

The dark side of e-commerce

More counterfeiters are using the Internet to hawk designer fakes.

By Rebecca Quick and Ken Bensinger, The Wall Street Journal Online

Since Teresa Bell started shopping online three months ago, the Germantown, Tenn., homemaker has been snapping up designer wares at unbelievable discounts -- a pair of Chanel sunglasses for \$65, a pair of Oakley shades for \$15 and three stylish Louis Vuitton accessories for as little as \$53.

There's just one thing she can't figure out: Are they fake?

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Cyberspace is turning out to be the scourge of the luxury-goods industry. While everybody else is reveling in booming Internet sales, designer manufacturers see a dark side of e-commerce: an onslaught of cyberfakes.

This year, online counterfeit sales may total as much as \$25 billion world-wide, or 10% of the total counterfeit market, according to the Counterfeiting Intelligence

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Bureau of the International Chamber of Commerce. That's about double the amount of legitimate online retail sales in the U.S. -- and a major threat to an industry that lives and dies on brand identity.

And the problem is only likely to grow. The reason? The Internet is almost wholly unregulated. This week, the Federal Bureau of Investigation took a small first step, announcing the launch of a consortium to combat Internet fraud. But the bureau's parent agency, the Justice Department, is taking a wait-and-see approach.

(Until the problem broadens or results in complaints, says an attorney there, "we won't do anything.") Meanwhile, the recently opened CyberSmuggling Center of the U.S. Customs Department is focusing on problems it considers more urgent, such as online child pornography. And local police, who monitor counterfeiters on the street, aren't even sure they have the authority to patrol Cyberspace.

Even if law enforcement gets more aggressive, the battle looks daunting. Unlike street vendors, who tend to congregate in certain areas, Internet counterfeiters are scattered around an estimated 5,000 sites and range from shady overseas manufacturers to school kids operating out of a basement.

Another problem: Sellers who get caught can simply pick a new Internet address and jump back into business. "They're like roaches," says Magali LeParc, who heads Louis Vuitton's efforts to protect its trademark online. "You squish one, and 20 more come out of the woodwork."

The industry appears flummoxed. Indeed, of the nine major manufacturers with whom Weekend Journal spoke, only four said they were actively fighting the problem, trying everything from setting up a telephone hot line for consumers who spot fakes to chasing down sellers themselves.

The problem is a sobering reminder of the underside of the Internet. Indeed, the Web provides such anonymity that nobody knows precisely how vast this market has become. The International Chamber of Commerce bases its estimate on seizures by customs officials, complaints from companies and its own surfing of the Web. But most manufacturers are clearly alarmed. None of the major designers sell their products on the Internet or license to outside online vendors, and all of them warn consumers to be wary of what they see in Cyberspace. In fact, Chanel gave us a written statement from its legal department asserting its belief that a "significant portion" of Chanel merchandise on the popular eBay auction site is counterfeit.

The threat of cyberfakes "looms large on our radar screen because of its potential power to disrupt everything we try and do to establish a luxury business," says Simon Critchell, president and chief executive officer of Cartier Inc.

Although Cartier has fought hard over the years to stop ordinary counterfeiters -- to the point of steamrolling mounds of confiscated fakes -- Mr. Critchell says the Web presents special problems because online shoppers "can't touch or feel" what they are buying. Indeed, some knockoffs on the Internet are of such high quality that even manufacturers have a little trouble telling the difference.

A few months ago, for example, Mr. Critchell says a man brought in a Cartier Santos watch that he purchased for \$700 at an online-auction site. Although it was made of quality metals ("very different" from the knockoffs on the street, Mr. Critchell says), a Cartier technician determined it was fake because the band wasn't as supple as the real thing.

Savvier counterfeiters

One reason the Internet is so worrisome is that online counterfeiters are by definition savvier about technology than their street-vendor counterparts. The Web also provides a vast new distribution channel for the crime syndicates and overseas gangs that federal authorities have been cracking down on for years.

