and justifications; it is clothing that does not wear out or go out of fashion. Even in the crowded high street, Next's message will therefore be heard, conveying what it stands for with no more than a simple logo display.

The importance of brands and branding is growing because the complexity of our lives has grown. There was a time when people sat, over a hot drink, with the village mechanics to discuss the merit of this or that engine design. Not only would we not take the time to do so anymore, but neighbourhood mechanics barely understand how modern cars run. Therefore we have come to trust – and sometimes distrust – brands.

We can debate at length the kind of society we want. Some will look with nostalgia at the community of trusted shopkeepers and craftsmen of yesteryear. Others will concentrate on the broader choice and lower prices that mass retail has brought. But we should not shoot summarily at branding as the illness of our changing society. It is only the messenger.

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Large supermarkets in the convenience sector – good for consumers or cause for concern?

Paul Muysert and Mike Walker, *Charles River Associates*

Over the past few years Tesco and Sainsbury's have been steadily expanding their interests in what is sometimes referred to as the convenience store sector of the grocery market.¹ According to a recent article in the *Financial Times*, Tesco now has a five per cent share of the convenience store business, and is perhaps set to take the top position from the Co-operative Group during 2005.² To date regulators have expressed little concern at Tesco and Sainsbury extending into this business area. Is this relaxed approach justified, or should the regulators be taking a closer look at this trend?

The approach taken by the Office of Fair Trading and the Competition Commission has been to treat convenience shopping and 'one-stop' grocery shopping in large stores as being in relatively, though not totally, separate markets. In other words, from the so-called *demand* side perspective (that is, the view of the market that considers the behaviour and reactions of consumers), convenience stores and one-stop shopping supermarkets have relatively little competitive interaction. It follows from this line of argument that acquisitions in the convenience store sector can be considered from the perspective of the potential impact on competition in the convenience store sector alone, with little or no consideration of the purchaser's position in other grocery markets. The standard concern in merger analysis is that a merger will allow prices to rise by allowing two firms that previously competed to merge. If the two firms operate in different markets, with little competitive interaction pre-merger, then this concern does not arise.

Whether or not the 'separate markets' characterisation is a reasonable reflection of the market reality is largely a question of fact to be settled by empirical analysis. This factual question is one that has been reasonably thoroughly

explored during a number of competition investigations into grocery and supermarket markets, such as the Competition Commission's inquiry into the Safeway merger in 2003. The Competition Commission effectively segments the market into one-stop shopping, secondary shopping and convenience shopping. Whilst secondary shopping overlaps to some extent with both one-stop and convenience shopping, one-stop and convenience seem to be distinct in the CC's view. So whilst there may be some competitive overlaps due to secondary shopping taking place in both large supermarkets and convenience stores, this overlap is limited. Given the amount of time the CC has put into this analysis, it may well be reasonable to argue that there is no pressing need to re-examine this question. However, even if this is correct, demand-based analysis is only one side of the competitive impact question. The other side is what is referred to as the *supply* side of the market. This, as its name suggests, considers the behaviour and reactions of suppliers to changes in the marketplace.

On the supply side of the market it is not at all clear from previous regulatory inquiries that developments in the convenience store sector can be considered to be independent of developments in the wider grocery market. In its 2003 report on the acquisition of Safeway, the Competition Commission considered buyer power to be a significant competitive issue related to the transaction. It stated:

1.20. Turning to the third issue, buyer power, we find that the acquisition of Safeway by any of Asda, Morrisons, Sainsbury's or Tesco may



be expected to aggravate further the imbalance in the respective bargaining positions of that party and its suppliers. As a result, we would not expect competitive prices to emerge. The consequences of uncompetitive prices may include 'waterbed' effects (where suppliers seek to recoup the lower prices they receive from large retailers through higher prices to smaller grocery retailers) or a further general weakening of some suppliers' bargaining positions, with the result that some grocery manufacturers are likely to find investment in new products or innovative manufacturing techniques more difficult or no longer possible.

