

Consumer "Accomplices" in Product Counterfeiting

A DEMAND-SIDE INVESTIGATION

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INTRODUCTION

International product counterfeiting has become a serious problem for an ever widening number of industries. The practice is particularly notorious because it threatens a number of distinct groups. Product counterfeiting, commonly defined as the unauthorized copying of trademarked or copyrighted goods, harms legitimate producers through lost sales. Among US businesses, sales losses due to counterfeiting are estimated to be over 60 billion dollars per year annually (*Fortune*, 1991). Legitimate producers also face damaged brand reputations when a consumer unknowingly buys a counterfeit whose poor quality eventually manifests itself. Publicity concerning counterfeiting is also potentially harmful to a company. Many producers suppress news of counterfeiting, fearing lost sales if clients cannot be sure that the item which they are buying is genuine.

Counterfeiting also harms society at large. In one case, counterfeiting reduced an entire country's economic output. Kenya lost a substantial portion of their coffee crop after farmers unknowingly used ineffective counterfeit fertilizers (Bamossy and

Scammon, 1985). Job losses in the US due to counterfeiting have been estimated at 210,000 per year in the autoparts industry alone (Harvey and Ronkainen, 1985). Furthermore, if buyers lose confidence in a nation's key industries because of counterfeiting, they may turn to competing goods from other countries. Thus, counterfeiting can harm a nation's industrial competitiveness, in general.

Finally, product counterfeiting poses a threat to buyers. Several airplane crashes have been attributed to a counterfeit aircraft parts and such parts are still appearing today (*Fortune*, 1991; Ott, 1992). The failure of an imitation bolt recently killed a construction worker (Korman, 1989). Ford Motor Company executives note that few if any counterfeit autoparts meet federal safety standards (Davis, 1991). They estimate that counterfeit parts hold up only 5 to 25 percent as long as genuine parts. Counterfeiting has even spread to prescription drugs and more recently, to feed and animal medicines (*Feedstuffs*, 1992; Harvey and Ronkainen, 1985).

SUPPLY-SIDE DIMENSION OF COUNTERFEITING

Despite the many efforts taken to combat counterfeiting, the practice continues to

plague manufacturers. In many ways, product counterfeiting presents a problem similar to that of illicit drugs. In the case of both drugs and counterfeits, the problem rests on an exchange between buyer and seller and both parties share in responsibility for the practice. Thus, both problems have a supply and a demand dimension.

In the case of counterfeiting, most of the attention in the literature and most of the anti-counterfeiting activities taken by business firms relate to the supply dimension. New legal weapons have been advanced to limit the production and sales of counterfeits. For example, the Trademark Counterfeiting Act of 1984 makes counterfeiting a criminal offence with stiff jail terms for individuals and multimillion dollar fines for business offenders (Bush *et al.*, 1989). In addition, the Act allows for the seizure of the counterfeit merchandise and specifies that convicted counterfeiters must pay expensive legal and investigative fees that the company filing the action used to absorb. The value of the Act is still in question, however. Although many actions have been filed under the Act, there remains the problem of overworked law enforcement officials.

As with illegal drugs, reducing the supply of counterfeits requires international cooperation. Currently, the US Government exempts many developing nations from tariffs and duties. The passage of the Tariff and Trade Act in 1985 allows for the suspension of these benefits among nations which ignore the counterfeiting of American goods. Some countries, under pressure from the US, revised their counterfeiting laws to be more stringent. Taiwan, one of the most common offenders, revised their counterfeit laws in 1985. Unfortunately, enforcement of these new provisions has been lax (Foster, 1989; Harvey, 1987). Counterfeiting is culturally acceptable in Asia and represents an important segment of the economy. Therefore, even with significant changes in

the legal system, enforcement may remain a problem.

Marketers are also trying to outsmart counterfeit suppliers through hi-tech methods, including invisible, but optically scannable "fingerprints" on products and labels used to authenticate merchandise (Chiles, 1986; Mason, 1985). Products are now tracked more carefully and improvements in the paper trail of channel reporting have been instituted. A number of firms have employed private investigators to identify sources and channels of counterfeit goods.

DEMAND-SIDE DIMENSION: CONSUMERS AND COUNTERFEITING

Despite the supply-side efforts to reduce counterfeiting, the practice endures. In some areas, such as consumer fashion goods, counterfeiting appears to be increasing (Chute, 1990). As with drugs, consumers who knowingly buy illegal products form the other part of the equation explaining the persistence of the practice. Counterfeiting has flourished due to strong worldwide demand for high profile brands which carry a premium price and are easy to copy. Because counterfeit goods offer price advantages over genuine articles, there is a continuing demand among many buyers.

