

COMMERCE

Alibaba refines authentication practices in face of Kering counterfeit lawsuit

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Gucci's Lady Web handbag is the focus of the campaign

By JEN KING

Luxury conglomerate Kering has filed a lawsuit against Chinese ecommerce giant Alibaba, claiming the retailer has been facilitating the sale of counterfeit goods.

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Luxury Daily

Kering, along with its brands Gucci and Yves Saint Laurent, filed the lawsuit in a U.S. district court in New York May 15, stating that the online retailer has been allowing, and possibly encouraging, the sale of knock-off goods for profit. The group filed a similar suit against Alibaba in 2014, but soon dropped the case when the ecommerce player agreed to implement strategies to avoid the sale of counterfeits on its site.

"I personally think of lawsuits as last-resort actions. However, sometimes they are the only action possible. In this instance, Kering tried to resolve its issues with Alibaba outside of the court room and, when that failed, sued," said Rania Sedhom, managing partner at [Sedhom & Mayhew](#), PLLc., New York. "As you may recall, last July Kering initiated a lawsuit against Alibaba for permitting sellers to be compensated for selling counterfeit merchandise.

"Weeks later, Kering and Alibaba entered into an agreement where they would work

collaboratively to stop, or at least, hinder to the extent possible, the sale of counterfeit goods on sites controlled by Alibaba," she said. "In exchange for its cooperation, Kering dropped its lawsuit without prejudice. Apparently, Kering did not see the results it wanted from the collaboration and, as such, have no other meaningful avenue to protect itself outside a lawsuit.

"If Kering is successful, more frustrated brands may follow suit (pun intended). Regardless of the efforts Alibaba is making to help thwart counterfeit goods from being sold on its sites, it will likely pay even closer attention if more brands initiate lawsuits," she said.

"Additionally, more disciplined review and cancellation of counterfeit listings would certainly help. Of course, counterfeiters are clever and steadfast. If it becomes too challenging for counterfeiters to sell on the likes of Alibaba sites, we may see more independent counterfeit sites popping up on the Internet."

Ms. Sedhom is not affiliated with Kering, but agreed to comment as an industry expert.

Kering was unable to comment directly, but did provide a statement given by a spokesperson from the brand, included below.

Counterfeit contenders

The luxury industry is plagued by the infiltration of product imitations in the marketplace, and both individual brands and conglomerates have sought tactics to authenticate merchandise while also limiting the outlets for such sales.

Kering's lawsuit claims that Alibaba has been profiting from the sales of counterfeit goods, despite the retailer's recent pledge to work against the sale of knockoff merchandise. Alibaba has responded by saying Kering's lawsuit is unfounded.



Authentication cartoon found on Alibaba's Web site when searching Gucci

In a statement provided to Luxury Daily, the luxury group said: "Kering and its brands dedicate a great amount of creative energy, craftsmen's know-how and monetary

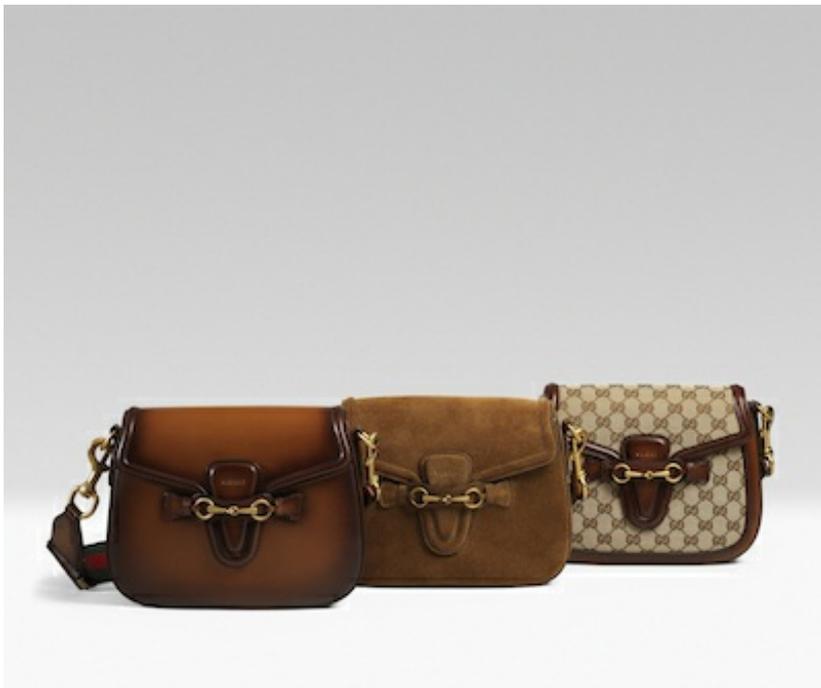
investments to develop products that speak to consumers and fulfill their needs.

“Kering maintains the highest standards of sustainability and quality and takes the protection of its world-famous brands very seriously. It takes equally seriously its obligation to protect its customers from being defrauded by counterfeiters selling goods of inferior quality.

