

Corporate Experiences on Counterfeiting in Hungary

extract from the survey

For the first time among corporate decision makers in Hungary, a survey has been conducted to map out their experience and opinions regarding counterfeiting. The survey was initiated by the National Board Against Counterfeiting (NBAC), who has approached over 450 business leaders from every region of the country.

The questions in the survey were addressed to Managers, Technical Managers and Marketing Managers in the form of telephone interviews and in-depth interviews. The largest group, 75% of respondents is from small (less than 50 employees) enterprises, enterprises between 50-249 employees make up 19% of the responses, while large corporations, employing over 250 people are represented in 6% of the sample. 81% of the enterprises in question are fully Hungarian owned, in 6% they have a mixed ownership, and the ratio of foreign corporations is 6%.

The central aim of the survey, through exploring corporate experience and practice, is to identify what knowledge companies have about counterfeiting, whether it is a major problem for them, their awareness of their products being counterfeited, their actions against counterfeiting, and what steps they are taking to ensure protection of their products and services.

This extract includes the results and figures most interesting for the public. **The full study in English can be downloaded from the website of the National Board Against Counterfeiting (in Hungarian):** <http://www.hamisitasellen.hu/2013/09/a-vallalatok-negyedet-erinti-a-hamisitas-megis-kevesen-tesznek-ellene/>

I. Corporate decision-making, officers for brand protection

In 40% of the interviewed companies, no one is responsible for brand protection. Where conscious brand protection exists, in the overwhelming majority of the cases the **related tasks fall under the duties of the company owner or general manager.** Alongside the owners and managers, commercial directors also take an active role in brand protection.

Whether the owner of the company takes responsibility for brand protection is unsurprisingly influenced by the company's size. The majorly Hungarian-owned companies that primarily do domestic business are much more likely to have the owner of the company in charge of brand protection, which also means that the bigger the company is (both in terms of number of staff and in terms of annual revenues), the more likely it is to have an employee dedicated exclusively to tasks related to brand protection.

In 2% of the cases there is a specific department dedicated to the topic, and among the businesses with a brand protection policy, 3% has such a department. Of the foreign companies with brand protection

measures, 25% of the time the parent company takes care of the issues. An external legal counsel in brand protection is typical primarily of foreign companies; the existence of a quality assurance management position and its involvement in brand protection is typical with export companies.

Altogether it becomes clear that among enterprises with brand protection policies it is the managers with the most decision-making power who are involved in brand protection measures, yet the involvement of owners and managers also shows that in the sample analyzed, **brand protection is generally not so relevant in the companies' culture as to have a responsible person or department dedicated to brand protection.**

II. Production of goods, quality control

25% of the participating companies produce their own goods through brand innovation, the bulk of the participating enterprises (46%) develop existing products mostly, and the remaining 24% do not develop new products. The remaining one percent buys the license for production from another business and produces on this basis.

The majority of the companies participating (59%) have qualified suppliers. It is however worth noting that of the smallest businesses (based on number of employees as well as annual income) the ones with a system for qualifying suppliers are in minority. **The bigger the company, the more likely it is to have a supplier qualification policy,** therefore the larger corporations have a better chance of detecting substandard or counterfeit supplies.

Most companies with a supplier control policy have their own internal system for this purpose. Less than 50% investigate the origin of the parts arriving from external suppliers. 12% of the participants only qualify suppliers based on price or location, 3% emphasize quality of the materials, and 2% decide based on reliability of the supplier. 5% of participating companies use an international standard. The quality of the supplier's products are relevant for international companies more than the domestic ones, of the former 14%, of the latter 3% have given an affirmative answer to this question.

The qualification method is in itself not entirely suitable to detect counterfeiting; **the fact that a company qualifies their suppliers does not mean that they would have a lower risk of counterfeit materials entering the supply chain.**

III. Perception of counterfeit products and counterfeiting

When asked what the companies thought counterfeit product was, the primary responses were unauthorized use, copying (trademark, patent, know-how) and bad quality: 39% of the respondents have emphasized unauthorized use of brand name and company name. The theft or unauthorized use of intellectual property was included in 17% of responses, and inferior quality of the counterfeit product in 29% of cases.

