

INTERNET DISTRIBUTION OF COUNTERFEIT ALCOHOL

2017/2018

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01

ABSTRACT

28.5%

is the share of illicit alcohol out of the total amount of alcohol consumed¹

According to Euromonitor International, the world's leading independent provider of strategic market research, the share of illicit alcohol out of the total amount of alcohol consumed in Russia in 2018 amounted to almost 30%. This startling statistic prompted Group-IB's Digital Risk Protection specialists to investigate the counterfeit alcohol market and analyze how easy it is to produce and sell illegal alcohol using available online methods. Depending on the context, the term illicit alcohol in this report is understood as:

- smuggled beverages or ethanol
- industrially or crudely produced counterfeits
- alcohol produced and sold without paying taxes
- surrogate alcohol

Goods produced and sold while violating tax laws or evading taxes completely represent the biggest share (36%) of the total turnover of illicit alcohol. At 32%, smuggled and counterfeit goods come second.

Russian laws prohibit remote retail sales of alcohol and official producers cannot legally distribute alcohol online, which has led to illegal sellers taking over this niche. This trend entails high risks not only for buyers, who often do not realize that they are buying a poor-quality product that is hazardous to their health, but also for the producers of branded alcohol given that counterfeits pose serious reputational risks.

¹ Source: Euromonitor International 2018

2. **Messaging apps and social media.** Promoting and advertising online stores and distributing counterfeits in dedicated social media groups and Telegram channels (one such channel can have up to 3,000 subscribers, see Figure 2) play an important role in the illicit alcohol business.
3. **Online bulletin boards.** Group-IB’s Digital Risk Protection experts discovered dozens of websites and online bulletin boards selling the components of a so-called alcohol constructor, used for the illegal production of hard liquor counterfeits of famous brands (Figure 3).
Group-IB’s Digital Risk Protection team identifies hundreds of new offers every month. Before public holidays, their number increases by 1.5.



Figure 3. Sale of components for the production of counterfeit alcohol.

Figure 2. Promotion of counterfeit products on social media and in messaging apps.

03

ONLINE SALES TURNOVER

3 000

online retailers that sold alcohol illegally made around 107.5 million rubles per month in 2017.

±5

wholesale orders of counterfeit alcohol helped the sellers make about 31.7 million rubles per month.

139


million rubles per month was the market turnover of illegal retail and wholesale online sales in 2017.


In 2017, Group-IB's Digital Risk Protection team detected numerous online resources that were used to sell alcohol in violation of the Russian laws on the ban of remote retail sales of alcohol. For the purposes of our analysis, we divided these resources into two groups:

Retail


Group-IB's Digital Risk Protection team detected more than 3,000 online stores that remotely sell alcohol in violation of the law.

Number of visitors
An average website that retails alcohol and provides delivery services is visited by:

 x 1 day = 199 people

 x 30 days = 5 970 people


Conversion and average check
According to Data Insight, the conversion of online stores that sell alcohol (calculated as the ratio of the number of orders to the number of visitors per month) is 0.6%.


 An average order is worth 1,000 rubles.

Wholesale


Group-IB's Digital Risk Protection team detected more than 100 resources that sell counterfeits of famous alcohol products wholesale, which is clearly mentioned on their websites. The smallest order on such online platforms is a pack of six or more bottles.

Number of visitors
An average wholesale website that sells counterfeits is visited by:

 x 1 day = 141 people

 x 30 days = 4 230 people

Conversion and average check
Several sellers revealed to Group-IB in a phone call that, on average, buyers purchase five to ten packs. The conversion is 0.6%

 An average order is worth 2,500 rubles, which is ten times lower than the price of the original product.

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IMPACT ON DEMAND

1. Direct search engine results

To find an online store that sells counterfeits wholesale, users enter specific search queries—for example, “buy alcohol counterfeits”. In this case, the conversion (the visitor/purchaser ratio) will be much higher than 0.6%.

