



Brand protection and integrity services



Illegal trade, piracy and counterfeit products are global concerns of enormous scale that impact virtually every economy around the world, and India is no exception. These problems have a detrimental impact on trade, investment, employment, innovation, environment, and on the health and safety of consumers. Not only this, they also have an adverse effect on the reputation and growth of an organisation, which ultimately results in loss of revenue for the organisation and the government.

Counterfeiting and illegal trade has increased steadily over the past few years. According to the March 2019 report issued by the Organisation for Economic Cooperation and Development (OECD), trade in counterfeit

products contributes to 3.30 percent of the world trade.¹ Further, the total value of counterfeit products on a global scale was USD1.20 trillion in 2017 and was expected to surge by more than 50 percent to USD1.82 trillion by 2020.² For developing nations like India, such rise in illegal trade can have crippling effects on its economic progress and lead to lower tax collection for the government. Counterfeiting incidents reported in India have increased by 24 percent, from 463 incidents in 2018 to 572 incidents in 2019³. The steady rise in counterfeiting and illegal trade has led to a loss of more than INR1 lakh crore to the Indian economy.⁴ The menace of counterfeiting has been hampering economies since long and continues to mount by the day.

Is counterfeiting and illegal trade affecting your organisation?

Organisations can consider the below indicators to ascertain whether they have been adversely impacted by counterfeiting and illegal trade:

- Has the organisation experienced loss in revenue or market share?
- Does the management fear reputational loss and negative impact on the organisation's brand and goodwill?



1. Trade in fake goods is now 3.3% of world trade and rising, OECD.org, Catherine Bremer, 18 March 2019

2. Global Brand Counterfeiting Report 2018-2020 - ResearchAndMarkets.com, Businesswire, 15 May 2018

3. The State of Counterfeiting in India – 2020, ASPA Global, 2020

4. Counterfeit products create Rs 1-lakh-cr hole in economy, incidents up 24% in 2019: Report, The Economic Times, PTI, 30 July 2020

Key problems faced by organisations and our approach

Counterfeit and look-alike products

Illegal trade of counterfeit and look-alike products has been an ongoing problem for organisations and governments to tackle. While counterfeiting has a widespread impact across various industries, sectors that commonly bear the brunt are fast-moving consumer goods (FMCG), alcohol, pharmaceutical, agriculture, infrastructure, automotive, tobacco, lifestyle and apparel. Among these sectors, the FMCG sector is highly susceptible to counterfeiting, as counterfeit incidents reported in the sector increased by 63 percent from 2018 (79) to 2019 (129)⁵.

The COVID-19 pandemic has further led to a surge in illegal trade of counterfeit and look-alike products, as fraudsters are taking undue advantage of the high market demand for essential products, especially personal protection and hygiene products. Between February to April 2020, more than 150 counterfeit incidents were reported, including fake PPE kits, sanitisers and masks⁶.

Indicative approach

Market survey



- Conduct investigative market survey to identify availability of counterfeit products across various sales avenues, such as brick and mortar stores and online channels
- Gather intelligence to understand the scale of such irregularities.

Focused investigation



- Conduct focused investigation in potential markets to gather information regarding the irregularities
- Gather evidence through mystery shopping from potential counterfeiters
- Identify manufacturing, storage, selling points of the counterfeit products sold in open market and identify key individuals involved, including employee(s), if any.

Assistance in potential litigation



- Provide evidence to the organisation for taking action against identified target individuals or entities
- Provide litigation support to the management or legal team of the organisation for taking criminal or civil action against individual or entities involved in illegal trade.

5. The State of Counterfeiting in India – 2020, ASPA Global, 2020

6. Counterfeit products create Rs 1-lakh-cr hole in economy, incidents up 24% in 2019: Report, The Economic Times, PTI, 30 July 2020

Supply chain leakages

Damaged and expired products are often put back into circulation in the market by fraudulent individuals and third parties. Such products could be sold by either tampering the manufacturing date on the product packaging or repackaging the products.

The COVID-19 outbreak has led to a rise in unsold stock with channel partners, which has further amplified the threat of damaged and expired stocks being sold in the market due to operational hurdles faced by channel partners.