Aggravating the problem is the fact some consumers don't even seem to care. "If someone takes their time and makes a good copy, it's not so bad," says Fatima Hakim, a 27-year-old buyer at Conde Nast Publications Inc. in New York. The merchandise she has bought on the Web -- a Chanel handbag, plus a Versace purse and shades -- looks good enough to her.

Sellers realize this. On a site called Deals by Todd (www.dealsbytodd.com), for example, owner Rufus Todd Jones of Omaha, Neb., openly concedes he sells copies of designer watches. "All my watches are replicas and are for entertainment purposes only," Mr. Jones writes on his site. Mr. Jones says he buys watches from suppliers in Asia and stocks up on trips to New York's Canal Street.

Many consumers simply don't have the time to verify everything they buy. When Elizabeth Slocum, a 32-year-old electronic-commerce consultant in San Francisco, made her first luxury purchase online -- a \$70 Louis Vuitton leather key chain -- she took it to a local Louis Vuitton store, which vouched for its authenticity. But she doesn't bother doing that anymore, even for the Ferragamo tote bag she recently dished out \$550 for on eBay. "That would defeat the purpose" of shopping online, she says. Some manufacturers have begun to fight back, scanning the Web for knockoffs and threatening counterfeiters with lawsuits. An early recruit in this effort is Kelvin Eng, a 19-year-old sophomore at Hunter College in New York. Mr. Eng works between classes at Gibney, Anthony & Flaherty, a New York law firm that represents luxury-goods companies, including Rolex and Louis Vuitton Malletier, a division of LVMH Moët Hennessy Louis Vuitton SA. Mr. Eng, who works at a computer in the firm's library and consults company manuals that explain how to identify fakes, says he finds hundreds of suspect items every day.

Searching eBay one day recently, he types in "Rolex," and finds 747 sales in progress. "We look for anything that's priced really low," he says. He pauses at a Rolex Sea Dweller listed for \$9.99 and raises his eyebrows. After pulling up a picture and description, he pronounces the watch a counterfeit. "Any time the description says 'I cannot guarantee the authenticity,' that means it's a fake," he says. (Even fakes marked as replicas typically violate trademark laws.)

Sizing up handbags

On an independent site selling handbags, Mr. Eng finds a Louis Vuitton listed for \$20. He points to a patch sewn on the side of the bag. "This patch means it's fake," he says, "Vuitton doesn't put patches on the outside of their bags." The page will be entered in a growing database of suspect Web sites.

When companies come across a cyberfeiter, they typically dispatch a cease-and-desist letter. Even if that doesn't shut the site down, it may prompt the operator to quit selling the product in question. "It won't solve the problem, but it will cut it down to something you can address," says Bill Ellis of National Trademark Investigations in Los Angeles. His firm has five employees who monitor the Web for companies such as Swiss watchmaker Tag Heuer International SA.

Manufacturers file lawsuits

Rolex Watch USA Inc. has gone a step further, filing two lawsuits this spring in federal district court in New York. One suit alleges that two Arizona men, Yanksova Sow and Tad Adkins, sold counterfeit Rolexes over a variety of sites with names such as World of Replicas and Replica Universe. According to the complaint, the now-defunct sites claimed certain counterfeit watches were "100% exact... down to the serial number." (Cartier has also filed a similar suit against Mr. Sow, also in federal district court in New York.)

A lawyer for Mr. Sow said his client respects the position of Cartier and Rolex but expressed concern that the companies were targeting relatively unsophisticated sellers. Mr. Adkins says he isn't aware of the lawsuit and believes someone else may be selling fakes on a site he used to operate.

Rolex has also sued Mr. Jones of Deals by Todd. "I'm not trying to deceive anybody," says Mr. Jones. "I'm just selling a replica."

Online-auction services have had some limited success cracking down on fakes. Officials at eBay automatically shut down auctions when a trademark holder notifies the company of a counterfeit item for sale. Some luxury-goods makers have asked for additional help, but the auction sites say they can't do much more. "We have about 10,000 new items going up every hour," says Brad Handler, eBay's director of public policy. "It's just impractical to think we can police it all by ourselves."