Regarding the brand or company name, complaints of counterfeiting taking place came mostly from companies that produce computers, electronic and optical supplies, furniture, vehicles or vehicle parts. Quality becomes a central issue in counterfeiting with firms in the food and drinks industry.

75% of the respondents have claimed that the counterfeit product has inferior quality to that of the original. About 90% of the respondents say that counterfeit products can be dangerous, as they can discredit the manufacturer of the original product, and 75% of them agree with the statement: *„counterfeit products are dangerous because while the product is seemingly authentic, there is no quality control*

during the manufacturing process.” Fewer of the respondents share the concern that counterfeit products can bear health hazards (61%). **An almost unanimous conviction of the dangers of counterfeiting becomes apparent in the few affirmative answers (18%) to the statement that: „the fight against counterfeiting is only important to large corporations”**, even though small enterprises are more likely to agree with the statement (27%).

Perception of counterfeit products does not depend on the size of the company or the nationality of the company's owners.

The companies manufacturing counterfeit products were quite unanimously condemned by the representatives of the companies participating in the survey: the average value is 4.5 on a scale of 1 to 5, with 5 being the most serious level of condemnation.

Only 44% of the participating managers have answered in the affirmative about their **awareness of the legal consequences of counterfeiting**. In companies where counterfeiting is an issue, 55% of the respondents are familiar with legal measures available in these cases.

IV. Industrial Property Protection, Awareness of Industrial Property Rights

Close to one quarter (24%) of the respondents have industrial property rights (IPR) protected, with most of these being companies that create innovative products: among these the ratio of IPR holders is 43%. Another group turning to IPR protection is companies who become aware that their goods are being counterfeited.

Most of the IPR holding companies have registered trademarks (49%) or patents (31%). 16% of companies have certification marks, 13% have utility model protection, 10% have design protection, while 6% of the companies use geographical indication.

Foreign-owned, export-oriented bigger companies with larger turnovers are more likely to have IPR protection.

The smallest enterprises' situation can be understood through the following findings: companies in the sample that have more than 50 employees and are aware of their products being counterfeited are likely to have IPR protection (65% of them do.) At the same time, out of the small enterprises (with less than 5 employees) that are aware of their products being counterfeited, only 16% obtain IPR protection. In accordance with the above, trademark protection is mostly typical of larger companies: of the companies with over 50 employees 65% have trademark protection, while the average remains at 49%.

