



ASSOCIATION OF SERVICE AND COMPUTER DEALERS INTERNATIONAL

# INDEPENDENT RESELLERS EFFORTS TO FIGHT COUNTERFEITING IN THE INFORMATION TECHNOLOGY INDUSTRY

IEEE

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Association of Service and Computer Dealers International &  
North American Association of Telecommunications Dealers



# ASCDI and NATD

- The **Association of Service and Computer Dealers International**, founded in 1981 is a nonprofit organization of companies whose Members buy, sell, lease and maintain new and used IT business solutions to governmental subdivisions and business throughout the world. Members include OEMS, authorized OEM resellers and independent resellers.
- The **North-American Association of Telecommunications Dealers**, founded in 1985, is a nonprofit organization of companies whose Members buy, sell, lease and maintain new and used TELECOM business solutions to governmental subdivisions and business throughout the world. Members consist of OEM's, OEM authorized and independent companies.



# Self Regulated Industry

- The ASCDI-NATD promotes and enforces high standards of ethical and professional business practices
- Member Companies are required to abide by the Industry Standard Code of Ethics
- The Code of Ethics requires members to honor all transactions expeditiously and in a manner which brings credit to our Industry
- Buyers of technology equipment (including the U.S. Government) may file a grievance (Ethics Complaint) with the respective association if the buyer feels that the seller violated the Code of Ethics
- Violation of the Code of Ethics subjects member to possible suspension or expulsion from the respective association

# The Secondary Market

- 4000 Manufacturers
  - IBM, HP, Avaya, Nortel, Sun, CISCO, EMC, Fujitsu-Siemens, Dell
- \$312 Billion Dollar Market
- \$187 Billion traded by 40,000 independent computer brokers, wholesalers and value added resellers worldwide
- Half of secondary market resellers are based in the U.S.
- ASCDI-NATD estimates that the US industry employs 100,000 people.



# The Flow of Authentic Equipment

- Equipment begins to enter the Secondary Market after 3 months usage but most enter the market after being written down over 5 years
- Equipment life averages 10 years and may be resold several times
- Fate of equipment- Reuse, Refurbishment, Recycling, Donation or Landfill
- 36% of all new equipment is reused

# Government and Industry Developments

- 2008- US Government holds hearings on acquisition of counterfeit goods
- 2009- US Department of Defense adopts “preference/requirement” to buy only new equipment from Authorized Resellers
- Raids & investigations of independent resellers
- Threatening letters from Manufacturers to our Members
- Public Relations campaign by Manufacturers that secondary market = counterfeit



# ASCDI Anti-Counterfeit Policy

- Adopted 3/25/2011 by its 250+ members
- Objective:
  - “To eliminate, or mitigate the impact of, counterfeit IT goods and develop best practices to identify, inspect, test, properly dispose of and report encounters with counterfeit product.”

# ASCDI Anti-Counterfeit Policy

- Key elements:

- *Zero Tolerance* of knowingly and intentionally trafficking in counterfeit products
- Quarantine of any/all counterfeit product; no returns into supply chain
- Suppliers of counterfeit product must give full refund to customer and cannot demand return of goods
- Adoption and enforcement of internal anti-counterfeit protocols and reporting requirements
- Must cooperate with investigations
- Adjudication through existing ASCDI ethics process (investigation, hearing, disciplinary action if found guilty)





# ASCDI Anti-Counterfeit Policy

- Has been embraced and implemented by the membership (Association and Individual Policies)
- Stumbling blocks encountered:
  - Lack of manufacturer cooperation in evaluating suspected counterfeit product (US DOD Reports)
  - Reporting requirements are inconsistent and unclear
    - Law enforcement
    - Industry databases




# ASCDI Anti-Counterfeit Policy

## ■ Next Steps:

- Continued outreach to manufacturers, law enforcement and industry reporting entities
- Phase 2 Policy objectives:
  - Prescription of detailed inspection, testing, traceability, reporting and material control/disposition requirements
  - Certification process



# Collateral Damage – Anti-Competitive Effects



## Collateral Damage- Creates sole-source contracts

- “Customer has a requirement for OEM’s infrastructure equipment and hardware. The vendor shall certify that they are an OEM’s registered partner... The vendor shall source OEM’s products directly from OEM or through the US authorized distribution channels only...”
- “...In the event the OEM’s products have been acquired from unauthorized channels, customer reserves the right to return the products for a full refund. The item or items being purchased by [customer] in this contract shall be new. Used, refurbished, reprogrammed or equipment of a reconstructed state is absolutely unacceptable.”



