



Counterfeit Products

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Abstract:

Have you come across 'KitKit' or 'Fair & Shiny'? These are the counterfeits of 'KitKat' and 'Fair & Lovely' respectively. The word counterfeit is derived from two Latin words: contra and facere. Contra means 'in opposition' and facere means 'make'. Thus, counterfeits mean exact imitation of something to deceive or defraud. But why counterfeits are at all produced? They are often produced to gain from the superior value and reputation of the original product. What are other possible reasons behind their production? What could be the demerits associated with the increasing trend of counterfeits in market? This paper attempts to answer these questions.

Keywords: Education of consumers, Counterfeits, Product

1. Introduction

A counterfeit is an illegal imitation of a product. They are produced to gain from the reputation of original product. In the case of goods, it results in patent infringement or trademark infringement. How a counterfeit is produced? It is packaged and named in such a way that a consumer would find it difficult to note the artificiality at the first glance. For example: A cosmetic named 'Fair & Lovely' is counterfeited in numerous ways, named as 'Fair & Shiny' or 'Fairy & Lovely' etc. This requires education of consumers throughout the world. Counterfeiting can be of different kinds: goods/products, services or money. Even money can be counterfeited. But, such practice is discouraged around the world via legal procedures. Product counterfeiting occurs when a product is sold, purporting to be something that it is not. This is different from the crime of copyright violation, which involves the unauthorized transfer of licensed material.

This issue of counterfeits has become global. In USA, loss in sales due to counterfeits is estimated to be over 60 billion dollars per annum and job losses have been estimated to 210000 per annum in autoparts industry. Kenya lost a substantial portion of their production of coffee after farmers unknowingly used ineffective counterfeit fertilizers. This can affect nation's competitiveness, due to lack of confidence of foreign buyers in the products of the nation. Finally, product counterfeiting poses a threat to buyers as well. Several airplane crashes have been attributed to a counterfeit aircraft parts and such parts are still appearing today.

2. Objectives

1. To assess the level of losses due to counterfeit products.
2. To find out the reasons behind demand for and against counterfeit products.
3. To find out ways to cut demand for counterfeit products.

3. Review of Literature

Bloch, Bush & Campbell 1993: Focus of this paper is on the demand from consumers who buy the counterfeit products knowingly. This purchase activity has been termed *nondeceptive counterfeiting*.

Consumers who knowingly buy counterfeit goods 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.

Phau, Sequeira and Dix 2009: The purpose of this paper is to examine the effect of personality factors on consumers' attitudes toward counterfeits and their willingness to knowingly purchase counterfeit luxury brands. Product performance and useful life are included to investigate their influence on consumers' willingness to purchase counterfeit luxury brands.

It was found that attitude and status does not have an identifiable relationship with consumer's willingness to knowingly purchase counterfeit luxury products. But, integrity was found to have a direct relationship with legality of counterfeit luxury products. That means that consumers who are high on integrity fall less for counterfeit products. As far materialism is concerned, it was shown that high materialism led to low purchase of counterfeit products. Probably this is true for high involvement products. Also, product's useful life has a direct relationship with counterfeit products.

Bian & Moutinho: The purpose of this study was to investigate impacts of counterfeit branded products (CBP) ownership on branded products (BP) and to explore determinants of CBP purchase intention of both CBP owners and CBP non-owners. Study was conducted in four supermarkets with Rolex watches as a focus product. Answers to three questions were sought.

RQ1. Is there any difference between consumers' perceptions of CBP and BP?

RQ2. Does CBP ownership alter consumers' perceptions of BP?

RQ3. Does CBP ownership alter consumers' perceptions of CBP?

Solution to RQ1: This indicates that people find Rolex watches have a similar degree of young character, regardless of whether these products are counterfeit or original. Within all dimensions, CBP are less favourably evaluated than originals, with the exceptions of financial risk and security concern. Solution to RQ2: The result suggest that compared with CBP non-owners, CBP owners perceive a higher level of "image benefit" and more favourable brand personality in relation to BP.

Solution to RQ3: Counterfeit owners have more favourable perceptions of CBP than do non-owners on a considerable number of perception items in all three dimensions of brand image.

Counterfeiting brings new challenges to brand management, as it implies intra-brand competition. Brand owners are not only competing with other brands in the market place, but also confronting new challenges introduced by counterfeits. On one side, the marketers of brand owners are busy working to project a superior image of the BP with a high cost in terms of finance and effort, while on the other side the counterfeiters are adopting a "me too" strategy by producing exactly identical versions.