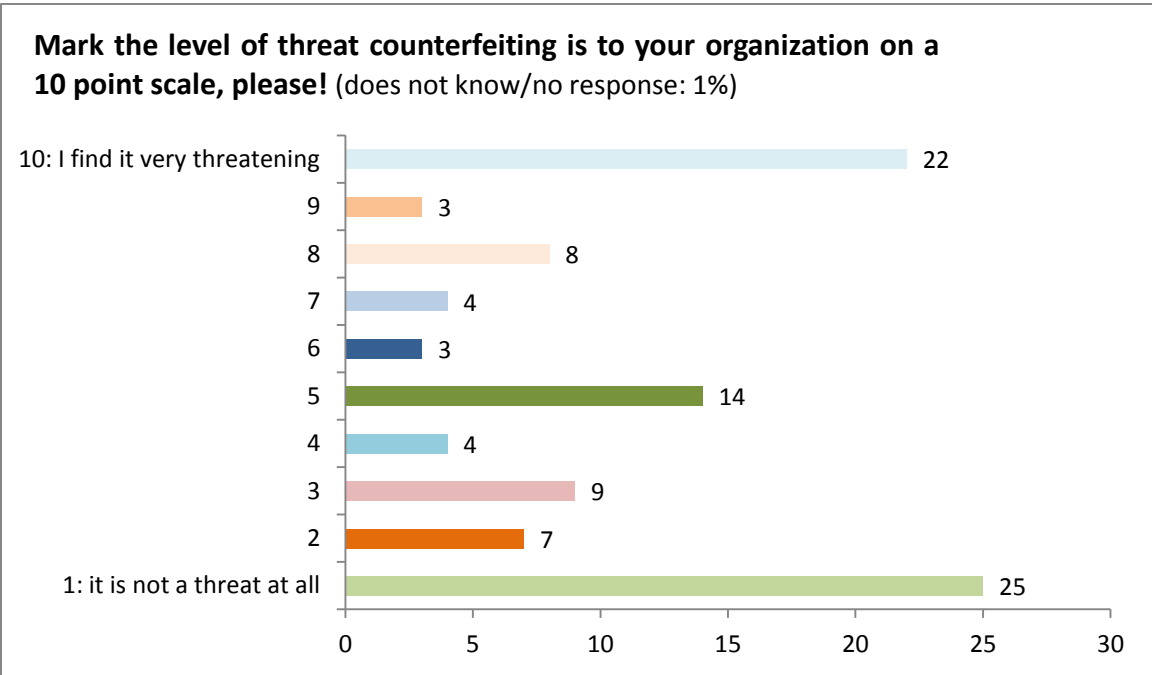
IPR protection is important, according to the responses, primarily because of the possibility to legally protect the product. „It gives protection in the market” was the response of 64% of respondents. Almost half of the companies (43%) agree with the statement that using IPR Protection furthers user/consumer trust. According to 34% of them, it brands the firm as having innovation potential, and 25% of them believe that it gives competitive advantage. 23% think it gives added value to the company. From other answers to this question it is clear that the advantages of IPR protection are apparent in market positioning, tax allowances, and opportunities to tender.

Of the companies without IPR Protection, 35% stated that they do not think it is important to protect their products in this manner. The primary reason given for this is their lack of innovation capabilities – this is underlined by the fact that based on their responses, 24% of these enterprises do not

have products that could be placed under protection – this could also stem from their **lack or unsatisfactory level of knowledge on industrial property**. 24% mentioned costs as the reason behind their not having IPR protection, and 11% noted that obtaining and maintaining such measures cannot be reflected in the pricing of the product. Alongside these objections others have pointed out the problems with the bureaucratic nature of the necessary registration procedures, and the difficulties in IPR enforcement. In the course of the in-depth interviews many of the respondents emphasized the cumbersome and time-consuming nature of IPR enforcement. For the companies that have problems with counterfeit and have no IPR protection, the costs stand on top of the list of reasons for not having registered rights: 46% of these companies have given the answer that IPR protection is much too costly.

V. Experience with Counterfeiting

The industries of one quarter of all respondent companies are under serious threat from counterfeiting. However the same ratio of companies has no related problems. 40% of the companies view the issue as it deserves attention above the average. On average, on a scale of zero to ten they have ranked the threat from counterfeiting at 5.2 in the industry where their company currently operates.



The problem is higher than average for the companies which are in the textile and leather industry, as well as the computer, electronic and optical product industries. In the course of the in-depth interviews software developing companies, food industry corporations, pharmaceutical companies, medical device companies, construction firms and agrochemical firms have also assessed counterfeiting as a major threat on their enterprise.

Regardless of industry and activities, in all cases the big corporations are the ones most threatened by counterfeiting.