Large supermarkets (continued)

In its report the Commission decided to analyse buyer power within the context of a market defined as 'the supply of groceries to supermarkets with a share of 8 per cent or more of groceries purchased for resale from their stores in the UK'. However, in our view it is clear that the concerns voiced at the time by the Commission are not dependant solely upon aggregations in any particular class of retail outlet. Rather, they relate to issues associated with the potential for ever-increasing leverage through increasing purchasing power in the wholesale markets between manufacturers and retailers. In general, such purchasing power is a function of the volume that a particular retailer is able to purchase. This volume will be generated across all the retail outlets that a retailer stocks from its purchasing and supply operations.

This brings us back to the incremental expansion of major supermarket chains into the convenience store sector. Even if the competition regulators are correct to disregard the current aggregations on the grounds that convenience and one-stop grocery shopping are effectively separate markets on the demand (consumer) side of the market, it is not at all clear that regulatory concerns do not exist on the supply side of the market. If the regulatory authorities believe that Tesco's and Sainsbury's size in one-stop shopping gives them a worrying level of buyer power, it is not clear why they should not be worried that increases in that size, regardless of where they come from, will not further increase their buyer power.

It is of course true that individual acquisitions in the convenience store sector will have *de minimis* impacts on the concerns expressed by the Competition Commission in 2003, as the convenience store sector is highly fragmented. This leads to the difficulty that a series of individually un concerning deals might, when viewed in aggregate, be problematic, yet fail to trigger any of the traditional thresholds for a competition investigation. One solution to this would be for a dedicated inquiry into the potential for this pattern of incremental expansion at the

retail level to harm the maintenance of effective competition, including a healthy level of investment and innovation, at the supplier level.

Such an inquiry would need to be based on empirical analysis of the marketplace because the potential competition concerns come down to questions of fact. The Competition Commission has shown itself to be worried about the potential for increased buyer power to lead to a reduction in innovation and investment by suppliers. Whether this worry is warranted can only be settled by looking at the evidence: has increased buyer power led to a reduction in supplier innovation and investment? If not, is there any reason, grounded in fact, to expect that future increases in buyer power might nonetheless have this effect?

Another competition policy concern expressed by the Competition Commission in the Safeway merger inquiry was that buyer power on the part of the large supermarket groups led to lower wholesale prices to these groups, but at the cost of higher prices to other groups with less buyer power (for example, wholesalers or retail groups in the convenience store sector). This could potentially lead to higher convenience store prices (although presumably not from Tesco given its buyer power), which would harm consumers who do not have access to the large superstores and could even lead to convenience stores exiting the marketplace. Whether these concerns are well-founded is again an empirical question: have lower input prices to the large supermarkets been associated with higher input prices to other grocery outlets?

The need to settle this matter empirically is made pressing by the fact that we normally expect increases in buyer power to be pro-competitive: lower wholesale prices paid by supermarkets should feed through to lower retail prices paid by consumers. The Competition Commission's 2000 *Supermarkets* inquiry concluded that wholesale price reductions had been passed through to consumers. This was the same report that raised the concerns about buyer power discussed above.

Conclusions

It is clear that the expansion by the large supermarket groups into the convenience sector raises some important competition policy questions. What is less clear is what the answers are to these questions. The answer on the demand side may actually be reasonably clear: limited interaction between the convenience store sector and the one-stop shop sector may imply that there are no demand-side concerns. The empirical evidence considered in past inquiries certainly suggests this, but of course the facts of the marketplace change and so a fresh look at the evidence may lead to a different result. We doubt it, but it is clearly a possibility.

The answers on the supply side are certainly much less clear cut. Our natural economists' presumption in favour of buyer power may not be the right answer in this case. We may have reached the point at which even small incremental increases in buyer power actually harm competition and consumers. Only a full analysis of the facts can confirm or refute this claim.

¹For instance, through Tesco's acquisition of Adminstore and T&S Stores in 2003/4 and Sainsbury's acquisition of Bells, Jacksons and Beaumont stores in 2004.

