PROBLEM: COUNTERFEITING

• High level of counterfeiting
  – $600 billion global counterfeit fashion market\(^1\)
  – Global counterfeit trade increased by 30% from 2008 to 2013\(^2\)
  – Footwear is the most commonly counterfeited good, accounting for around 40%\(^3\)

• Increasing counterfeit quality
  – Sneaker experts found it difficult to distinguish fakes from the real ones\(^4\)
  – Jordan even ran ads and created merchandise unknowingly featuring fakes\(^5\)

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\(^1\) World Trademark Review
\(^2\) Organization for Economic Co-Operation and Development
\(^3\) Homeland Security News Wire
\(^4\) Hype Beast video
\(^5\) Defy New York
• Likely complicity of overseas manufacturers
  – Fake manufacturers reap the “promise of huge profits” by bypassing manufacturing costs like original design and research, marketing, regulation and most taxes¹
    • “While it costs between $11 and $24 to make a pair of genuine New Balance shoes that retail for $120, the fakes cost around just $8 a pair to make and can fetch ten times that much in Australia”²

• Difficult to punish though legal action
  – Michael Jordan recently lost a case against a Chinese basketball shoe company called Qiaodan (the Chinese transliteration of Jordan’s name). A lawyer in support of Jordan’s plea said: “The average consumer assumes [Qiaodan] is Michael Jordan’s own sportswear brand. Many of the shoes look like Nike Air Jordans, down to the logo”. The Chinese Supreme court approved Qiaodan’s legitimacy on the grounds that "Jordan" is a common American surname and the logo is simply a silhouette with no defining facial features.³ A Qiaodan shoe is pictured to the left of the Air Jordan model it replicated.

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¹ As China Goes So Goes the World: How Chinese Consumers are Transforming Everything by Karl Gerth
² Ibid
³ International Business Times
RISKS TO CONSUMERS

• Being sold false goods

• Risk to social status
  – Headlines such as “Busted: 10 Celebrities Got Caught With Fake Air Jordans”\(^1\) are common in the sneaker community
  – The author of the article “How Wearing Fakes for 30 Days Drove Me Into a Deep Depression” follows a reporter over the course of a month wearing only fake designer sneakers, and details stares, secretive photos and other forms of humiliation.\(^2\)

• Fosters divide in sneaker community
  – E.g. hostility on social media sites towards fake buyers and suppliers
    • Youtube videos purporting to “out” wearers of fakes often get high view totals. One example is “Don’t rock fake Jordans!” with over 33,000 views\(^3\)
    • Many prominent blogs and social media accounts debate the pros and cons of fakes. These debates often feature disparagement and even some personal attacks against fake buyers.\(^4\)

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1 Sole Collector Magazine
2 Ibid
3 Kyle Muller (https://www.youtube.com/channel/UCe62PwoSkuUBvws7iBm9Mxw)
4 Hype Beast Forum (http://hypebeast.com/forums/off-topic/117904)
RISKS TO BRANDS

- Uncertainty erodes faith in brand
- Loss in sales
  - Increased risk of investment for customers causes slide in sales for brands. In fact, counterfeits resulted in a €26.3 billion loss in sales for the footwear, clothing and accessory sector in the European Union alone. This accounted for about 10% of the bloc’s total sales.¹
- Loss of prestige
  - Ownership is no longer viewed as an exclusive ‘club’
- Decreased value of innovation
  - Shameless counterfeiting decreases the value of the money, time and effort spent on original research and development

¹ European Union Intellectual Property Office
CURRENT SOLUTIONS

• Alibaba trying to cultivate growth of 17 home grown Chinese sneaker brands
  – Pros: Potentially draws business away from counterfeits; Encourages innovation and creativity
  – Cons: Multiple levels of uncertainty prove daunting (likely failure of businesses, possibility of not reaching target consumers, etc.); doesn’t protect brands from intellectual property infringement; neither sustainable nor scalable

• Legal action: crack down on both producers and smugglers
  – Many cases have been wholly unsuccessful, particularly in the Developing World, and consume large amounts of money, time and energy

• Proprietary smart chips
  – Each chip contains a unique ID and allows users to scan and authenticate their goods via their smartphones
  – Pros: Provides higher degree of certainty to consumer
  – Cons: Not interoperable, i.e. only works for a particular brand or product line’s proprietary app. This will ultimately prove unworkable for consumers who buy products from a wide range of luxury brands
CHRONICLED SOLUTION

- Chronicled offers an authenticity tech platform that utilizes encrypted microchips embedded in the sneakers to create a unique and unforgeable digital identity for each pair.
- Microchips cannot be copied, cloned or corrupted
  - No risk of false goods
- Open Source network is interoperable for developers, allowing for unfettered growth of the ecosystem
- Facilitates transfer of ownership
- Other benefits
  - Cost-effective
  - The toolkit is seamless and easy for anyone to use
  - Every brand can easily supplement its existing brand App with a ‘smart product authentication screen’ via a standard module of code
Matt is at a sneaker convention, the place where he feels most comfortable. He walks around looking at the different vendors and their collections. He eventually sees the shoes he was looking for—Air Jordan “Cement” 4’s. He pulls out his smartphone and scans the BLE chip embedded in the smart product. This recent technology ensuring the authenticity of these shoes comforts him as he recalls all the fake pairs he has purchased over the years. His phone loads the page created by Jordan for this model. He scrolls through a carefully curated message explaining what makes this piece special and the history behind it. Seeing the pictures documenting the design process and the designer’s artistic intent allows Matt to get inside the mind of the shoes’ creator and even grant the shoes a personality. He then navigates to the model’s social media home screen to get a feel for which celebrities or friends of his wears the shoe and what they wear it with. Pictures of LeBron James sporting the kicks boost the shoe’s street cred. He musters the confidence to make the purchase and can’t help but walk out with them on. Every time he looks down at his brand new shoes he swells with pride. He wants to share the moment so he takes a picture. He personalizes it with a filter tagging his location at “Sneaker Con LA” and adds a small caricature of his Jordan’s. He posts it to his timeline. It’s also uploaded to the model’s social media page, adding him to the community of owners.