

# Counterfeits in the Crosshairs

*From the Editors, Supply & Demand Chain Executive*

Counterfeits have come under a dramatic increase in scrutiny from Washington since a 2009 report from the U.S. Department of Commerce's Office of Technology Evaluation (OTE) blew the issue wide open, showing that counterfeit and suspect parts could impact as much as 40 percent of the Pentagon's supply chain. The study cites an Inside the Air Force article in which a Defense Department official estimated that "such components are leading to a 5 to 15 percent annual decrease in weapon systems reliability." OTE's report shows how incidents of counterfeit electronics have more than doubled, escalating over 150 percent from 2005 to 2008, based on its survey of military manufacturers, contractors and distributors.

It's widely believed that the most effective approach to avoiding counterfeit electronic components is to purchase, where possible, directly from the original component manufacturer (OCM), or from franchised or authorized distributors, resellers or aftermarket suppliers. Thus, the OTE focused attention on the critical role of procurement practices in the introduction of counterfeits into the supply chain, concluding that, "It is not uncommon ... for authorized distributors to purchase parts outside of the OCM supply chain in order to fulfill customer requirements – 58 percent purchase parts from other sources," according to the report. "Specifically, 47 percent of authorized distributors procure parts from independent distributors, 29 percent procure from brokers, and 27 percent procure from Internet-exclusive

sources." Clearly, when almost half of authorized distributors procure parts from purportedly less-safe independent distributors and brokers, a policy to procure only from these distributors is only one small part of overall anti-counterfeit risk mitigation strategies.

In response, Congress has started to ratchet up pressure on government suppliers in an effort to drive counterfeits out of the military. In March, Sen. Carl Levin, (D-MI) joined with Sen. John McCain (R-AZ) to announce a Senate Armed Services Committee (SASC) investigation into counterfeit electronic parts in the DoD supply chain. The senators warned that counterfeit electronic parts pose a risk to the nation's security, the reliability of its weapons systems and the safety of its military men and women.

The SASC reportedly sent out letters to the executive leadership team at major government prime contractors asking them to provide information on any counterfeit parts they had identified that were destined for the DoD supply chain, including the part number and supplier, as well as companies that had tested those parts.

In June, Sen. Sheldon Whitehouse (D-RI) introduced bipartisan legislation to crack down on criminals trafficking in counterfeit goods in the military supply chain. The "Combating Military Counterfeits Act of 2011" – cosponsored by Senators McCain, Lindsey Graham (R-SC) and Chris Coons (D-DE) – aims to turn up the heat on counterfeiters by increasing penalties for trafficking in fake military products. "No one who has visited with our military ... can accept criminals making an easy buck

selling fake versions of products intended to help our troops. Unfortunately, however, this unacceptable threat to troop safety and national security is growing," Whitehouse said.

Counterfeits have taken center stage as a mainstream business issue, focused squarely on the supply chain. The enormity of attention paid to the threat of fakes in military equipment is just the beginning, and has raised the counterfeits issue to the C-suites of recognized global companies. Senior management is looking at their companies' potential risk exposure due to counterfeits – in terms of lost sales, liability and brand damage – and beginning to sponsor corporate-wide initiatives to deal with counterfeits.

The question for many supply chain executives has become, therefore, not whether, but how to deal with counterfeits. The articles in this special edition illustrate that OEMs and their suppliers have an increasing number of tools and best practices that they can turn to as part of dedicated initiatives aimed at reducing the risks associated with counterfeits. "Fighting the Fakes" starting on page 18 shows how L-3 Communications has done that by institutionalizing award-winning business processes to thwart risks from obsolete and counterfeit components. Leveraging resources from the likes of ERAI Inc., IHS Inc., SAE International and others, companies can help ensure that they keep counterfeits – not their own corporate brands – in the crosshairs. ■

