



MARKET INSIGHT

Analysis of the counterfeit
goods market infringing on
sports brands

|GROUP|IB|

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01

ABSTRACT

8TH

Russia's place on the worldwide
ranking by lowest prices of
mobile internet packages¹

1.5 TIMES

more likely for sports shoes
bearing the trademark of a famous
brands to be counterfeit¹

According to the Russian Association of Internet Trade Companies, e-commerce in Russia grows by 20% every year on average. In recent years, the light industry goods market has also seen a significant increase in the share of online purchases compared to sales through traditional stores. Buying new trainers online, for instance, has become commonplace in Russia.

Group-IB Digital Risk Protection experts analysed how often top sports brands appeared in keyword search results on a number of legitimate resources, including **marketplace platforms, social media, search engines, and mobile apps**, before focusing solely on **illegal resources**.

This report contains the results of Group-IB Digital Risk Protection's study into the counterfeit goods and online fraud market with regard to sports brands. Recommendations on how to counter current counterfeit distribution patterns can be found at the end of the report.

¹ Source: Content Review

02

SITUATION

on the sporting goods market

10-35%

the share of counterfeit shoes
in Russia¹

86%

of Internet users
go online every day²

As leading international brands have expanded on a large scale, the share of original products as compared to counterfeits has increased significantly. Nevertheless, despite efforts by the biggest market players to win customers over, only a limited part of sporting goods purchased online is likely to be original.

The counterfeit goods market has undergone the same structural changes as the original goods market. Supplying fake products from the Asia-Pacific region has become less profitable.

For end buyers, a counterfeit product must be cheaper than an original, but with all the associated costs (labour, transport, customs duties), the price advantage is cancelled out. A considerable number of fake products are either produced and sold within one country or offered online, which is more lucrative for sellers and more convenient for buyers.

Characteristics of illegal resources

**Automation**

Fake websites have template structures, which means that they can be created automatically and at a low cost.

**Low barrier to entry**

Many fraudsters are attracted to the minimal barrier to entry and to how easy it is to create individual ads and custom websites using website builders.

**No quality control**

Mobile app platforms are practically unable to trace the origins of a product or verify whether personal data are handled correctly.

**Human error**

The similarities between fake and official websites mislead inexperienced user.

¹ Source: RBC Market Research

² Source: Mediascope

#1

For young people under 25
smartphone — device number 1
for online shopping¹

Characteristics of the counterfeit sporting goods market

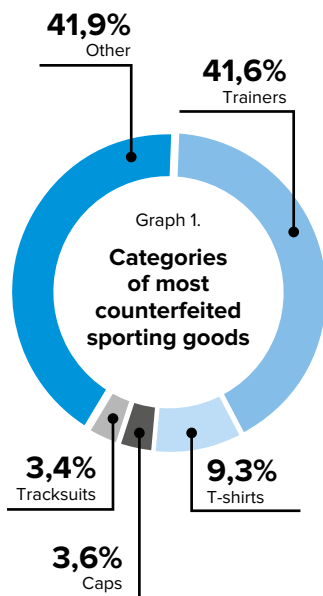
The counterfeit goods market is a commercial microcosm with its own rules. While legitimate companies compete against each other, actively promote their products, and are responsible for the quality of what they produce, fraudsters simply appropriate the results of those who are successful, feeding off their brand, popularity, and reputation.

- Investments made by international brands into marketing their products benefit fraudsters, too: their advertising automatically appears at the top of search engine results because it is designed to be triggered by queries about the brands whose fakes they sell. Moreover, fraudsters' expenses are minimal, because regardless of the promotion method they choose, it will be effective and profitable thanks to the official brand's popularity.
- Fraudsters prefer to counterfeit the most popular brands and goods and keep up to date using legitimate market analysis tools.
- An almost complete lack of laws and regulations on contextual advertising contributes to the successful sale of counterfeits.
- Fraudsters quickly create multi-brand aggregator online shops and attract cheap traffic to their websites. The competition between sporting goods manufacturers only plays into their hands.