Organisations not only incur the costs for collection

Indicative approach



Process understanding

- Obtain an understanding from the management of the organisation about the process followed for collection and destruction of damaged and expired products
- Obtain an understanding of the roles and responsibilities of employees, clearing and forwarding agents (CFAs), channel partners and third parties, if any, involved in the collection and destruction of damaged and expired products.



Visits to channel partners/CFAs and data analytics

- Undertake visits to select CFAs and channel partners to verify supporting documents and records related to damaged and expired products maintained by them:
 - Damaged and expired products collected from the market by the channel partners and sent to the CFA
 - Identification and computation of damaged and expired products
 - Photographic evidence and approvals for destruction of these products
 - Third party verification, if any, undertaken prior to sending these products for destruction
 - Transport records, if any, available for products sent for destruction
 - Video analytics.
- Reconciliation of the claims submitted by the channel partners to the organisation for damaged and expired products and details of these products sent by the CFA for destruction.



Field intelligence

- Conduct investigative market survey to identify availability of damaged and expired products across various sales avenues, such as brick and mortar stores and online channels
- Gather intelligence to understand the scale of such irregularities
- Undertake mystery shopping in potential markets to gather information and evidence related to the irregularities
- Gather field intelligence on the CFA, destruction agencies and scrap vendors, to identify modus operandi for leakage of damaged and expired products and sale in the open market, if any.



Assistance in potential litigation

- Provide evidence to the organisation for taking action against identified target individuals or entities
- Provide litigation support to the management or legal team of the organisation for taking criminal or civil action against individuals or entities involved in irregularities.

Food safety compliance

Consumer preferences have dramatically changed due to the COVID-19 scenario, with an increased focus on personal safety and hygiene. Consumers may refrain from buying products if hygiene and safety norms are not adhered to by the organisations or its channel partners. Governments and regulatory bodies have also strengthened controls and regulations, especially with respect to safety norms to be followed by organisations, restaurants and food delivery platforms in manufacturing, producing and distribution of food and beverages.

However, due to lack of sufficient existing controls, remote working environment and operational

disruptions caused due to COVID-19, the safety and hygiene norms may not be completely followed by food and beverage manufacturers, its channel partners, and restaurants and food delivery platforms. Flouting such regulatory norms can lead to penalties and subsequent reputational damage for organisations.

How can KPMG in India help?

Perform food safety assessments to identify possible violations of the requisite food safety and hygiene standards by food and beverage manufacturers, restaurants, franchisees, delivery partners and channel partners in the distribution chain.

Indicative approach



Process understanding

- Obtain an understanding from the management of the organisation regarding hygiene practices and sanitisation process recommended to be followed at its manufacturing plants and by the channel partners, restaurants and delivery partners
- Obtain an understanding of the roles and responsibilities of individuals responsible for implementation and monitoring of safety and hygiene standards at the manufacturing plants, restaurants and delivery partners.



Data analytics

- Identify and extract relevant information of the manufacturing plants, restaurants, channel partners and delivery partners from compliance perspective, to the extent applicable
- Perform critical pattern data analysis on the above data and select manufacturing plants, restaurants, channel partners and delivery partners for visits.



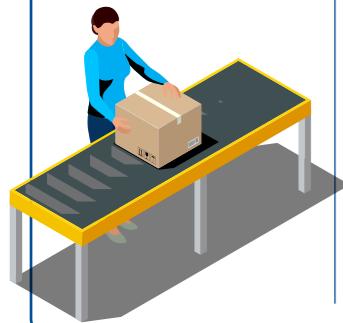
Visits and documentation testing

- Undertake visits to select manufacturing plants, restaurants, channel partners and delivery partners to identify any malpractices regarding on-ground adherence to the safety and hygiene standards
- Verify supporting documents and video records, as mentioned below, to identify any malpractices undertaken by the manufacturing plants, restaurants, channel partners and delivery partners to demonstrate compliance:
 - Regulatory licences
 - Daily employee attendance records and temperature recording register
 - Medical fitness certificates submitted by the employees
 - Adherence to Aarogya Setu application by the employees
 - Video analytics to verify social distancing and use of masks and sanitisers by employees and visitors
 - Sterilisation/fumigation of the storage facility and transport vehicles
 - Stacking and storage of the products.