2. Seasonality

The demand for alcohol in both wholesale and retail sales significantly increases before the end-of-the-year holidays. Related search queries regularly peak in December, with user activity at 50% higher than the annual average. People buy alcohol not only to celebrate at home, but also as personal and corporate presents.

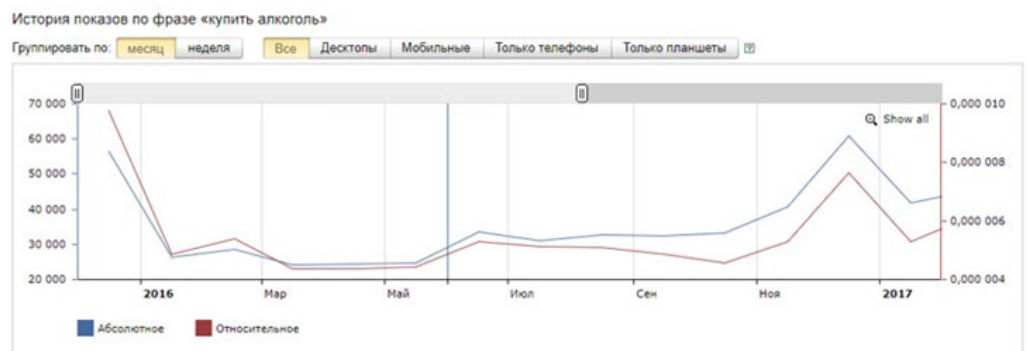


Figure 4. Search history for the query “buy alcohol” in December.

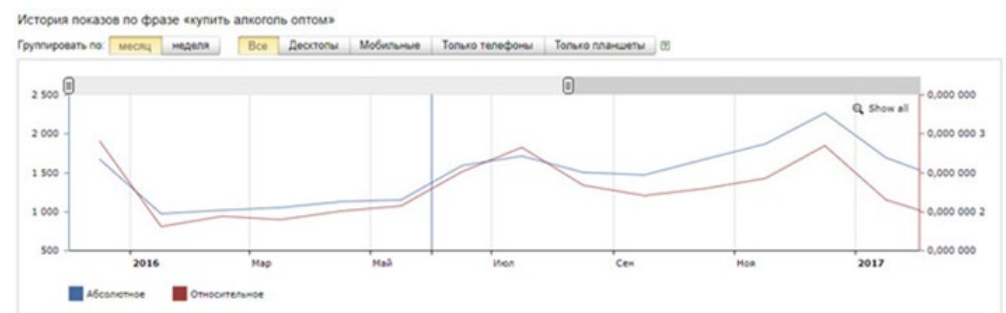


Figure 5. Search history for the query “buy alcohol wholesale” in December.

There are two types of creators of resources that are used to sell alcohol illegally:

- Dealers who re-sell beverages from major retail chains³
- Fraudsters who sell counterfeits

³ Their low prices are usually explained by the alcohol being imported from neighboring countries (Kazakhstan, Belarus, and Ukraine) and savings on excises.

05

COST OF RAW MATERIALS AND PROFITS

In addition to finished alcohol counterfeits, all the components necessary for producing counterfeits are also sold online.

Moreover, numerous posts advertising the sale of counterfeit whiskey can be found online.

The number of products the sellers offer to deliver reaches up to five 40-foot shipping containers per month, each with a capacity of 5,000 packed premium bottles. The maximum supply capacity is 25,000 bottles per month.

Smugglers do not pay taxes on such shipments and thereby “save” money. The resulting profits amount to more than 3.6 million rubles (the average cost of an excise stamp is 148.8 rubles).



Figure 6. Fraudsters’ profits from unpaid taxes on one shipping container of counterfeit alcohol.