¹ Source: Data Insight

03

METHODOLOGY



Counterfeit market analysis criteria

Group-IB Digital Risk Protection experts analysed the counterfeit sporting goods market according to the following criteria:

- Types of counterfeit goods
- Methods of distributing and increasing traffic
- Counterfeit distribution platforms
- Major trends in fraudulent activities

Manufacturer categories

To ensure objective and scalable analysis results, sporting goods manufacturers were divided into three categories:

01 | Large-scale sellers — companies whose target audience is the entire market. They offer many different categories of goods and a wide price range.

This category includes industry giants, i.e. world-famous sportswear manufacturers and their products.

02 | Specialised sellers — companies that position themselves as brands for a particular market segment.

They are characterised by limited product collections and their key marketing concepts are authenticity, uniqueness, and style.

03 | Market newcomers — companies that are only starting to build their audience, having only recently entered the Russian market.

We included them in a separate category due to their critical and somewhat contradictory divergences in trends and statistics.

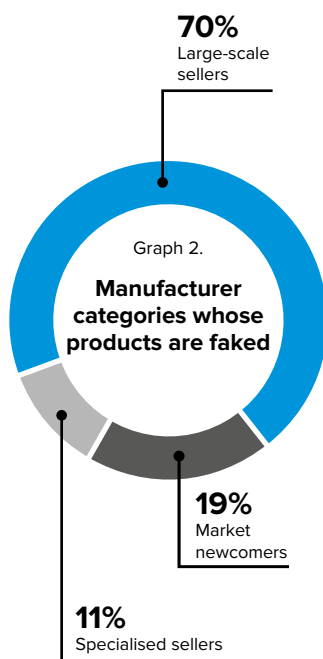
Popular counterfeit sporting goods

Our research revealed a clear distribution of counterfeits by product segments (Graph 1):

01 | Trainers — their share in e-commerce amounted to 41.6% of all offers.

02 | T-shirts — 9.3%

03 | Caps and tracksuits — slightly more than 3%



The most popular category of manufacturers whose products are counterfeited (Graph 2) is large-scale sellers, with a share in counterfeit commerce reaching 70% of all offers. Specialised sellers came second, significantly lagging behind with only 19%. Market newcomers were third with 11%.

Large-scale sellers

This category is the most popular among illegal sellers and covers the biggest market segment. Production practices are usually well established, and the quality of goods varies.

There are three types of fraudulent websites in this category:

- 01 | Specific brand websites:** entirely or partially copied from official websites, with prices and contact details changed;
- 02 | Product category websites:** aggregators of resources with different products of the same type. The product range of these websites tends to be made up of the most popular models within one product segment;
- 03 | Websites designed for stealing personal data or money.** The sale patterns on these websites are very similar
 - selling counterfeits;
 - charging without delivering the product;
 - charging for delivery.

Specialised sellers

Various types of products in this category are popular among fraudsters, mainly t-shirts, tracksuits, shoes, and headwear.

There are fewer fraudulent and phishing websites in specialised sales compared to large-scale sales, but in terms of design and functionality they are of higher quality and bear a close resemblance to official websites.

To attract visitors to their websites, fraudsters use contextual advertising, targeted text message campaigns, and mass messaging in messaging apps. Such activities have a significant impact on a target audience's attitude towards brands and results in reputational damage.

Market newcomers

Products offered by new businesses are often the least popular among fraudsters since their audience is not that big and loyal and the goods are relatively more difficult to copy.

What does the price of counterfeits depend on?