Select credentials - KPMG in India's assistance

Case 1 : Supply chain leakage

Problem statement



A leading organisation suspected that its damaged and expired products were sold in the market and an employee was involved in selling and distribution of these products.

- Market enquiries indicated that damaged and expired products were available in large quantities at deep discounts (half the price of the product)
- Products were leaked from the destruction agency appointed by the organisation, in collusion with its employees
- An aggregator (scrap vendor) was collecting products from various destruction sites and selling these products by tampering the packaging of the products
- Obtained evidence during the investigation and provided it to the management, based on which, legal action was taken by the management of the organisation against the destruction agency, aggregator (scrap vendor) and employees involved in the malpractice.

Case 2 : Supply chain leakage

Problem statement



A leading organisation in personal and home care products suspected that one of its scrap dealers was involved in selling and distribution of damaged and expired products in the market.

- Market enquiries indicated that a scrap dealer was selling large quantities of damaged and expired products to other scrap dealers, who were in turn, selling these products to sellers in tier-3 cities of India
- Conducted enquiries with the main scrap dealer, who agreed to provide the damaged and expired products at a huge discounted price. Further, the expiry date on the product was tampered to sell these products in the market
- Field enquiries indicated that the products were being leaked from the authorised destruction agency of the organisation, which was supposed to destroy these products.

Case 3 : Counterfeit products

Problem statement



Products of a leading organisation were being potentially manufactured by a counterfeiter

- Performed multiple market enquires across markets in north region of India, wherein noted that counterfeit products were being sold at discounted prices to the customers
- Undertook mystery shopping to identify the sellers who were selling these counterfeit products
- Field inquiries indicated that these products were manufactured at one location, assembled at the second location and packed at the third location
- Provided all the details and evidence to the management of the organisation and they took legal action on the counterfeiter.

Case 4 : Counterfeit products

Problem statement



Counterfeit products of a leading manufacturer of alcoholic beverages were available for sale in the open market in north region of India.

- Performed multiple market enquires across markets in north region of India, wherein noted that counterfeit products were being sold in the open market
- Undertook mystery shopping to identify the sellers and manufacturers of these counterfeit products
- Field enquiries and discreet surveillance indicated that the manufacturer sourced the packing material and manufactured the counterfeit products at his factory
- Provided all the details and evidence to the management of the organisation and they took legal action on the counterfeiter and the supplier of packing material to the counterfeiter.

Case 5 : Unauthorised import of products

Problem statement



A leading organisation of consumer products suspected that its products were being sold in the market at substantial discounts.

- Analysed the consumer complaints received by the organisation to identify the hotspots (regions), where the products were being sold at significantly discounted prices
- Mystery shopping led to identification of multiple retailers and distributors across multiple cities in India selling these products at discounted prices
- Field enquiries indicated that a distributor was illegally importing these products and supplying these products to various retailers and other distributors situated across multiple cities in India
- Provided all the details and evidence to the management of the organisation and they took legal action on the distributor who was importing the products.

Our team

- Engagements executed by in-house professionals and no work is outsourced
- Experienced and certified investigators (including ex-IPS and ex-police officers) having executed projects within India, as well as other countries, such as Nepal, Sri Lanka, Bangladesh amongst others
- Proficiency in handling assignments in rural and remote areas
- Extensive field team presence at multiple locations to identify bulk sellers, scrap dealers, manufacturers, stockists, resellers, exporters, importers among others involved in illegal trade of products.



KPMG in India contacts:

Vijay Chawla - Bangalore

Partner and Head

Risk Advisory

T: +91 80683 35509

E: vschawla@kpmg.com

Jagvinder S. Brar - Gurugram

Partner and Head

Forensic Services

T: +91 97169 09339

E: jsbrar@kpmg.com

Mustafa Surka - Mumbai

Partner

Forensic Services

T: +91 98199 88629

E: mustafasurka@kpmg.com

home.kpmg/in



Follow us on:

home.kpmg/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011
Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2022 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

This document is for e-communication only. (071_BRO0321_PD)