WEE, TAN & CHEOK 1995: A review of the consumer behaviour literature helped us to identify eight main causes of counterfeit products purchasing behaviour. They are discussed as psychographic, product-attribute, and demographic variables. From the results of the multiple regression analysis, it was seen that various non-price determinants have significant impact on consumers' purchase intention towards counterfeit goods. These non-price determinants are classified as psychographic (attitude towards counterfeiting, brand status, and novelty-seeking), demographic (age, educational attainment, and household income), and product-attribute (appearance, durability, image, perceived fashion content, purpose, and quality) variables. However, there exist some differences in the kinds of determinants, and their magnitude of importance on

purchase intentions towards different types of counterfeit products. In general, the findings seem to suggest that, among the variables tested in this study, product-attribute variables perform better in explaining purchase intention towards counterfeit products. Consumers' intention to purchase pirated literature, counterfeit software, counterfeit wallets/purses and counterfeit watches, is dominated by attribute concerns of appearance, image, purpose, and perceived quality. Demographic variables also feature prominently in the set of non-price determinants of purchase intention towards counterfeit goods. Among the three demographic variables, educational attainment and household income are the more common variables affecting purchase intention. Educational attainment has a non-uniform effect on purchase intention, depending on the nature of the product: it is positive on functional products like pirated literature and counterfeit software, but negative on fashion or fashion-related items like counterfeit leather products (wallets and purses) and counterfeit watches. Household income's negative effect, on the other hand, is only uniformly negative on purchase intention of counterfeit fashion or fashion-related goods (wallets, purses and watches).

Although its magnitude of influence is not substantial, yet the negative effect of the psychographic variable – attitude towards counterfeiting – on purchase intentions should not be taken lightly. It is the only variable which consistently affects all four types of counterfeit products. Given that marketers work to change consumers' behaviour through shaping attitudes and beliefs, the findings on attitude have important implications for policy makers and branded goods manufacturers in their fight against counterfeiting.

Trott & Hoecht: To examine the literature on counterfeit products and explore whether imitation and counterfeit product activities can actually facilitate the development of new products. This paper argues that while some counterfeit firms adopt short-term profit motives other counterfeit firms demonstrate a longer-term motive which manifests itself in an ability to reverse engineer, imitate and learn. Such firms may be suitable long-term partners, in particular for multinational firms with operations in transition economies. Thus, firms face a difficult strategic choice when faced with product counterfeiters that of whether to fight or co-operate. It offers an alternative to the predominant perspective with regard to counterfeiters and have highlighted the shortcomings and limitations of the predominant perspective. We believe that companies need to improve their risk management, in particular in their foreign market entry and collaborative strategies. Companies should seek to take a long-term view and to protect their technology-based competitive advantage. This is already happening: Japanese blue chip companies have begun to relocate sensitive R&D and high tech manufacturing away from risky locations and back to Japan.

Furthermore, we believe that the behaviour of firms in competitive markets can be (not entirely, but to a considerable extent) explained as rational responses to economic incentives. High yield pricing and "artificial" market segmentation is too attractive for counterfeit operators to be deterred by legal sanctions alone. (Legal means are slow and costly to enforce). In line with our economic incentive perspective, we believe that copyright and trademark holders need to positively identify collaborators and to offer sufficiently attractive prospects for these business partners to keep them "on the straight and narrow" and to benefit from the contribution they can make. Those firms, however, that only seek short-term gains without repeat interaction interests and that can do serious harm to the reputation of the copyright and patent holders, should be prosecuted as suggested by the dominant perspective in the literature on counterfeiting.

Vithlani 1997: Costs to the right holder: Industry world-wide loses billions of dollars every year to counterfeiters. These costs impact on victim countries in a number of different ways. First of all, industries which find themselves in direct competition with counterfeiters suffer a direct loss in sales. Indeed, some markets are even dominated by counterfeiters, creating barriers of entry for the producers of the genuine product. Some would argue that the buyers of the fakes would not have

bought the genuine item but that is a very narrow argument and can only apply to a small segment of luxury goods. Many counterfeit products today are of higher quality and compete directly with the genuine items. In addition, consumers who are deceived into believing that they bought a genuine article when it was in fact a fake, blame the manufacturer of the genuine product when it fails, creating a loss of goodwill. Even cheaper and obvious copies that are bought in good faith represent a serious threat to the company that wants its brands associated with quality and exclusivity.

Thirdly, beside direct losses of sales and goodwill, one should not forget the expenditure in protecting and enforcing intellectual property rights. The right owner becomes involved in costly investigations and litigation when combating counterfeiters and may also have to spend further sums on product protection. The budget for anti-counterfeiting is rarely well defined within an organisation, but spans across several departments such as marketing, human resources, product development and legal departments.

Costs to countries where counterfeiting takes place: Such countries suffer both tangible and intangible losses. First, foreign producers of reputable products become reluctant to manufacture their products in countries where counterfeiting is rife as they cannot rely on the enforcement of their intellectual property rights. Hence, such countries not only lose direct foreign investment but also miss out on foreign know-how. Second, if many products from such countries, including genuine ones, gain a reputation of being of poor quality, this will cause export losses which in turn implies both job losses and loss of foreign exchange. It could be argued that the counterfeiting industry creates jobs but these jobs are often poorly paid, often involve substandard working conditions and sometimes use child labour.