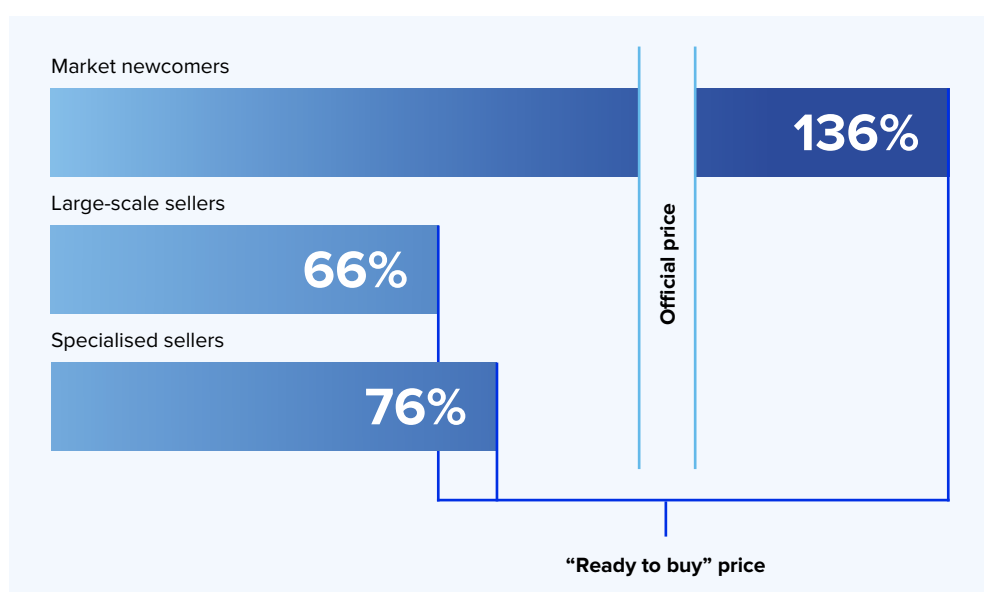
We calculated the average market price for goods produced by the top 100 most popular sports brands that appear on the first pages of search results on Google and Yandex. We did not divide them into official and non-official websites in an effort to make our assessment reflect a real-life scenario of a person choosing a product online as closely as possible. We have called this price the **“ready-to-buy”** price.

High demand creates excess supply, which is partly driven by cheaper fake products.

This determines the low price that buyers consider fair after comparing prices of all goods they see online when searching for and choosing a product. Online shopping makes it impossible for users to definitively assess a product’s quality or know for sure whether a product is original or fake. If the “ready-to-buy” price is lower than the official one, users will choose the black market offer. Its main competitive advantage is the price, which is lower than that of the original product.

Group-IB estimates that (Scheme 3):

- The official price offered by is 44% higher than the “ready-to-buy” price;
- The official price offered by specialised sellers is 24% higher than the “ready-to-buy” price;
- The official price offered by is 36% **lower** than the “ready-to-buy” price.



Scheme 3. The discrepancy between the official price and the “Ready-to-buy” price

The reason for this paradox is simple:

Goods produced by these brands are either not widely available online or are not available offline at all. As such, all products, including fake copies, are in deficit and are sold at inflated prices. This remains the case until the market is full of either original goods or clearly low-quality counterfeits.

04

SALE OF COUNTERFEITS

2300

purchases a day per sports
brand are made on marketplace
platforms

Marketplace platforms

An analysis of ads for counterfeit sporting goods on Avito and Youla and the Russian segments of the international platforms AliExpress and eBay revealed that the average number of purchases a day per brand exceeds 2,300! Interestingly, prices on all the platforms except eBay are significantly lower than the official ones. For buyers, this is what largely forms the “ready-to-buy” price.

Based on our estimations, the amount of money generated in six months by trade in counterfeit goods imitating those belonging to a top-4 large-scale brand exceeds 490 million roubles. This comes at almost no cost to the fraudsters as counterfeit distribution through such channels is free and easy to use.

Social media

Selling counterfeit products through social media is both free and simple. A good example is the most popular social network in Russia, VKontakte (VK).

A search for a specific model of a large-scale brand yields an average of 300,000 results, even though the resource does not have an official store for the brand in question. Most counterfeit sporting goods are offered in groups that sell several brands at once. More than 13,000 VK groups have the word “trainers” in their name.

A built-in targeted advertising function makes it possible to send content about counterfeit products to every social media user. Ads can be created without the seller being required to have the product in stock or provide supporting documents.

Anyone can find a photo of a product in public sources and use it to post an ad as if the item belongs to them. If their profile is blocked, they can simply sign up again and post countless new ads.

Search engine results

According to an analysis of search engine results conducted by Yandex, 96% of users click on links on the first page of search results, where only 35% of links direct to official websites. Only 3% of users go to the second page, where less than 15% of websites are official.