²'Tesco treads with care as it extends reach', *Financial Times*, 18 February 2005. The data cited by the *Financial Times* comes from Verdict.

Brands beyond business

While branding drives business success, it has a wider role in boosting national competitiveness and as a force for good in developing economies. That poorer countries need not be the victims of globalisation is the theme of the forthcoming Brands Lecture, *Brands beyond business*, to be given by Simon Anholt on 25th May, 6pm. Brands, Simon will argue, far from being the cause of inequality and oppression, have a unique and untapped potential to redistribute the wealth of nations more fairly. For an invitation to the fifth Brands Lecture, contact the British Brands Group.

Organised crime in the retail sector – a joint approach to standards

Colin Peacock, *The Gillette Company*

Organised retail crime impacts every aspect of the retail industry from retail employees to consumers. Violence against retail staff continues to escalate as thieves pursue almost any measure to steal. UK retailers reported in 2003 that violence against staff had risen by 17% versus 2002, with verbal abuse of staff more than doubling by 109% and threats to staff soaring by 161%.

Then there are the bargain-hunters, many of them innocent, who buy from illicit traders at car boot sales or on the Internet, only to find they have bought counterfeit goods and have no consumer rights against the seller when they need them.

The impact stretches beyond the retail environment with nations losing billions of legitimate tax revenue as criminals avoid paying duty. Perhaps most sinister of all, there is clear evidence that many of those involved in illicit trading are members of crime syndicates and their operations help to fund terrorism.

In economic terms, the impact of the illicit market problem is significant. In the UK alone, the estimated loss to the economy from fakes and counterfeits has doubled over the past five years. But this is just part of the problem. Theft of fast-moving consumer goods from the licit supply chain is now costing the industry over \$56 billion on a world-wide basis.

But what is the impact on sales? Clearly a product sold in the illicit market will be a lost sale to the licit market, but this is only part of the problem. Too often in our efforts to restrict theft, products will be taken off open sale and placed behind counters or the customer service

desk. It follows that sales will be restricted if consumers are unable to browse and purchase the products conveniently.

The impact of the illicit market on sales is greater still when one looks at the impact of theft and the broader issue of loss in the supply chain on book stock accuracy. During a recent study, we found that over 50% of the out-of-stock incidents we reviewed were primarily caused by corrupted book stock data.

In describing this market, it's perhaps helpful to think firstly about the thieves. Interviews with offenders suggest that whether they are part of a highly organised group or just individuals needing money to support a drug habit, all are opportunistic and skilful. They will explore and steal from the vulnerable points in the licit supply chain from the factory through to the shelf. Once stolen, the goods will enter into an illicit network, often passing through many pairs of hands (other thieves, fences, consolidators, and illicit wholesalers and retailers) before they reach an end-user, either the consumer or the commercial buyer.

It is during this process that the stolen goods may be mixed with counterfeit, illegally imported products and genuine licit products such as legal imports, end of lines, returns or slightly imperfect products, providing criminals with the perfect opportunity to launder illicit goods. This network is characterised by a multitude of relationships, each of which offers opportunities for intervention and disruption.

Further evidence suggests that not everything is equally attractive to criminals or equally at risk of theft or counterfeiting. Thieves will look for

products to steal or copy that they believe can be most quickly converted to cash or some more attractive commodity such as drugs.

For that reason, so called 'hot' products are more likely to be branded cosmetics, the latest movie releases on DVD and popular fashion clothing rather than 'cold' products such as supermarket own-label cosmetics, old movies and overalls. Building awareness of these 'hot' products will help the industry to target their preventive efforts. A recent and disturbing global trend, however, is the increase in fake everyday goods traded in bulk, such as instant coffee, razor blades, condoms, kitchenware and even washing powder.