Third, the foundation for new business development in a country is the existence of a legal system to protect the rights of the entrepreneur and to promote fair competition. The prevalence of 23 counterfeiters in a market discourages inventiveness in that country since it deters honest producers from investing resources in new products and market development.

A further direct loss for the government of countries that become havens for counterfeiters, are tax losses, since the counterfeits are normally sold through clandestine channels and counterfeiters are not generally keen to pay tax on their ill-gotten gains. Fiscal losses are increasingly shown to justify action by enforcement officials.

Costs to countries where counterfeits are sold: Countries promoting tougher enforcement of intellectual property rights in the world have a strong case for doing so. The economic costs of counterfeiting for such “victim” countries include job losses, missed sales opportunities and lost tax revenues. In the long run counterfeiting discourages investment in product development since a company will not get all the benefit from its investment. The governments of countries where counterfeits are sold will also have to expend increasing amounts of money in funding police and other investigation and enforcement operations. Furthermore, the judicial authorities, including the courts and prison service, need to spend additional time and money in sentencing and dealing with counterfeiters.

Social costs: Ultimately, it is the consumer who pays the cost of unfair competition. Although many consumers believe they are getting a bargain when they buy counterfeits, the actual value of the product is normally much lower. Hence, they end up paying an excessive price for an inferior product. The inferior quality of many counterfeits, particularly those relating to health and safety, has had disastrous effects. It is no longer rare to find counterfeit parts in aircraft and other vehicles causing death and injuries, or counterfeit pharmaceuticals in hospitals. Workers in factories where counterfeits are produced are frequently exploited. They often work in a poor working environment

and are repeatedly exposed to health and safety risks. In addition, they are generally poorly paid. Counterfeiting has attracted both organised and petty criminals who have not only derived huge profits from this trade but have also used it, both as a means to invest the proceeds of crime and to finance other crimes.

Benjamin 2009: Predominant drivers behind counterfeit purchases:

- Low price and increasingly better quality create temptation.
- Low risk of penalty equates to a license to buy.
- Availability, quality, price and low risk generate an overall sense of social acceptability.

Top deterrents to acquiring counterfeit and pirate products:

- Health & safety consequences top the list.
- Threat of legal action or prosecution delivers a wakeup call.
- Links to organized crime have more traction than might be thought.
- People don't want to harm 'someone like me'.

4. Conclusion

1. Not only supply side, but demand side is equally responsible for the sale of counterfeit products.
2. Counterfeits provide prestige at lower prices.
3. They are imitations of copyrighted and trademarked products.
4. Several airplane crashes have taken place due to counterfeit parts.
5. When consumers purchase counterfeits knowingly, the process is called non deceptive counterfeiting.
6. Those who purchase counterfeits knowingly find them as low confident and low on financial position.
7. Those who are high on integrity and materialism fall less for counterfeits.
8. Counterfeits lead to intra brand competition.
9. Demographic attribute like educational attainment has positive effect on goods like software and negative effect on fashion related items like clothes and wallets.
10. Cost is shared by many parties: Cost to right holder in terms of loss in sales, goodwill and cost incurred in protecting intellectual rights; cost to nation in terms of tax losses, export losses because of low trust and time spent in dealing with counterfeiters; cost to society in terms of loss of health, deterioration of environment, payment of excessive prices for inferior products.
11. Counterfeiting has attracted both organised and petty criminals who have not only derived huge profits from this trade but have also used it, both as a means to invest the proceeds of crime and to finance other crimes.
12. This is not only illegal but constitutes a serious threat to public health and safety since these counterfeit products are not subject to safety checks.
13. Diverts government resources from other priorities and puts a strain on the limited assets available to law enforcement and other government bodies that must deal with the counterfeit problem.
14. Awareness campaigns should be conducted.

Counterfeiting can and must be combated at the source. As seen that cost of counterfeiting is very high to various parties, whether it be nation, producer, consumer or society at large. Those who might be interested in buying a cheaper version of a popular product are widespread. Little can be done to deter consumers committed to buying fake goods; there is not much support for criminalizing possession, and it would be difficult to prove buyers were not duped. Public awareness campaigns may help reduce demand, but only if members of the public can tell the genuine product from a counterfeit. To prevent fraud, the line between real products and knock-offs must be clearly articulated. Part of the solution is technological, making use of packaging and other markers that are

increasingly difficult to imitate. Part is educational, assuring that consumers are aware of these markers and the possible consequences of ignoring them. As previously suggested by prior researchers, consumers are often ill-informed about the detriments of the counterfeit trade. More cohesive efforts should be undertaken to educate consumers about the negative effects their buying behaviours have on the economy. These educational programs should not only be limited to schools, but should also include employees of multinational companies, tourism related businesses and other domestic businesses. If educational efforts are to have any benefits, it is important to start educating consumers from a young age.

5. Scope for further research

Further analyses of decision criteria for purchasing counterfeit products should be done. The implication is that much research is needed to determine effective methods of: reaching; and appealing to the counterfeit-prone consumer. 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. 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.

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