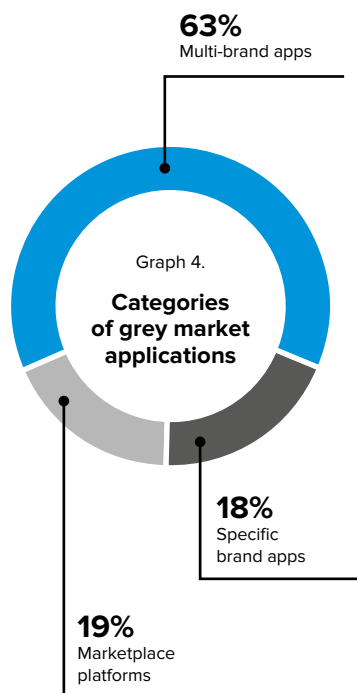
We estimate that 77% of all websites shown in search engine results are fraudulent. In addition to search results, search engines show users contextual ads for fraudulent websites, which can mislead inexperienced users.

13 000

groups on VK use the word
“trainers” in their name

98 MIN

a day is the average time young people spend on their phones¹



Mobile apps

Mobile app purchases are made by the most active and financially stable buyers, with high loyalty and conversion rates.

Some apps are legitimate, others are registered under unknown individuals. In their privacy policies, fraudsters never describe themselves as sellers; in reality, they sell counterfeit products. The prices of goods found in certain apps are lower than the market minimum, while in others the descriptions make it is easy to conclude that the offered product is fake.

Applications placed on gray platforms do not pass any security checks and are likely to be a threat user data integrity.

Statistics on apps that sell sporting goods

- **Google platforms**

A vast majority of apps offer multiple brands (74%) and combine clothing and shoes (76%). Only about 3% of Google apps specialise in selling sports clothes only.

- **Apple platforms**

As on Google Play, many apps offer multiple brands (58%) and combine clothing and shoes (78%). There are more Apple apps that specialise in selling clothes only, however (about 7%).

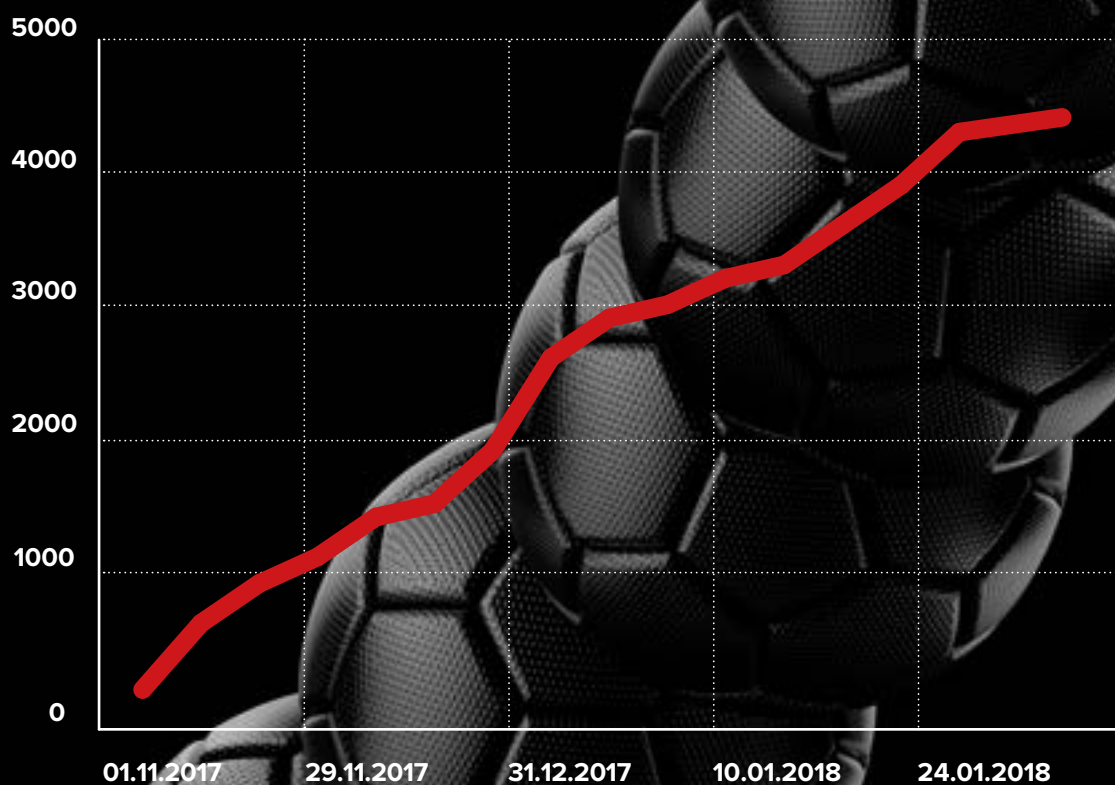
On grey market platforms (Graph 4), 63% of apps offer products of several different brands, 19% are unofficial marketplace platforms, and 18% of apps are limited to a specific brand.