## Collateral Damage – Increased Costs to Government and Industrial Buyers

- Gartner Group Study – Nov. 2010:
  - Introducing a second vendor will:
    - Reduce total cost of ownership by at least 15% to 25% over five years
    - Reduce upfront capital costs by 30% to 50%
    - Reduce maintenance costs from 40% to 95%
- Refurbished IT equipment costs 50% less than equivalent new gear
  - “Refurbished” is not a dirty word in IT
  - End-of-Life supply avoids forced upgrades



Collateral Damage-  
forced upgrades by government and industry

Limits/eliminates support for end-of-life  
and/or discontinued products, forcing  
government purchasers to upgrade  
unnecessarily



## Collateral Damage- Hurts business of Independent Resellers

- In the past two years, Federal government business conducted by independent IT resellers has plummeted
  - One example – Federal government business down by 54% from 2009 to 2010
- Downsizing resources devoted to Federal government business; possible complete withdrawal



Counterfeit is a problem for authorized Manufacturer Resellers too.

- 21% of organizations reporting counterfeit product sourced it from ***authorized distributors***
- 12% sourced it from contract manufacturers
- 10% sourced it from OEMs
  - Source: Defense Industrial Assessment: Counterfeit Electronics, U.S. Dept. of Commerce, January 2010, page 18, Fig. II-12





# IT Manufacturer Cooperation (Or Lack Thereof)

- IT manufacturers do not cooperate with independent resellers or their customers to clarify “suspect” vs. “confirmed” counterfeit items
- This hinders independents from fully implementing anti-counterfeit policies
  - Legal & reporting issues – “suspect” vs. “confirmed”

# Manufacturers Are Sole Arbiters (1)

- Increasing frequency of commercial and government deals being overturned by IT manufacturers
  - Allegations of counterfeit, misuse of trademark, “not in our database”
  - With few exceptions, no appeal process or cooperation in investigation
  - Lawsuits are too expensive, time consuming, and damaging to customer relationships

# Manufacturers Are Sole Arbiters (2)

- Increased frequency of seizures of imported equipment by Customs & Border Protection
  - Equipment turned over to manufacturer for exclusive determination of status
  - Again, little explanation; no cooperation or appeal process
  - “Fox guarding the henhouse”

# The AGMA Story

- AGMA is a consortium of the major IT and Telecom equipment manufacturers
- Originally “Anti Gray Market Alliance”
- Now “Alliance For Gray Market and Counterfeit Abatement”
- Attempting to conflate “gray market” and “unauthorized” with “counterfeit”
- AGMA website – 10 reasons to join:
  - #2 – “Stop loss of profit margins to brokers”



## Potential Solution – Independent Third-Party Evaluation Service

- IEEE/EEPROM authentication
- Success depends upon acceptance of results by key entities such as standards-setting bodies
- Would not need manufacturer involvement

# Summary

- The independent IT reseller channel has raised its game with meaningful effect in the fight against counterfeit product
- Increased counterfeit publicity has **increased costs** for government customers, **eliminated competition**, and severely damaged the independent reseller channel
- Requiring government customers to buy only from the authorized channel does **not** solve the counterfeit problem
- IT equipment manufacturers will not cooperate with independent resellers or their customers in evaluating suspect counterfeit product
- Independent resellers can help manufacturers pursue and shut down the counterfeiters, if only allowed to do so
- **An independent third-party testing service is in the interest of all parties (including, most importantly, the customer)**

The logo for the Association of Service and Computer Dealers International (ASCDI). It features the word "ascdi" in a bold, blue, sans-serif font. To the left of the text is a graphic of a grid of squares in shades of blue and white, with some squares missing, creating a pixelated effect.

ascdi™

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