When buying a counterfeit, consumers may or may not be knowing participants in the illegal practice. In some cases, consumers buy a fake thinking that it is the genuine product. In such instances, the consumer represents a victim of counterfeiting. In some cases, especially with prestige goods, consumers buying counterfeits are more likely to be willing accomplices rather than victims of deception. That is, consumers may choose to buy a counterfeit, *knowing* at the time of purchase that the product is a fake. This purchase activity has been termed *non-deceptive counterfeiting* and is the focus of

this article (Grossman and Shapiro, 1988). The low price and location of sale leave little uncertainty as to the product's legitimacy.

Although counterfeiting has been a topic of interest for a number of years, relatively little attention has been placed on the demand side of the problem. One exploratory study found that students, when faced with a paper and pencil choice of a counterfeit versus a legitimate good, selected the counterfeit without regard for legality or public welfare (Cordell and Wongtada, 1991). Consumers who knowingly buy a counterfeit good are willing to trade quality and performance for the brand image of the genuine good at a presumed price saving. Therefore, one may assume that consumers will only buy counterfeits in those product categories where performance risks are low. A consumer who would knowingly buy counterfeit garment or jewelry would not necessarily be willing to buy risky, socially insignificant counterfeits in categories such as drugs or autoparts.

Purchasers of premium brands are expected to place a high value on product attributes such as prestige, brand image, and fashionability. Purchasers of counterfeit replicas of such brands are also expected to value image characteristics. However, the counterfeit buyer is looking to gain the image benefits associated with the brand at a bargain price. Persons buying counterfeits may have the tastes of a snob, but with a low price acceptability (Higgins and Rubin, 1986). Thus, price is expected to be a salient attribute for persons choosing a counterfeit good.

In order to shed needed light on consumers' acceptance of counterfeit goods, a field experiment was conducted. This study addressed four research questions distilled from the above discussion:

(1) When given the opportunity to choose a known counterfeit, what proportion of consumers will do so?

- (2) How do perceptions of counterfeit goods differ from perceptions of genuine articles?
- (3) What personal characteristics distinguish between persons selecting a counterfeit and those who are not?
- (4) What purchase criteria are useful in predicting a consumer's willingness to select a counterfeit good over other options?

METHODOLOGY

In conducting this research, a sample of 100 adult consumers was obtained at each of two locations in a medium-sized city in the Southeastern United States. The first location was a regional shopping mall, a conventional retail location where counterfeit goods would be relatively unlikely to be sold. Mall retailers are typically large, reputable chains with much to lose by selling counterfeits. The second location was an area flea market. The flea market location was selected because consumers shopping at this type of non-traditional retail setting would be more likely to encounter counterfeit products (Higgins and Rubin, 1986).

Field workers intercepted study participants and asked them to participate in a short research project concerning consumers' selection of apparel. The sponsor of the project was identified as a state university. Those agreeing to participate were directed to a booth where an investigator introduced him/herself and then presented the respondent a choice situation involving knit sportshirts. This product category seemed particularly appropriate for the study of consumers' participation in the practice of counterfeiting. The first reason for the choice of this product class was the existence of premium priced prestige brands in this class. In addition, due to the low-tech nature of the goods, counterfeiting of such brands has been