Mobile equivalents of message boards for selling and re-selling goods downloaded from unofficial app stores are likely to be designed for collecting the personal data of the users. These apps are downloaded hundreds of millions of times.

¹ Source: Mediascope

12 TIMES

increase in the number of offers
related to the 2018 FIFA World Cup



The 2018 FIFA World Cup showed that all sports brands, without exception, need protection online.

Group-IB's research demonstrated that as official organisers prepared to the championship, so did illegal sellers.

Popular marketplace platforms saw an increase in the number of offers and queries related to 2018 World Cup, from 336 to 4,200 in three months.

06

NEW CHALLENGES

for online retailers

Information security is the new anchor for e-commerce businesses

Mass migration of sellers to online platforms takes the problem of brand security to a new level. Threats involving cyber and digital fraud are key problems for anyone moving to e-commerce. Brand protection online requires a higher level of attention.

Sale of counterfeits is not the only reason why fraudulent websites are unsafe

Ten percent of websites that sell counterfeits involve phishing scams. This means that, in addition to the risk of purchasing a low-quality item that might never be delivered, buyers also risk having their personal and payment data stolen, which puts not only the purchase but also all the funds on their bank card at risk.

07

RECOMMENDATIONS

for manufacturers from Group-IB Digital Risk Protection

Stay connected with marketplace platforms

This is linked to low coverage of the target audience and the complexity of the counterfeiting process.

The Chinese platform Alibaba is a good example of how to fight counterfeits. Before posting ads about branded goods for sale on their website, users must provide documents to prove that their actions are legal. Such preventive measures sift out counterfeiters before an ad is posted. In theory, if such a system were to be implemented on all large marketplace platforms, the counterfeit goods market would shrink immediately and be less appealing to fraudsters.

Monitor the Internet

Fraudulent websites emerge and disappear every day. In most cases, they are combined into networks, with designs identical to those of the brands they are copying. These resources have obvious features that should alert users to be more careful:

- Recent domain name registration date
- Poor layout, created in a hurry
- Incorrect or suspicious contact details
- Free, open source plugins and web forms for ordering items and contacting technical support

To control where counterfeits are sold, manufacturers must regularly monitor the Internet.

Raise awareness

Buyers are not always well informed about the manufacturing processes used by brands. Moreover, IT hygiene among buyers is poor and most are easy to mislead. It is therefore crucial to organise awareness campaigns to educate potential clients and internet users.



Group-IB is an international company that specialises in preventing and investigating cybercrime and online fraud using high technology.

Unique threat intelligence data and proprietary solutions for tackling cybercrime are at the core of Group-IB **Digital Risk Protection**. The continuous development of online threat detection mechanisms has helped protect more than 200 Russian and international brands.

Moderator accounts on social media and close relationships with large platforms ensure that administrators promptly process the Digital Risk Protection team's requests to remedy breaches.



Threat Intelligence, which is at the core of the Digital Risk Protection system, has been recognised as one of the best in its class by Gartner (2015), IDC (2016), and Forrester (2017).



CERT-GIB is an accredited member of international communities of security response teams such as FIRST and Trusted Introducer. This means that Group-IB Digital Risk Protection is able to quickly block dangerous online resources.



Recognised by the Coordination Center for TLD RU/PФ; a partner of the Foundation for Internet Development

17 YEARS

of experience in cybercrime investigation and analysis

1,200+

successful investigations worldwide

Learn more about Group-IB
Digital Risk Protection

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