

## Combating Product Diversion

Brand Protection in the Watch Industry

*An ORBID Corporation Case Study*

# Combating Product Diversion

*Product diversion is expensive. It's an increasing problem for companies worldwide, costing them billions of dollars a year in lost revenue and erosion of brand value.*

## Executive Summary

Fossil, Inc., a global design, marketing, and distribution company specializing in consumer fashion accessories, suspected product diversion was occurring within their distribution channels. Proof was hard to come by and the losses were hard to estimate. Fossil needed an effective, affordable brand protection solution that wouldn't disrupt their product development cycle. They turned to ORBID.

ORBID worked closely with Fossil to design a powerful brand protection program. The protection solution leveraged ORBID's proprietary mark technology to covertly mark and track Fossil's products. Fossil would use the mark to identify the specific distributors who were diverting or selling products improperly. Once identified, Fossil would be able to take action against those distributors, addressing each infraction individually to ensure future compliance with their distribution agreements.

This brand protection program was so successful over the first three years that Fossil decided not only to extend it, but also to expand it to other brands. The program has built confidence and trust with Fossil's most valued distributors and retailers while deterring violating distributors from exploiting Fossil's brands.

*"The brand protection program we put in place with ORBID as its technology foundation was so successful that we felt compelled to extend its use."*



*Rob Wilson  
VP Distribution Operations  
Fossil, Inc.*

## Business Need - The High Price of Diversion

Fossil first suspected diversion activities within their distribution channels when they received numerous complaints from legitimate distributors and retailers. These complaints indicated that some distributors were diverting and/or selling products improperly.

Fraudulent activities were causing several major problems, including:

1. Lost revenues
2. A loss of retailer's confidence and trust in Fossil's brands
3. Distributor dissatisfaction
4. Expensive, ineffective investigations of diversion-related incidents due to lack of incontrovertible evidence



To solve these issues, Fossil sought a brand protection solution that would address their specific diversion problem quickly and cost effectively. Fossil determined, after evaluating many offerings, that ORBID's Secure Product Protection Suite was the best technology foundation for their brand protection program. Fossil chose the ORBID solution because it was:

- *Fast* — Implementation of the solution took less than 45 days post pilot.

- *Seamless* — The solution integrated seamlessly with existing manufacturing and shipping processes and IT systems.
- *Flexible* — The right information was available to the right stakeholders at the right time.
- *Affordable* — The solution cost-effectively addressed the challenges faced by Fossil.

## Complete Solution - Powerful Technology, Effective Business Process

Having selected the technology, Fossil also needed to design the business processes for the brand protection program. Fossil engaged ORBID to study Fossil’s manufacturing and distribution processes and systems. From this study ORBID designed a complete covert marking and tracking system to monitor the distribution network. The system needed to have a negligible impact on manufacturing cost and time, and align well with the start of the product development cycle. Working together, Fossil and ORBID developed the following approach:

### 1. Covert Mark for the Watch

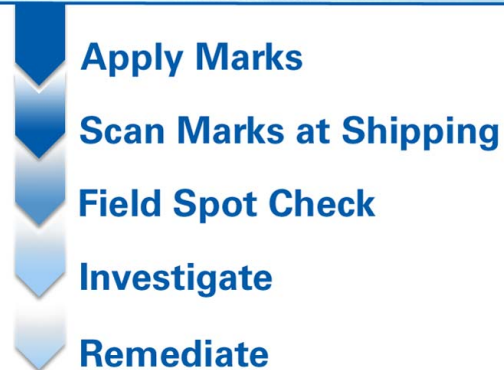
A covert “near nano” mark was etched on one of the watch parts. The covert mark was nearly invisible to the consumer and casual observer, so as not to interfere with the design aesthetic of the product.

### 2. Overt Printed Mark for Internal Tracking

This printed mark, which matches the covert mark, was applied to a hanging tag attached to the watchstrap. The hanging tag was used to track the watch through manufacturing to inventory in Fossil’s distribution centers. At pack and ship, the hanging tag was scanned as each item was picked to fill a given purchase order, tying the individual watch to the purchase order in Fossil’s order fulfillment database. The hanging tag was then removed from the watch prior to shipment.