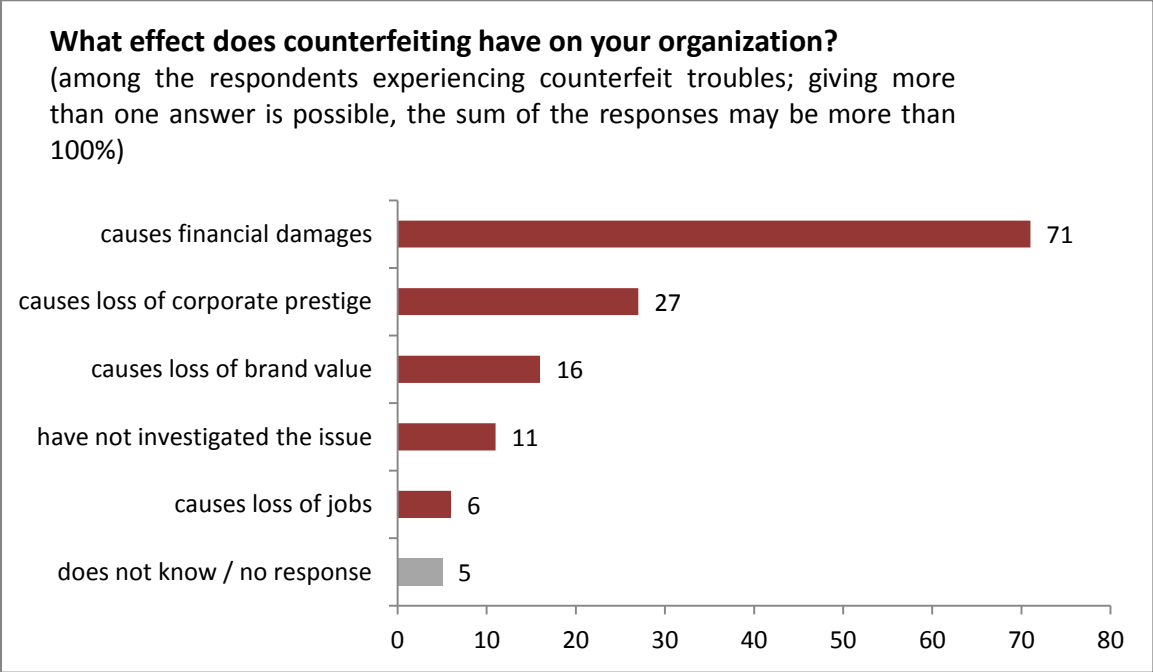
Of the manufacturing companies involved in the survey, more than one quarter (28%) are aware of their products being counterfeited. Of the 28%, more than half have found these counterfeits to be available over the internet.

It is more typical of the companies manufacturing innovative products to face problems with counterfeiting (39%).

Mostly the companies have first-hand experience with counterfeit products, while business partners and customers were also listed as important sources when it comes to flagging the presence of counterfeit products.

A strong majority of the participants informed their customers that their goods were being counterfeited, once they became aware of this fact.

Most companies have highlighted the financial damages caused by counterfeiting as having a negative effect on the corporation (71%). The **loss of prestige** caused by counterfeiting was listed as a serious negative effect in 27% of the responses. The **decrease in brand value** is a significant outcome in 16% of the cases, while the loss of jobs has been noted by 6% as a direct result of counterfeiting. Of the companies struggling with counterfeiting issues 11% of the respondents have not explored the results of the presence of counterfeit product on the business.



When asked what results product counterfeiting have on their companies, the size of the company made a significant difference in the responses. Financial damages were a primary concern to smaller companies: in enterprises employing 1-4 people 86%, in 5-49 employee enterprises 72%, in companies with more than 50 employees 46%. A loss of corporate prestige was seen as more of a threat among larger companies: of businesses with less than 5 employees 9% listed this as a result, for companies employing 5-50 people 32% noted this as a threat, while for bigger companies 31% sees this as a direct negative effect of counterfeiting activity.