Components for a bottle of whiskey:

“Whiskey kit” (bottle, label, cap, and branded box)	from 38.5 rubles
Excise stamp	3.83 each
Ethanol, 0.5 L	from 20 rubles
Flavoring for 0,5 L	from 11.75 rubles
Production cost of a 0.5 L of whiskey (provided that one liter of pure alcohol is diluted using a ration of 1:1)	74 rubles

Components for a bottle of vodka:

“Vodka kit” (bottle, label, cap, and branded box)	from 38.5 rubles
Excise stamp	3.5 rubles each
Ethanol, 1 L	from 80 rubles
Methanol, 1 L	from 17 rubles
Production cost of a 0.5 L bottle (provided that one liter of pure alcohol is diluted using a ration of 1:1)	62 rubles if ethanol is used and 46 rubles if methanol is used

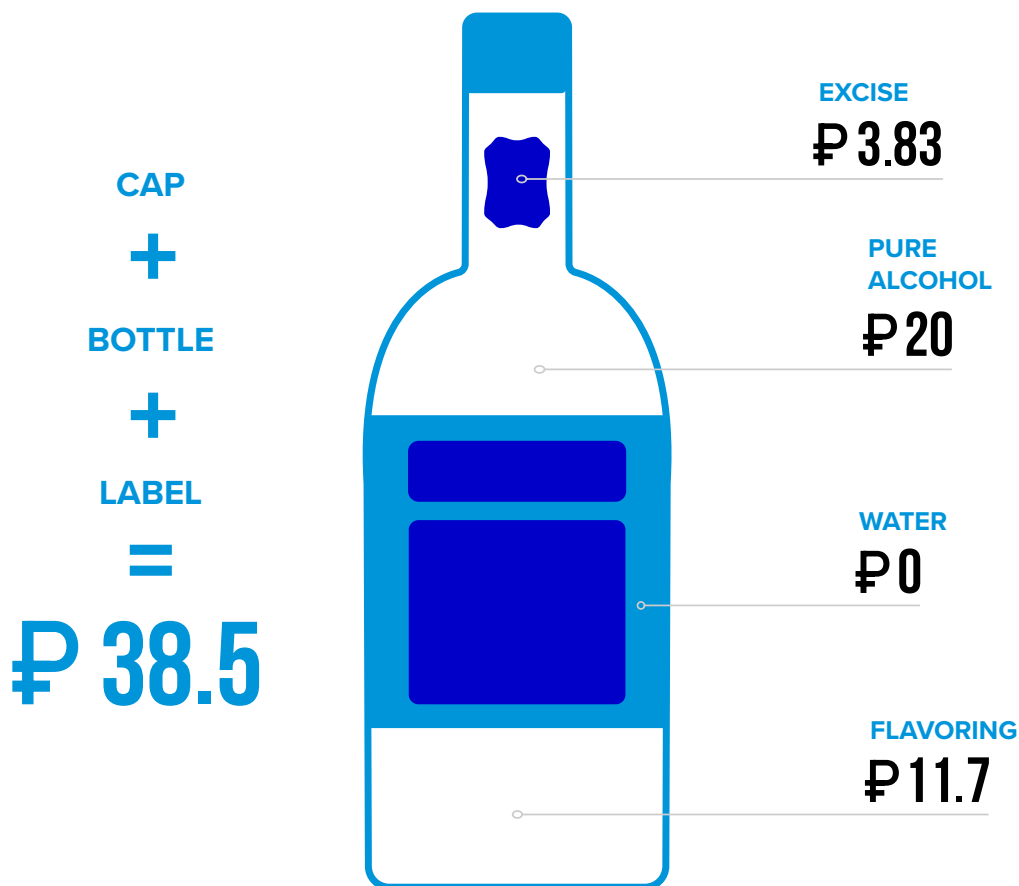


Figure 7. Components of a bottle of counterfeit alcohol and their cost.

06

PEAKS OF POPULARITY

28%

increase in the number of search queries for buying alcohol online in the months before public holidays

In the months before public holidays, the number of search queries for buying alcohol online increases by 28%.

It is no coincidence that, in 2018, the first big wave of domain registration for selling alcohol started in spring before the May holidays and continued in the summer during the FIFA World Cup.