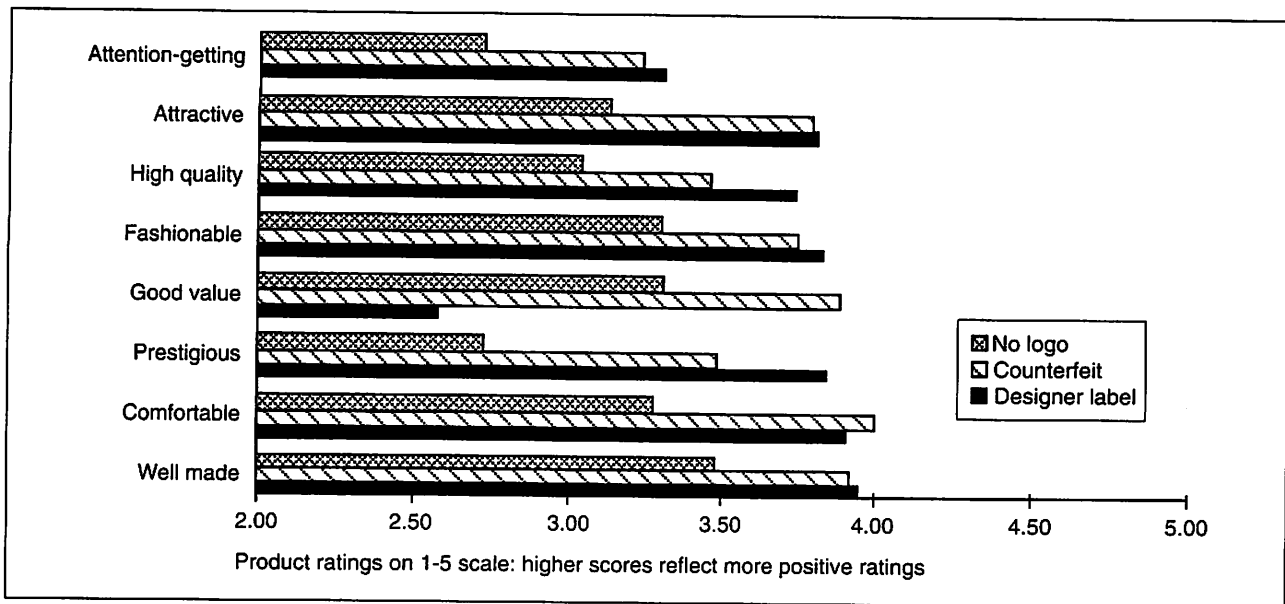


FIGURE 2.
Evaluation of Shirt Choices by Subjects Choosing the Counterfeit Shirt

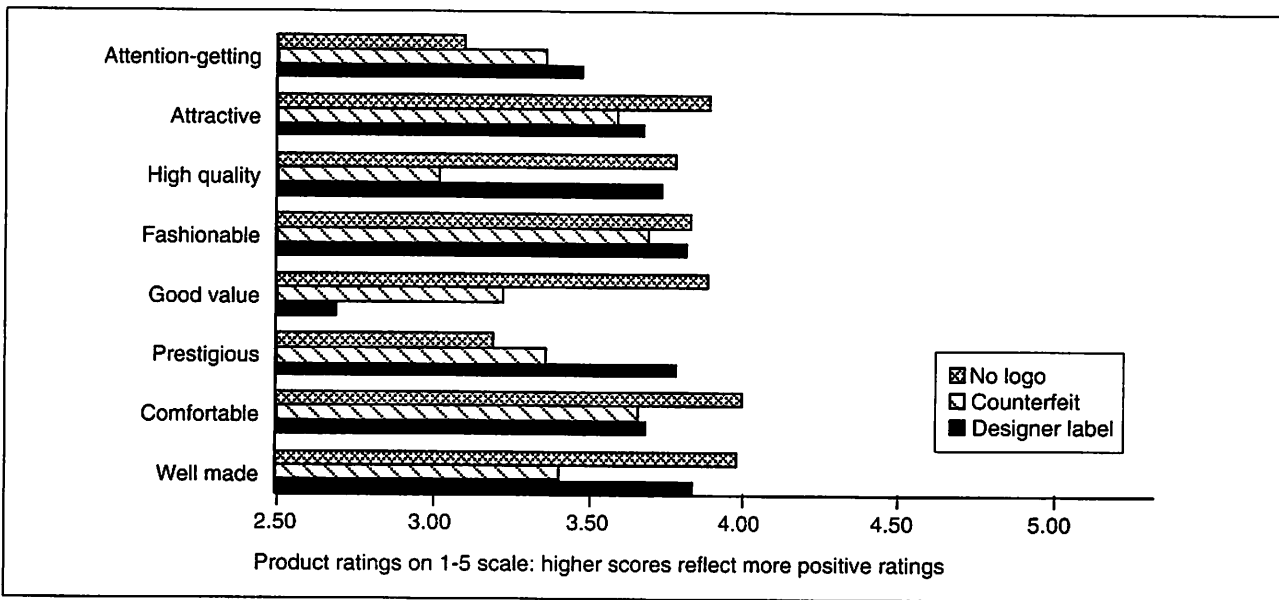


FIGURE 3.
Evaluation of Shirt Choices by Subjects Choosing the No Logo Shirt

the CF also being rated superior to the more expensive DL shirt. The DL and CF shirts which both carried the designer logo were judged to be more attention getting than the NL shirt. The designer shirt was considered the most prestigious and of equivalent quality

with the NL shirt. The NL shirt was perceived to be somewhat more attractive than the other two alternatives. Perhaps, the designer logo was considered too ostentatious for these consumers and reduced attractiveness perceptions.

