



## **SERIALIZATION FOR THE PREMIUM BEVERAGE INDUSTRY**

### **—A SOLUTION FOR BRAND INTEGRITY—**

by

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The growth of consumer economies in developing countries throughout the world is certainly driving up the demand for luxury goods. China is now the largest market for Rolls Royce, for example. Market research departments of these luxury goods companies are not the only ones observing new opportunities. Counterfeiters are also aware of profit possibilities, and the counterfeiters' upstream and downstream supply chains can be much shorter and operate more quickly than those of the brand owner. One of these luxury goods categories, premium beverages – expensive wine, whiskey, cognac – has become an increasing active market for counterfeiters in China, India and Russia.

#### **Creative and Crafty Counterfeiters**


How do vintners and (scotch brewmasters) of the counterfeit trade replicate what has taken the French and Scots, among others, hundreds of years to master? Quite easily. For starters, empty bottles are valuable commodities – at the end of a long night shift, enterprising bartenders can place the empty premium beverage bottles in a “recycle” container, which is purchased at surprisingly high prices by enterprising counterfeit rings. Hopefully, the bottles are washed, although we are rarely provided access to the “cleaning report” of the counterfeiters. The bottles are then filled with what could be some home brew concoction of the counterfeiters “processing factory,” and prepared for final packaging. Given the availability and low prices of used digital label printing systems, side and cap seal labels can be precisely replicated so that it is virtually impossible to distinguish a fake bottle from a genuine. Likewise, suppliers of fake but attractive cartons are readily available in these regions.

The activities of these creative and crafty counterfeiters can cause serious harm to the brand integrity of a premium beverage product. Wealthy consumers of such products have their own reasons for wanting to purchase these products. Some do it for status, or to purchase a gift for someone whom they want to impress. If it becomes known that a certain brand is widely counterfeited, demand for that product could decrease considerably, and that consumer base could switch to a competitor's brand in which he may have more confidence in the product's authenticity. The sale of the counterfeit version of a premium brand creates competition to the brand owner – business is already challenging enough without competing with one of your “own” products available at a “special discount” price. The questionable “sterility” standards of the counterfeiters could also result in a consumer becoming ill after consumption, causing at least irreparable harm to the brand's reputation, and possibly litigation of the brand owner in the case of serious illness.

Another evil force in the supply chain of premium beverages is the distributors who engage in grey market diversion activities, i.e. selling product into non-authorized regions or market channels, often at prices lower than the brand owner's designated regional distributor. This hurts the sales potential of the brand owner as well as the legitimate distributor or wholesaler in that region.

### **Serialization – A New Tool**

The premium beverage industry can benefit from the experience of the pharmaceutical and food industries' use of serial numbers on product packages to uniquely identify each product. Assigned serial numbers are then linked to a database with a methodology for tracking each individual product from its place of packaging, through its distribution system, and into the hands of its consumers. A serial number is analogous to a “license plate” that is placed on each package, or in other words, printed on the label of a bottle. This “license plate” or serial number can be used for authentication of the product, tracking of product through the downstream supply chain, and monitoring trade for grey market diversion. The serial numbers employed are typically a 2D/Data Matrix or QR barcode as well as a human readable number for ease of consumer use. These serial numbers are printed on the label and each subsequent packaging level (carton, case and pallet) are then linked to a cloud-based database, which becomes a record of each event related to that product by scanning into a warehouse, or by authentication by a consumer. In order to provide higher levels of security, the serial numbers can be linked to package security features. Consumers are able to authenticate the product and check its chain of custody by scanning the barcode with a mobile phone, or by entering the human readable code into a web-access application.



Other business benefits such as interfacing with consumer loyalty programs can be realized through the use of serial numbers, thereby establish a direct relationship between

the brand owner and the consumer. This creates a channel for the communication of marketing information, a source of real-time consumer feedback and opportunities to mine additional market data.

Data are now being used to improve operational efficiencies of an enterprise through the use of such systems as ERP, CRM, and MES. But why stop there? Serialization can actually increase the connectivity of the enterprise throughout packaging operations and the supply chain. More importantly, it can be used as a powerful and cost-effective tool to combat counterfeiting and supply chain leakage, and also connect with consumers who seek confidence in the integrity of the brand owner's product. Serialization-based brand integrity programs can give consumers confidence in a premium beverage, and this differentiation can result in a clear marketing advantage.

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