The second wave was observed in October, with the number of newly registered domains peaking in December.

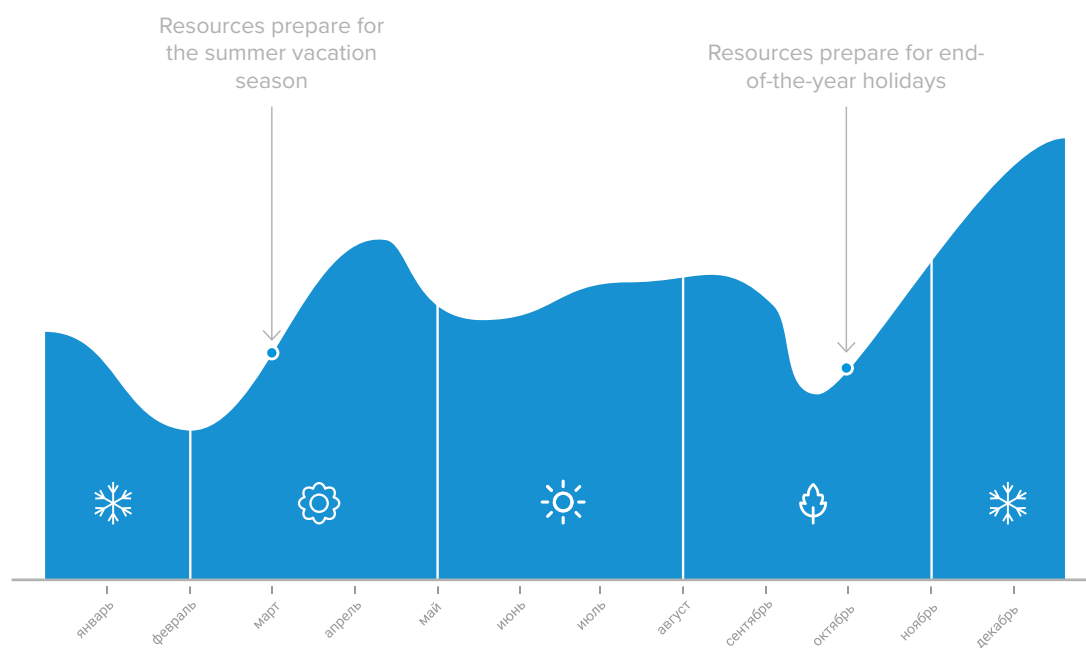


Figure 8. Dynamics of domain registration in the alcohol market in 2018.

07

CIRCUMVENTION OF LAW

The blocking of resources by regulators undoubtedly had a positive effect: a number of major illicit alcohol chain stores were shut down. However, administrators of banned resources began avoiding being blocked by not only registering new websites and continuously moving between domains, but also exploiting legal loopholes.

1. Simple scheme: sale of related products

A widely used scheme involves selling souvenirs (e.g. key rings, magnets, smoking accessories), with alcohol delivered together with them as a “gift”.

Government agencies require much more time to shut down such resources because they are sent to court for expert examination. Nevertheless, these resources are eventually be blocked.

2. Complex scheme: invisible sales

There are also closed resources that can only be accessed with a QR code. Such websites are not indexed by search engines and, as a result, cannot be blocked automatically.