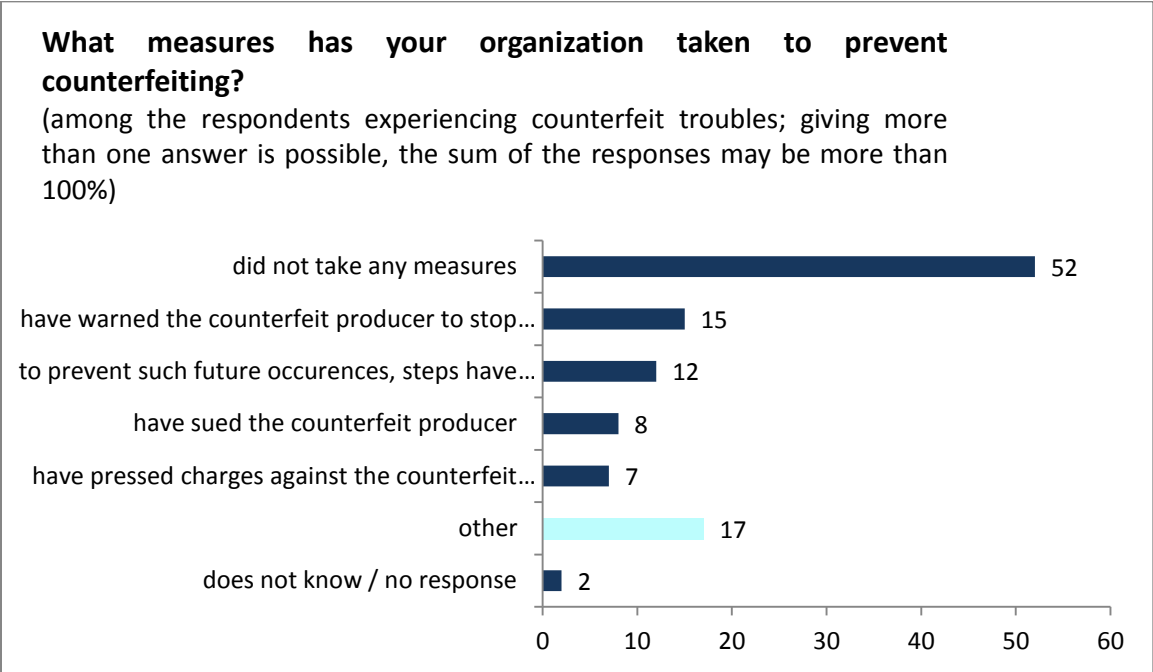
Of the companies struggling with the presence of counterfeit products in the market, almost 50% were unable to estimate the damages this has on the company itself. 11% of the respondents estimate a loss of profit of under 10%, and around the same number estimate their damages to be in the over 50% range. The most typical response to this question, given by 36% of the respondents, placed **the loss of profit as a direct result of counterfeit at between 10 and 50%**.

On average, the threat of counterfeit products appearing in their supply chain is 1,9 on a 5 point scale. 9% of respondents see a more than average chance of this occurrence, and the slight majority (51 %) thinks that this is unlikely to happen. The threat is greater for small enterprises, as they have no quality control over the source of the products delivered.

71% of the companies participating in the project do not see a change in the near future regarding the risk of their products being counterfeited. 16% of participating companies expect the counterfeiting activity to increase, and only 9% is expecting a decrease.

Anti-counterfeiting measures

While condemnation of counterfeiting activity is almost unanimous, and the companies threatened by counterfeit products report significant losses due to the presence of counterfeits in the market, **the relative majority of participants have not taken active steps after becoming aware of the presence of counterfeit products**. Bigger companies are more likely to act against counterfeiting, smaller companies have limited resources to take legal action or to control internal procedures aimed at avoiding the appearance of counterfeits.



Smaller firms typically (68%) have taken no action after becoming aware of their product being counterfeited, while the same inaction has been noted in 26% of larger companies. It is also more typical of domestic companies to not react to counterfeiting activity: 57% of companies, who operate mostly domestically, have taken no steps to fight counterfeiting in their market. Among companies producing mainly for export, this has been noted to happen only in 25% of cases.

Only 12% of respondents fight counterfeiting which have taken place online. It does not come as a surprise that the ones taking action are the bigger corporations, 32% of companies with more than 200m HUF /yr. turnover have taken measures against such online instances.

According to the respondents the most efficient action is to have more efficient enforcement to find and punish organizations engaged in counterfeiting activities, coupled with more severe sanctions, and an increase in the frequency and thoroughness of raids and actions of the enforcement authorities.

The respondents did not feel a lack of information was to blame for the current situation and mentioned that information service and informative campaigns would only be of secondary importance to them. With regard to other possible suggestions, participants listed greater involvement from the government's side, the encouragement of consumer awareness and a collaboration of parties involved.