The above analyses indicate considerable correspondence between product selection and evaluations. That is, ratings of a choice alternative appear to be highly consistent with product choice. A question remains as to the direction of the observed relationships. Consumers may be selecting the alternative that they perceive as superior, or they may adjust their attitudes to coincide with their choice. Although this issue is not settled here, the above data do provide some indication as to some of the perceptions that may come into play in the decision to buy counterfeit apparel.

Respondent Characteristics

Demographic variables: The third analysis objective was to determine which individual traits are useful in predicting a willingness to buy counterfeit goods. Thus, the three choice groups were profiled on a number of variables. Demographic variables were examined first. Overall the sample was composed of 55 percent males with a median age of 29.5 years and a median household income of \$35,000. Cross-tabulations and χ^2 analyses revealed that demographic variables were not effective in distinguishing between members of the three choice groups, however.

Self-image: In addition to demographic variables, respondents were asked to respond to a series of self-image items. These items were selected based on their presumed ability to distinguish counterfeit-prone buyers from others. For each of a list of adjectives, respondents reported the extent to which they agreed or disagreed that the adjective applied to them using a five-point scale. Higher scores reflected greater perceived applicability of the adjective in question. On the basis of analyses of variance, the three choice groups significantly differed on several of the self-image items (see Table I). Respondents who had selected the DL or NL

shirts perceived themselves as being more confident, more successful and having higher status than did those choosing the counterfeit. In addition, those choosing the CF saw themselves as being less well off financially than those selecting the more expensive DL shirt (there was no difference between the CF and NL groups on this factor). Respondents choosing the NL also saw themselves as being more careful than those selecting the CF shirt or the DL shirt.

These self-image results suggest that those selecting the counterfeit are characterized by self perceptions that differ from those not willing to buy a counterfeit. In general, there is evidence of a financial motivation. Persons choosing the CF see themselves as less well off financially, less confident, less successful, and lower status than did persons preferring the more expensive DL shirt. Interestingly, the CF group also rated themselves as less

	DL group	CF group	NL group
Outgoing	2.1	2.2	1.9
<i>Confident</i>	1.9	2.2	1.8
Individualistic	2.0	2.1	2.0
<i>Careful</i>	2.3	2.4	1.9
Decisive	2.4	2.3	2.2
Reserved	2.7	2.8	2.8
<i>Successful</i>	2.0	2.5	2.1
<i>High status</i>	2.5	2.9	2.6
Like to stand out	2.9	3.0	2.9
Anxious	2.8	2.9	2.5
Worried	3.1	3.2	2.9
Stylish	2.6	2.7	2.4
<i>Well off financially</i>	2.4	2.9	2.8
Adventuresome	2.1	2.3	2.1

Scores are on a five-point scale. Higher scores reflect greater belief that the adjective applies to the respondent

Italicized items represent group differences significant at the 0.05 level

TABLE I.
Differences in Self-image across Choice Groups

successful and of lower status than those selecting the NL shirt which was priced the same as the CF.

The respondents preferring the NL shirt see themselves as cautious. Given the lower financial and ethical risks associated with the NL shirt, this result is not surprising. In a more positive light, these respondents also believe themselves to be successful and of high status.

Product importance: Choice groups were also contrasted on the perceived importance of clothing as a product class. The assumption was that a preference for high profile marks, either genuine or counterfeit, would be associated with greater clothing importance. Respondents were asked to report levels of spending on clothes in the past three months. In addition, each respondent was asked to rate the importance of clothing fashions using a five-point scale. Results showed no significant differences across choice groups for either of the two measures. Thus, product importance was not effective in explaining a willingness to purchase counterfeits.

Purchase Criteria

The fourth research question pertains to the criteria used in making purchases within a product class. As noted earlier, preferences for the high profile marks born by the DL and CF shirts were expected to be related to a reliance on image or style factors rather than durability or functionality. For example, a person buying a counterfeit version of a prestigious watch, is expected to be more concerned with the appearance aspects of watches than their ability to keep perfect time. Furthermore, persons choosing counterfeits over genuine goods were also expected to rely relatively strongly on price because dollar savings constitute the counterfeit's central advantage.