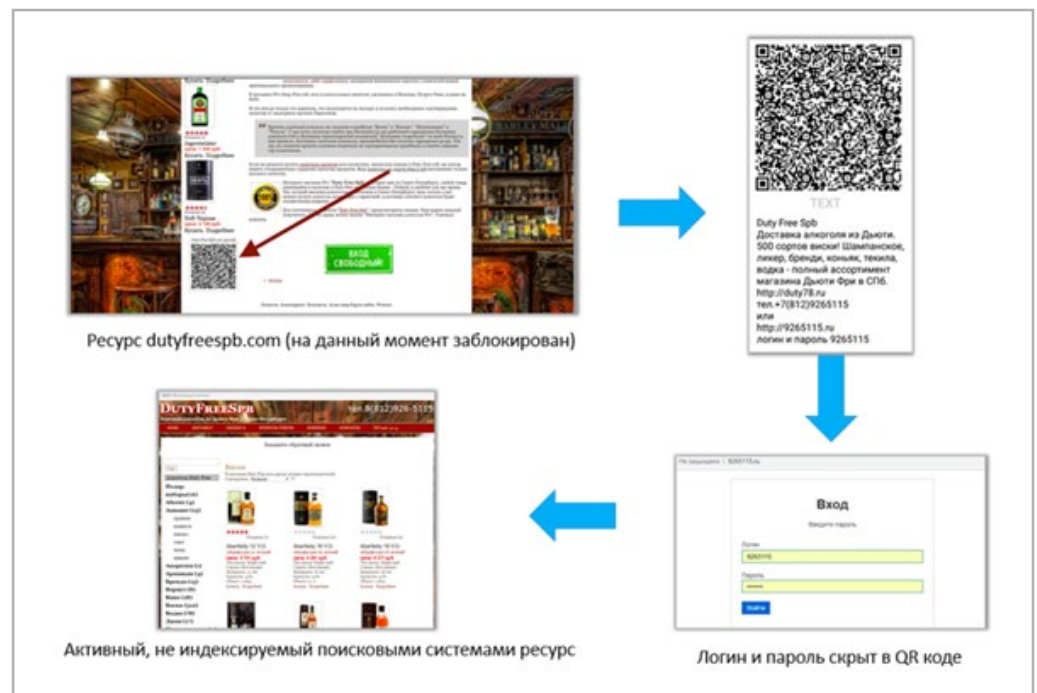


Figure 9. Example of a closed website.

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PRODUCTION COST OF COUNTERFEITS

INTERESTING FACT

Group-IB experts discovered that only a handful of organizations offering printing services requested trademark documents when asked to print labels with logos. The rest easily agreed to essentially forging any alcohol brand trademarks.

Malefactors are able to not only produce individual bottles of premium alcohol, but also organize batch production.

Group-IB’s investigation revealed that components for producing bottles of counterfeit alcohol are sold with no restrictions whatsoever (except for excise stamps, the forging of which is prohibited by Russian law).



Equipment

Today, anyone can buy a mini-factory for illicit alcohol production on specialized bulletin boards, social media, and even major online stores. The price of an automated filling line (for vodka, whiskey, wine, or beer) on AliExpress starts at 500,000 rubles.



Components

Anyone can buy components for home production of counterfeit alcohol online. The price of a kit (bottle, label, cap, and branded box) starts at 38.5 rubles.



Logo

Malefactors have no difficulties forging the labels of any alcohol brand. They simply download a high-quality logo from the Internet and send it to a printing service provider, where they are unlikely to be asked any questions about their reasons for using the trademark.

Figure 10.

A post advertising the sale of an automated filling line for alcohol.