Some consumers have helped by notifying manufacturers about trademark violations, often via a toll-free number set up for that purpose. But others are only feeding the problem. Ms. Bell, for instance, gave her \$15 Oakley sunglasses to her 17-year-old son's girlfriend, whose friends have requested pairs for themselves. Ms. Bell is taking orders from the teens, and plans to purchase them en masse as soon as the kids tell her what color they want.

The sunglasses look just like the real thing except for a tiny trademark on the frame. "Real Oakleys don't have those," Ms. Bell says. "But none of their friends at school can tell the difference."

Let the cyber-shopper beware

To get a feel for the perils of buying designer goods online, Weekend Journal went on our own cybershopping spree. We looked for anything that raised our suspicions -- either because it seemed flawed in some way or because it seemed too good to be true. The experience was unnerving. The photos on the Web often didn't show the entire item, and we couldn't smell the leather or feel the silk.

We wound up buying four items -- and cementing our sense that you never know what you'll get. We were sure one item was fake, but were proved wrong after showing it to the manufacturer. In another case, the designer wasn't even sure. We felt surprisingly comfortable with one dealer, who answered all our questions, called to make sure we

were satisfied and even sent a thank-you note. By contrast, another dealer eventually conceded his service is "not legal."

Christian Dior

On eBay, our \$11 bid won us an item billed as a Christian Dior silk scarf, condition: "MINT!" Knowing all too well that the scarves ordinarily sell for \$250 to \$300, we were dubious. Besides, the picture showed a tag, next to the Christian Dior label, that read "Made in Korea."

Four days after we ordered, the scarf showed up, smelling of moth balls. We took it straight to Christian Dior for an authenticity check and were surprised to find that the company was unsure. While denouncing the scarf as "garbage," a spokesman suggested the scarf might have been produced by an overseas manufacturer the company licensed in the 1980s. (The seller says she never promised it was an original.)

Prada and Louis Vuitton

Once we got beyond more established sites such as eBay, we wound up even more confused. To find designer fare, we searched on Yahoo! for key words such as "Gucci" and "designer sunglasses."

We browsed through one site (amust.virtualave.net) and settled on a \$180 Louis Vuitton oversize bag and a \$100 Prada overnight bag. The seller didn't post a phone number, providing instead an amusingly eponymous Hotmail address: louisv23@hotmail.com (a red flag, since Hotmail is a free service and doesn't even require a credit card).

Although the site didn't say the items were replicas, the seller volunteered that information before the sale was completed (and before he was aware of who we were). "They are good COPIES," he said in an e-mail. We ordered them anyway and are still awaiting delivery. The seller later conceded that his products aren't legal but says he is simply providing "another choice" for consumers. He also said he doesn't usually give out a phone number because he lives in Thailand.

Coach

Another site (www.thepurseangel.com) offered an impressive listing of designer handbags. After clicking through pictures, we settled on a butterscotch "Ergo" bag by Coach. The cost was \$195, compared with the typical retail price of \$264. The site accepted online orders, but we decided to call the phone number listed.

Danita Spakowski, the site's operator, took our credit-card number and promised to ship the bag immediately. Five days later, it arrived -- complete with a Coach catalog, shopping bag and tissue paper and a handwritten note from Ms. Spakowski. We had our doubts. The leather seemed of decent quality, but the stitching was crooked, and the butterscotch hue was much deeper than it appeared in the Web picture and unlike anything we had ever seen at a Coach store.

But when we called Coach, a spokeswoman said the company was aware of Ms. Spakowski's site and that her products are legitimate. Still, the spokeswoman noted that the site isn't an authorized channel of distribution and that customers buy from such outlets at their own risk.

Ms. Spakowski, who lives in Houston, says she gets her bags at outlet stores and at end-of-season sales. Even she acknowledges how difficult it can be for online shoppers to separate the real from the fake. "There's so many fakes on the Internet," she says. "You have to know your stuff."

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