

WORLD NEWS



John Roberts (left) walks with George W. Bush in the White House before the president announced his nomination last month

Brooks Kraft

COUNTERFEIT TECHNOLOGY

IT fakes thought to cost companies \$100bn a year

By Scott Morrison
in San Francisco

As many as one in 10 IT products sold worldwide may be counterfeit, costing global technology companies as much as \$100bn (€80bn, £55bn) in lost revenue annually, according to a new report from KPMG, the auditing group.

Furthermore, counterfeiting typically results in inferior products reaching the market, damaging the brand equity of the companies whose products are being copied, said the report, to be released today.

KPMG said the \$100bn figure was based on estimates from 15 leading global IT companies. The worldwide IT industry, which includes computers, networking gear, cellular phones and consumer electronics, is estimated to be worth \$1,000bn in annual sales.

The report pointed to China as the most significant source of counterfeit IT goods. A high degree of for-

eign direct investment with advanced technology, inconsistent enforcement and low wages contribute to a favourable setting for counterfeiting, the report said.

"China is certainly the hotspot," said Gary Matuszak, chairman of KPMG's electronics, software and services unit. "No other area comes close to what the market is in China. It is clearly

'China is clearly the biggest counterfeiting market for IT'

the biggest counterfeiting market for IT."

Officials at Hewlett-Packard, computer and printer maker, and 3Com, the network equipment maker, said counterfeiters typically tried to copy their most successful products. However, officials at both companies declined

to estimate the impact that counterfeit products had on their sales.

Industry sources said networks switches, computer memory parts, hard disc drives and ink supplies were the most common components found on the black market. Such components can be manufactured by small operations, although legitimate suppliers in China have been caught manufacturing additional parts and selling them on the black market.

Mr Matuszak said counterfeiters also made finished products that appeared to be manufactured by leading IT companies.

The report noted that the price of an authentic product from a global original equipment manufacturer reflected the cost of research and development, brand development, manufacturing, marketing and sales. Counterfeiters, on the other hand, need only assume the cost of manufacturing and sales and can make a significant profit

on black market goods that are priced below authentic products. Counterfeit products are usually sold over the internet or through unauthorised retailers or are funnelled into legitimate distribution channels.

The report said legitimate manufacturers should be alert to any unexpected surge or drop in orders of raw materials or components, which could be a sign those materials or components were being diverted away from legitimate supply chain channels into the black market.

Legitimate manufacturers should also look for large volumes of discounted products available through resellers, as well as an increase in products returned for service, said KPMG.

The report was also prepared by the Alliance for Gray Market and Counterfeit Abatement, a non-profit group comprising high-tech leaders such as Cisco Systems, HP, Nortel, Hitachi and Seagate.

US hunt goes on for clues