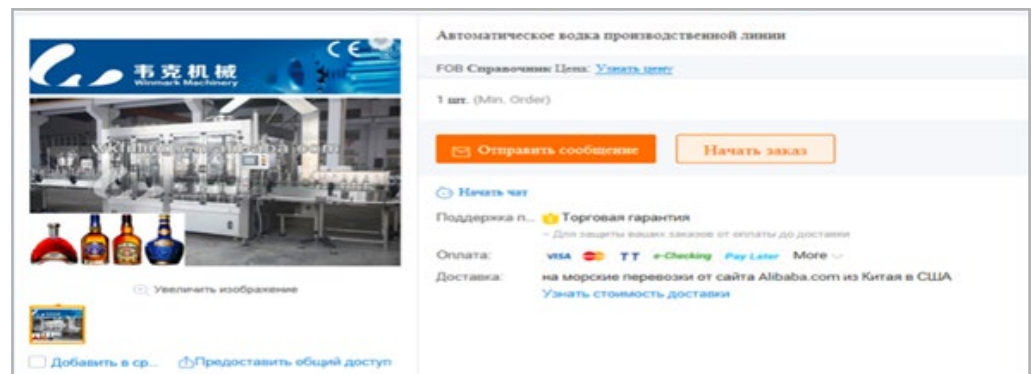


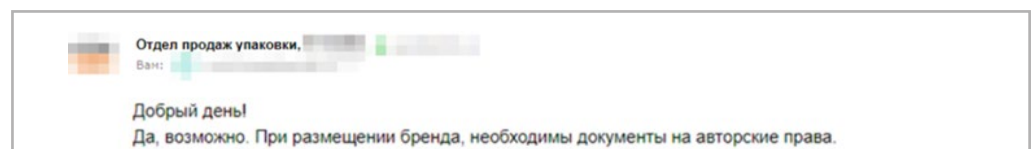
Figure 11.

Discussion of the terms of sale of components for counterfeit alcohol production.



Figure 12.

A rare case of trademark documents being requested for printing a label.



09

COST RECOVERY

3 MONTH

is the payback period for the production of fake premium alcohol

The production cost of counterfeit premium alcohol is recovered after as little as three months.

Such excess profits are achieved thanks to the difference between the sale price and the production costs. Counterfeiters do not need to comply with any standards and they also save on excise tax, labor, and raw material, while premium brands are retailed at high prices.

Even the most approximate calculations of profits from the production of counterfeit alcohol look substantial. More than 450 illegal production and storage websites taken down between 2015 and 2018 (according to the Russian Federal Service for Alcohol Market Regulation) provide an understanding of the scale of this market.

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DYNAMIC MARKET ANALYSIS

4 000

illicit alcohol online retailers made close to 147.5 million rubles per month in 2018

175

million rubles per month was the market turnover of wholesale and retail sales online in 2018

According to Group-IB's Digital Risk Protection team:

- **Counterfeiters' minimum revenue in 2018 reached 2.1 billion rubles, which is 23% more than a year earlier.** In 2018, the average number of visitors to an online alcohol store that offered delivery services amounted to 190 users per day, i.e. 5,700 people per month. Due to increases in alcohol sales in Russia, we used the conversion of 0.7% and an average basket price of 1,100 rubles to calculate the profits of illicit alcohol sellers online. Based on our calculations, with a conversion of 0.7%, 4,000 online stores make 174.5 million rubles per month.

It is safe to assume that the actual size of the illegal alcohol market is much bigger. Accurate market assessment, however, is hindered by its latency and counterfeiters' efforts to conceal their activities.

- **The interest in purchasing alcohol products online has grown by more than 35%.** This is evidenced by search engine results for the frequent query "Buy alcohol":

