



IT'S BETTER TO TALK

Alberto de la Berrera explains how companies grappling with fraud and counterfeiting of their goods on a global scale can resolve these issues without going to court.



A well-known US apparel company was surprised when designs of products it had never authorised appeared in the marketplace. The designs had been ‘shopped’ to various factories around the world through third-party sourcing entities, but samples of those products were deemed to not be marketable.

Additionally, merchandise that *had* been authorised started to show up in the market at bargain prices and in quantities far in excess of calculated production. These products were identical in every way to the legitimate goods.

Finally, products that had been cancelled or discontinued were also eroding market share in primary markets globally. This merchandise was not only appearing in markets for which it was not intended (e.g. markets where sell-offs were not permitted), but it was appearing in far greater quantities than the company had ever produced.

Someone was creating significant problems for this company and it had no choice but to seek advice from consultants. From there, resolution could be reached, which might include the participation of attorneys, but not necessarily a lawsuit.

The consultants took a cursory review of the client’s operations to discover the truth: there were no Master Sourcing and Services Agreements

in place to control the sourcing process. Therefore, the third-party sourcing agent was free to source or ‘subsource’ to as many companies as it liked in pursuit of the best-quality production at the lowest price. This meant that the company’s design specs, including some not authorised for production, were being shared with unknown entities around the world.

The company’s factories were also overproducing—in some cases, using approved variances (usually of 10 percent) of their client’s own raw materials to produce excess inventory virtually for free. They were also exploiting the client’s own ‘branding, buttons and bows’ vendors to produce identical counterfeits to spec.

Finally, young buyers were allowed to manage the sell-off process when products did not move. Because their primary concern was to recover money from the sell-offs in order to fund production of additional products that would sell, they had authorised the ‘dumping’ of the products without controls. The merchandise was therefore making its way back to the primary markets, where margins were highest.

The company in question could easily have filed a lawsuit. But lawsuits are expensive and businesses prefer to find more cost-effective solutions.

THE PAICA REPORT: AVOIDING THE COURTS

Professional Advocacy and International Consultancy Associates (PAICA) combines the concepts of consultancy and the law to provide solutions to business issues. Advocating creative problem-solving and/or negotiations instead of promoting legal conflict provides measurable value for brands in Latin America, where the PAICA concept has been successfully employed through offices in Mexico, Panama and Colombia.

So how did this model work for the example above and for other companies facing similar issues?

First, PAICA consultants studied the client's business processes to determine where any weaknesses existed. PAICA advocates then advised the client on drafting Master Sourcing and Services Agreements to create strict guidelines for the use of its designs in the sourcing process and to set out the accountability of third parties. Third parties were thereby obligated to commit to undertaking audits and paying financial penalties for non-compliance.

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Factories found to be overproducing were given an ultimatum: disgorge ill-gotten gains (profits), pay a fine (the cost of PAICA services and damages), submit to audit provisions or face the consequences. They made the right business choice.

Factories that had counterfeited unauthorised designs were handled somewhat differently. They faced criminal prosecution and other civil sanctions; however, negotiation was preferred to expensive litigation. In the end, the client solved its problems without a shot being fired in court.

"It is an advantage that sets us apart from other companies," says Vincent Volpi, founder of the PAICA concept. "We give you both services [consultancy and legal] integrated, with an emphasis on the lowest common denominator from an expense standpoint. This yields the highest return on investment from a business perspective. We prefer to think of ourselves as business partners with our clients, and not just vendors."

These days, having extra capital is important in Latin America. The region's business climate has cooled somewhat from the phenomenal pace of expansion of just a few years ago, says Douglas Thomas, a Latin American business expert and an associate dean of the Anderson School of Management at the University of New Mexico.

Although Thomas is not familiar with PAICA and its team approach, he says the concept is a first-rate idea for defending brands.

"Legal protection and protection for property rights are big issues here, and are probably more pronounced for smaller and medium-sized companies," Thomas says. "This is helpful to those businesses that are not as familiar with the legal systems."

For PAICA, it's more like a business-to-business approach.

The firm's corporate legal experience positions it to first think like a business person in order to provide prudent solutions to convoluted issues that don't have to be approached with confrontational and expensive tactics.

Wherever products flourish, piracy and intellectual property theft are sure to follow, and it's no different in Latin America for exports and imports of locally manufactured goods. In some regions, trademark theft is wide-ranging, threatening the reputation and viability of branded companies.

The patchwork of commerce laws that exist in the 30 countries and territories that make up Latin America further complicates matters for businesses operating in the region. Uniformity is not a common denominator. And the tricky and delicate political climate in some regions adds to the challenge, making the development of strong business plans a must.

Corporate leaders have been coming to grips with the changing environment effected by the current global economic downturn. PAICA, with an army of consultants and attorneys with worldwide reach, is well positioned to aid business ventures looking to expand their own capacity or to help those who are in the midst of a fight against intellectual property theft.

Bringing legal pressure to bear without resorting to a lawsuit is a proven tactic that leads to solutions. In an interview a few years ago, Stan Bruckheim, president of PanLatino TV, spoke of the long-term financial drain on organisations that fight brand thieves. Engaging a legal team creatively is a powerful tool in this battle, he said.

"In Latin America, the most effective response to counterfeiters has come from the combined efforts of global product owners and local distributors, usually in the form of decisive legal letters to the counterfeiters, with copies to the media outlets and retailers," Bruckheim said.

PAICA relies on its attorneys and consultants in Panama, Mexico and Columbia, along with a network of lawyers throughout Latin America, to establish relationships to protect and promote brands and markets. Those attorneys bring to the table a discerning perspective of the local markets and the challenges these present.

"We have lawyers and consultants in each country, so if you want to commercialise a market, we can address legal and administrative issues, and fair and unfair market conditions, and identify local business partners who are honest and who have the local and product-specific experience and infrastructure to achieve success," says Janice Becerra, regional manager and counsel of the PAICA concept in Panama. "We become business partners for growth instead of a burden on the bottom line."

Juan Carlos Bolanos, legal director and counsel of PAICA in the Andean region, adds: "We help clients use their capabilities to produce more and make more money, leading to business opportunities. At the same time, we are solving their issues in a less expensive, non-confrontational and harmonious way."

Alberto de la Berrera is the regional legal director and counsel of the PAICA Mexico City office. He can be contacted at: adelabarrera@pica.net



Alberto de la Berrera

Alberto de la Berrera, who specialises in complex business and intellectual property matters, joined PAICA in 2002, having worked for 17 years as general and legal counsel at Grupo Bimbo and other well-known companies in Mexico. He has degrees in Law and Advanced Management from the Universidad Autonoma Metropolitana and IPADE Business School, respectively, and is fluent in Spanish and English.