At Gillette, we have established and resourced a cross-functional team to direct our efforts against the illicit market. We participate and lead cross-industry initiatives on legislation and enforcement at a global and European level. In the UK we are active participants in the Anti-Counterfeiting Group. We are at the forefront of exciting new technologies such as the electronic product code (EPC) which will help authenticate shipments and clearly identify rogue product. Though the EPC is still in its infancy, the field trials and adoption programmes being undertaken by retailers like Metro, Tesco and Wal-Mart indicate that its introduction is now a very real prospect.

To minimise losses from the supply chain, regular security audits are undertaken to upgrade controls and security mechanisms as we try to stay one step ahead of the criminals. Finally, we collaborate with our retail partners to identify and implement best practices in loss prevention. This work is critical to restricting the

Organised crime

(continued)

supplies to the illicit market. However, it is also clear that reductions in theft can be directly linked to improvements in on-shelf availability as consumer choice increases and book stocks become more accurate.

It is obvious though that we cannot solve this alone. The industry needs to work together as a community by acting in partnership and collaboration to support changes to legislation and enforcement, develop best practices in loss prevention, and share intelligence that will help combat this growing menace to our businesses.

One area where the retail community can make life even more difficult for the criminals is by developing and adopting selling and buying policies, procedures and guidelines to protect our supply chains. These guidelines would help prevent illicit goods from entering the licit supply chain and help prevent criminals from exploiting alternative sourcing to launder their stolen, counterfeit or illegally imported products.

While the vast majority of goods obtained via alternative sourcing strategies are licit, safe, and do not create, support or enable illicit or other harmful activities, there is evidence of product stolen from stores, transport assets and warehouses, as well as counterfeited and illegally imported goods ending up in the licit supply chains and stores. This is confirmed by evidence from criminal cases, informants, law enforcement and security experts, and retailer and supplier loss data.

We need to ensure that we use due diligence to make sure we know who we are selling to and who we are buying from. Many companies today have checklists, audit procedures and

escalation processes to ensure adequate due diligence for buying and selling. The industry must collaborate, share learning, develop and deploy these best practices.

It makes sense to recognise that some products are more prone to counterfeiting or theft and to ensure that additional vigilance is taken when sourcing these products. If a deal looks too good to be true, then that should send out a major signal that extra care needs to be taken before confirming the order, particularly when the pursuit of perhaps a short-term gain could jeopardize a long and trusted relationship with consumers.

Voluntary guidelines are required to provide the framework for world-class supply chain practices in order to protect our consumers and our businesses and to demonstrate clearly our commitment to curbing the impact of counterfeiting and organized retail crime. The US retail industry is currently considering such guidelines and Europe, which boasts perhaps the most dynamic retail environment in the world, also needs to ensure it takes a lead role in their formation and implementation.

We will be working closely with our retail industry associations both nationally and on a pan-European basis to help drive this initiative forward. Once the guidelines are in place, it is vital that they are put to use. Too much good work ends with a paper or report being released. In this case we must go further and bring this initiative to life.

A full copy of the report on the illicit market, *The illicit market in stolen fast-moving consumer goods*, is available from colin_peacock@gillette.com.

Brands manifesto published

A Manifesto for Brands, launched in March, outlines the contribution that brands already make to the UK, empowering consumers, spurring innovation and underpinning competitive markets. The industry represents some 14% of UK manufacturing and £6 billion a year in exports.

While brands already contribute much to the UK's economic and social fabric, they can do more. This requires the right climate and the Manifesto, produced in conjunction with the Anti-Counterfeiting Group, outlines a six-point action plan on how this may be achieved:

- stronger measures to prevent companies deliberately misleading consumers into thinking they are buying brand quality when they are not;
- more effective enforcement to stall the influx of counterfeits;
- the removal of remaining barriers to an effective single market;
- stronger recognition of the importance of commercial communications to consumers, innovation, competition and a dynamic economy;
- a role for companies in the enforcement of consumer protection legislation;
- a robust approach to abuses of buyer power which distort competition and damage the interests of consumers.

For a copy of *A Manifesto for Brands* please contact the British Brands Group.