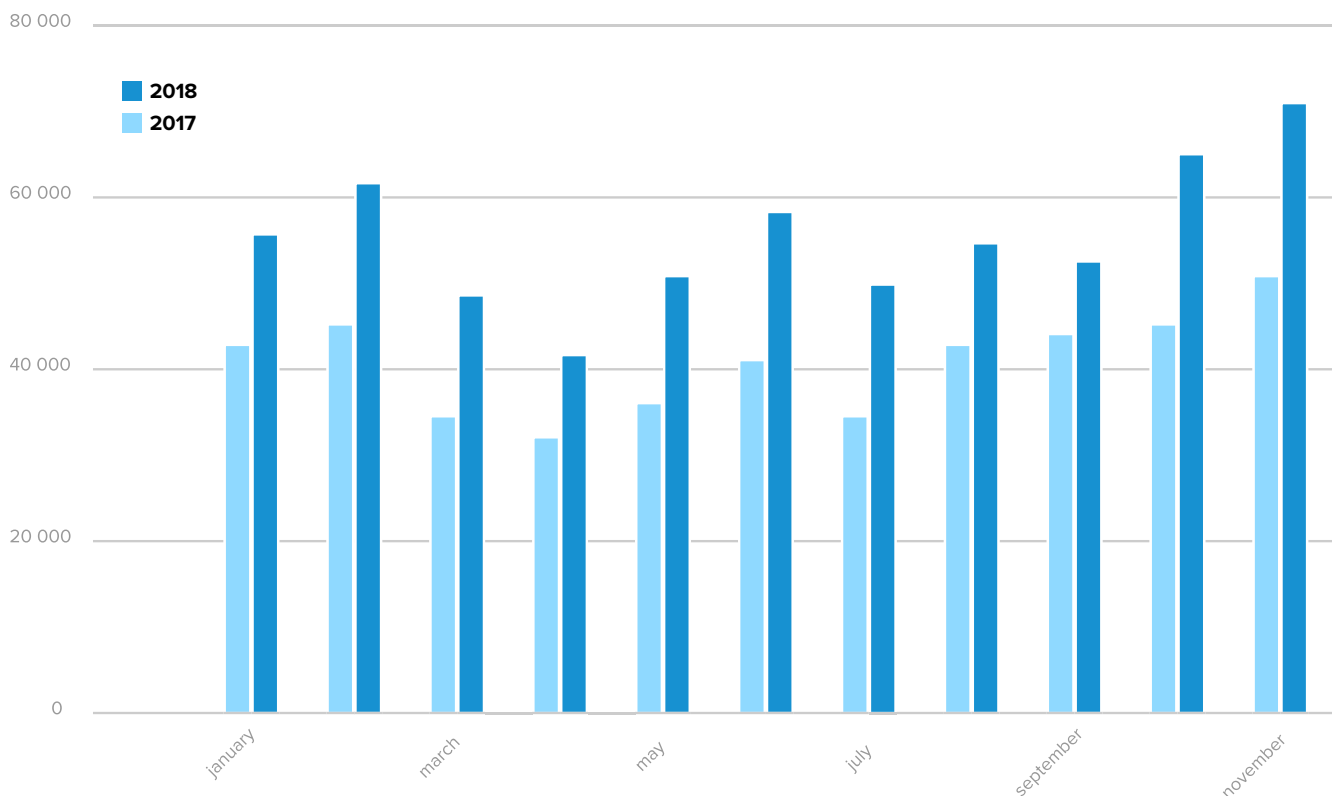


Figure 13. Comparison of search engine results for the query "Buy alcohol" in 2017 and 2018.

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GROUP-IB'S DIGITAL RISK PROTECTION TEAM'S RECOMMENDATIONS FOR ALCOHOL PRODUCERS



Conduct primary monitoring of your brand's information field

The main goal is to assess the scale of the problem (number of violations) and determine their sources. Primary monitoring will also help you decide whether you need to take response measures.

Remember that even if there are currently no violations, it does not guarantee that they will not happen in the future. Some violations are temporary, others can be detected only through an in-depth analysis of information obtained during primary monitoring.



Implement a relevant continuous monitoring system

The main goal is to detect violations of your brand and respond to them as promptly as possible.

It is important that your monitoring system is set up in a way that takes the interests of your customers into account and improves its monitoring algorithm based on the results of previous monitoring. To do so, it is crucial to use relevant user queries and search within the most popular sources among buyers.



Respond to violations that pose a threat to buyers and the company

The following resources are violators:

- those that are used to openly sell surrogate alcohol
- those that are used to sell alcohol illegally (using similar domain names, website templates, names and trademarks of famous shops and chain stores).



Control marketplaces

Check whether online resources sell components for creating surrogate products such as branded bottles, labels, and caps. Verify whether they are licensed or have significant price deviations.



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

Unique cyber intelligence data and proprietary solutions for tackling cybercrime are at the core of the company's **Digital Risk Protection** service. The continuous development of Group-IB's crime 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 recognized 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 is able to quickly block dangerous online resources worldwide.



Group-IB is recognized as a Competent Security Organization by the Coordination Centre for TLD RU and is a partner of the Foundation for Internet Development and part of the International AntiCounterfeiting Coalition (IACC).

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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