“This lawsuit is part of Kering’s ongoing global effort to maintain its customers’ trust in its genuine products and to continue to develop the creative works and talents in its brands.”

According to [Bloomberg](#), in its lawsuit Kering alleges that Alibaba uses site algorithms to help its consumers locate counterfeit goods to buy.

For example, handbags labeled as Gucci were sold on Alibaba by a vendor for \$2 compared to its authenticated asking price of \$795. Also, the minimum order for the \$2 handbag was 2,000 units. The underpriced knockoff version likely appeared in searches for the word “replica” which then in turn directs the consumer to merchants selling counterfeits.



Gucci handbags

If Alibaba’s support of counterfeiting practices are true, the lawsuit highlights the challenges brands face at policing such practices at the third-party level.

According to an infographic from MarkMonitor, most consumers are looking for deals on a luxury items and are misled to counterfeiters’ Web sites, and these people are often middle aged, less educated and make less than \$100,000 a year. It is important for luxury brands to understand the demographics of shoppers that are led to rogue sites so they can better tailor their online presence to capture traffic from these consumers ([see story](#)).

Already claims of encouraging, assisting and profiting from the sale of counterfeits has tarnished Alibaba’s reputation with shareholders, partnering brands and consumers. In 2015, Alibaba’s shares have decreased 15 percent after a Chinese consumer watchdog

group complained of counterfeits and U.S. investors filed a lawsuit accusing the retailer of making misleading statements.

China's struggles with counterfeit goods is well-known and the Chinese government has responded. In 2013, Chinese authorities arrested 59,000 individuals and seized more than 9,000 tons of fake goods worth an estimated \$28 million.

Amending relationships

As a result of its last case with Kering over the summer of 2014, Alibaba pledged to work with brands to reduce the influx of fakes in its online marketplace.

Alibaba's reassurance that it would work to prevent the sales of counterfeits on its Web site has spurred the creation of QR codes that aim to authenticate the product it sells.

The retailer worked with Israel's Visualead to design a new type of QR code to combat counterfeits and offer a way for consumers to authenticate a product. Visualead's Dotless Visual Codes is an offline to online code system that resembles a traditional QR code, but includes distinctive square markers.

"We have multiple code technologies used on Alibaba's Blue Stars platform," said Oded Israeli, vice president of marketing at **Visualead**. "Visual QR Codes are QR codes which comply with the QR code standard but also combine an image, and Dotless Visual Codes, which is the new standard we announced May 18.

"These are not QR codes, although they have some similarities," he said. "The Dotless codes are designed for better visual (90 percent of the code's surface is an image) and better security (proprietary data encryption using advanced computer vision technology)."

When a consumer receives an item purchased online the code can be scanned using Alibaba's Taobao application to authenticate the product. Each code is product-specific, and once scanned is "burned" so it cannot be reused.



Yves Saint Laurent Dotless Visual Code example

"Our technology helps fight counterfeit goods in multiple ways: each product gets a unique code; the codes are hard to produce, hard to fake, and for Dotless codes also very hard to decipher; our secure scanner SDK integrated in Alibaba's mobile Taobao app verifies the validity of the code and scan and cloud-based rules also help determine

whether a code or product has been tempered with," Mr. Israeli said.

Luxury marketers are increasing their mobile savvy through touchpoints such as barcodes and digital watermarks, but are QR codes effective for the luxury sector or should marketers move on?

QR codes can be seen as an innovative tool to eliminate the gap between the physical and digital platforms and make the consumer experience seamless. However, marketers should understand their purpose and the proper ways to use them, experts say ([see story](#)).

"Dotless Visual Codes are a new standard that is designed to break the limitations of QR codes - both with visual appeal and security," Mr. Israeli said. "Dotless Visual Codes are designed to embed a colorful image, logo or a visual call to action on 90 percent of the code's surface, making them far more visually appealing and engaging to consumers.

"The new standard also utilizes multiple information security and computer vision methods that make Dotless Visual Codes more secure than regular QR codes."

Visualead plans to work with Alibaba, who is an investor in the start-up, to create packaging codes that will appear on billions of products carried by the retailer.

Brands across the luxury sector must work together to reduce and combat counterfeit merchandise.

"Even if Kering wins the lawsuit, it won't help prevent counterfeiting for products across the board," said Andrew Brodsky, commercial director at [NetNames](#), New York. "If they win, the infringements now occurring will be stemmed for those brands.

"But unless other brands engage in similar litigation or put into place programs that monitor and take down sites selling counterfeit goods, the infringements happening on Kering products will simply move to other brands," he said. "All brands need to be watchful of online infringements and put into place measures to identify and take down counterfeit products offered on these online marketplaces."

Final Take

Jen King, lead reporter on Luxury Daily, New York

Embedded Video: <https://www.youtube.com/embed/Ud7WEehs4nA>

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