Respondents were asked to rate the importance of five attributes in making an

apparel purchase decision. As shown in Table II, the three choice groups did not differ in the importance assigned to store reputation, price, or style. Respondents choosing the DL shirt did report significantly higher importance weights for brand image (3.1 on five-point scale) than did those preferring the CF (2.5). Surprisingly, those respondents preferring the NL also rated brand image slightly higher (2.9) than did the CF choice group. As expected, those who selected the counterfeit placed somewhat less importance on product durability than did members of the other choice groups. Additional analyses of decision criteria appears to be a potentially valuable avenue for future research. Tools such as conjoint analysis or multi-attribute modeling could be profitably employed to compare the counterfeit-prone buyer with other consumers.

MANAGERIAL IMPLICATIONS AND RECOMMENDATIONS

This is the first study that attempted to measure "real" consumers' (i.e. actual shoppers') preferences and attitudes toward counterfeit versus genuine products.

Management may be surprised to know that

	DL group	CF group	NL group
Store reputation	3.5	3.3	3.3
<i>Durability</i>	4.6	4.2	4.5
Style/fashionability	3.9	3.6	3.8
<i>Brand image</i>	3.1	2.5	2.9
Price	4.1	4.1	4.3
Scores are on a five-point scale. Higher scores reflect greater reliance on that attribute in buying apparel			
Italicized items represent group differences significant at the 0.05 level			

TABLE II.
Differences in Purchase Criteria Reliance across Choice Groups

so many consumers consider buying a counterfeit when they have the option. Despite the risk of generalizing results from one field experiment to the general population, over one-third of the population appears willing to become accomplices in counterfeit activity. The implication of this finding is that manufacturers' past concerns have been warranted and, indeed, should be continued.

As in the case of the illicit drugs, managers and government officials must place greater emphasis on the demand-side of the counterfeit equation. However, the results of this study, and others, suggest that this approach is difficult. Over one-third of the consumers in this study knew that counterfeiting was illegal, yet preferred the fake good, believing it to be an attractive option. If counterfeit buyers are not deterred by concerns for legality and social welfare, and even recognize that they are buying lower quality, what appeal could successfully reduce their participation (Davis, 1991)? The implication is that much research is needed to determine effective methods of: reaching; and appealing to the counterfeit-prone consumer.

Published research does not exist concerning the efficacy of various appeals aimed at the buyers who willingly accept counterfeits. In terms of reaching these consumers, the results reported here indicate that counterfeit-prone buyers differ in a number of ways from other consumers. Persons who knowingly choose counterfeits see themselves as less well off financially, less successful, and less confident than do other consumers. Thus, if financial reasons motivate the purchase of counterfeits, these same reasons might be useful in encouraging consumers not to buy. Appeals based on the negative effects of counterfeiting on the labor force, employment, and earnings appear worthy of further examination. Messages could take the same tack as those of the

garment workers' union who urge consumers to buy union and buy American.

Counterfeit prone consumers may differ by product type, however. Those consumers willing to buy counterfeit apparel may not be identical to those who buy counterfeit CDs or software. Therefore, industry groups should conduct studies of counterfeit proneness for their particular product category. The ultimate worth of any assaults on the demand side of counterfeiting depends on future research effort. Without more research to determine how to target these consumers and which appeal to use, dollars spent on reducing the demand-side of counterfeiting will likely be wasted.

Another reason that demand-side remedies, however difficult, should be tried is that efforts at reducing counterfeiting using supply-side remedies have not been totally successful. Supply will always exist where there is demand. Recent research indicates that when a retailer believes that a consumer is knowingly buying a counterfeit, the dealer feels less responsibility (Olsen *et al.*, 1992). This is important because of the current emphasis on channel members as keys to reducing counterfeiting. The implication is that, given what we have learned in this study, remedies aimed at channel members will be hampered when dealers are confronted with a large number of consumers who are willing to buy counterfeit goods. Furthermore, recent cases illustrate that if counterfeiters find one channel closed to them, they ingeniously create new channels. Some counterfeiters have employed airline attendants or even police force members as their dealers (MacIntosh, 1991; Sullivan, 1992). It is little wonder that manufacturers of high profile apparel are still plagued by counterfeiters after years of devoting resources to stopping the practice (Scott, 1992). For firms which thought that the battle was over with the passage of the Trademark Counterfeiting Act; beware, the war continues.

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