### 3. Capture and Investigate

Watches “captured” in the marketplace were returned to investigation centers where the covert mark was used to match the individual watch to the distributor. If the captured watch was being sold in a manner that violated Fossil’s distribution agreements, the investigator notified Fossil’s legal and sales teams by providing them with the necessary evidence to enforce their distribution agreements.



## Solution - Marks Make the Difference

Over a 90-day period, Fossil launched a pilot program that:

1. Developed a target list of distributors initially suspected as sources of diversion activities.
2. Identified products to include in the program.

1	Reduced diversion	
2	Improved enforcement	
3	Improved distributor satisfaction	
4	Improved protection team productivity	
5	Deterrence	
6	Improved brand confidence, trust, and loyalty	

3. Engaged the ORBID team to work on-site with Fossil's manufacturing and warehouse teams to implement the solution.
4. Educated field personnel to identify and report diversion activities, assist investigators with research and investigation, and work with the legal department to take corrective action against violators.

Product marked during the pilot took between five to eleven months from date of manufacture to begin appearing in the market. This delay was attributed to the limited scope of the initial pilot. Once the program was fully implemented in all geographic regions and across a broader selection of products, diverted product was typically identified within three months of manufacturing.

## Success - Diversion Down, Brand Value Up

Fossil's management and brand protection team were very pleased with the program results. Rob Wilson, Vice President Distribution Operations of Fossil, Inc. said, "The brand protection program we put in place with ORBID as its technology foundation was so successful that we felt compelled to extend its use."

Fossil identified five key measures of success:

- **Reduced Diversion**

The ORBID solution has given Fossil the information required to reduce diversion and enforce distributor compliance. Armed with solid evidence, Fossil was able to successfully enforce the contractual agreements with its distributors and take corrective actions that have dramatically reduced the diversion of Fossil's products.

- **Improved Retailer Confidence and Trust**

The ORBID solution has helped Fossil improve confidence, trust and brand loyalty with their highly-valued distributors and retailers while reducing the overall costs of protecting Fossil brands.

- **Improved Distributor Satisfaction**

The program has significantly reduced or eliminated distributor complaints regarding diversion activities in specific regions of the world.

- **Improved Productivity**

The program dramatically improved the productivity of Fossil's brand protection team by reducing the amount of time spent on each investigation by over 70%. This productivity improvement has enabled Fossil to increase the number of distributor "convictions" by 25% per year.

- **Improved Deterrence**

As word of Fossil's brand protection program and resulting enforcement activities spread through the industry, distributors and counterfeiters were deterred from targeting Fossil brands and have moved on to easier targets.



Product diversion is tenacious. Incontrovertible evidence from secure marks reduces the amount of diversion and the cost and effort to mitigate its impact on the business. This case study is just one example of how ORBID's solution can help manufacturing companies prevent product diversion in their distribution process.

Contact ORBID at [sales@orbidcorp.com](mailto:sales@orbidcorp.com) or 415.421.2100 to learn how your company can stop brand erosion and lost revenues from diversion.

## About ORBID

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ORBID is the leading provider of fingerprint/Unique Identity (UID) solutions for cost-effectively and securely guaranteeing the authenticity and integrity of products. ORBID's unique 2DMI (two-dimensional) mark can be applied overtly or covertly on almost any surface (rough, uneven, tiny) using common production techniques, and read with everyday technology. A growing list of companies have adopted ORBID UID solutions for handling their anti-counterfeiting, brand protection, diversion control, return fraud, regulatory compliance, and inventory control needs. ORBID is a U.S.-based company headquartered in San Francisco, California with an office in Shannon, Ireland.

ORBID Corporation  
1704 Union Street  
Suite A  
San Francisco, CA 94123  
U.S.A.  
1.415.421.2100 (phone)  
1.415.885.2120 (fax)

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