



## THE ABC OF COUNTERFEITING VIS-À-VIS LUXURY BRAND MARKET

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### Abstract

Everything that can be produced can be counterfeited right from a soap to something of paramount value like an airplane yet the overarching effects of counterfeits in each industry is dismissed away by corporates. This paper attempts to shed light on the counterfeit industry, elucidate the concept of counterfeits, its presence in ever industry, its overarching effects and the need to address the problem on immediate basis. Herein the steps that a corporate can take to combat the problem at its end have also been duly specified. The paper has specifically gone beyond the general addressal of the menace to specifically address the problem in the luxury fashion industry wherein the effect might not be fatal yet is paramount in nature.

**Key words:** Counterfeits, Luxury Fashion Brands, Deceptive Counterfeiting, Non Deceptive Counterfeiting

### Introduction

This paper attempts to explore the effect of luxury brands on the counterfeit industry. Luxury fashion brands are regarded as images in the minds of consumers that comprise associations about a high price, high quality, aesthetics, rareness, extraordinariness and a high degree of non-functional associations (Heine, 2012). It is observed in most cases that consumers buy non deceptive counterfeits knowingly. Where price has been seen as the main motivator for the purchase of counterfeits as supported by literature as well little consideration has been given to the role of high fashion luxury brands in compelling the consumer to buy the counterfeit version of the genuine high fashion brand. This paper deals with the demand for non- deceptive counterfeit luxury brands. The paper begins with an attempt to define luxury brands, the concept of counterfeits, the types of counterfeiting, the consequences of counterfeiting and the remedy to tackle the menace of counterfeiting.

### The paper has attempted to

1. Elucidate the concept of counterfeiting with respect to luxury brands.

2. Define the concept of luxury brands.
3. State the over-arching effects of counterfeiting in luxury brands.
4. Shed light on some of the strategies that need to be put into place to fight counterfeiting.

## **LUXURY BRANDS**

Defining luxury is not an easy task. Luxury for one can be just ordinary for another therefore is particularly slippery to define. Luxury is undoubtedly a subjective term and multi-dimensional in nature. The highest level of prestigious brands that encompasses several physical and psychological values is luxury (Wiedmann et al 2007). Luxury is no longer reserved for the kings and queens or the preserve of elite but a blurred genre, a mass marketing phenomenon of everyday life (Yeoman, 2011). Luxury brands evoke exclusivity, brand identity, brand awareness and perceived quality in the consumer perspective (Phau and Prendergast, 2000). Undoubtedly luxury brands can be seen as the highest level of prestigious brands encompassing several physical and psychological values (Vigneron & Johnson, 1999). A strong human involvement, very limited supply and recognition of value by others are the key components of luxury (Cornell, 2002). Luxury brands ride on the theory of lifestyle branding which happens to be a contemporary branding mechanism. The fashion house “Coco Chanel” strengthened the concept of lifestyle branding through its branding communication in the 1920s. The branding of fashion products can be traced back to Paris when the courtier Worth who designed garments for the wife of Napoleon III, empress Eugenie branded his designs in order to avoid counterfeiting. It was a trend at that time for the designers of high fashion designs to stay nameless and depend on word of mouth communication to develop a strong customer loyalty. But the advent of industrial revolution and advances in technology made it inevitable for the designers to protect their designs and safeguard their ownership by using the concept of branding. Carefully managing the price, location, exclusivity and service as means of differentiating the products to curb counterfeiting also proved futile in no time (Juggessur, 2008). Any brand is developed with an objective to create an identity of its own such that its products can be rendered recognisable and held valuable by consumers to build customer loyalty (Levy and Rook 1981). Undoubtedly the amount of time and effort that goes into building a brand and developing its quality and features naturally makes the brand deserve a better price and place in the minds of the consumer. But unfortunately the success of a brand engenders counterfeit to the extent that competitive offerings might appear indistinguishable from the original brand they mimic. Successful branded products have the highest level of attractiveness to counterfeiters (Harvey and Ronkainen 1985). Counterfeits are trading heavily on the identity of luxury brands therefore it is not wrong to say that luxury brands have contributed to the manifestation of counterfeit brands. Luxury designer brands command instant global acknowledgement and the desire to own them has initiated a market for counterfeited versions. Where every consumer wants to buy luxury brands owing to the sense of identity, prestige and satisfaction it provides not many afford to buy it. Therefore every consumer faces a dilemma of choosing between a genuine high priced luxury brand or a cheap counterfeit version of it at a fraction of price. It can be said then that the fashion brands contribute to the manifestation of counterfeit brands. The market for counterfeit goods rely on consumer’s desire for real luxury brands (Penz and Stottinger 2005)

## **THE CONCEPT OF COUNTERFEITS**

Counterfeiting is not a new concept. It dates back to 27 B. C when a wine merchant in Gaul counterfeited trademarks on wine amphorae, selling local wines as pricey Roman wine (Phillips 2005). A counterfeit product can be called as a fake, a knockoff, imitation, a copy, an over-run. All these words can be used interchangeably though the meaning of each is

slightly different from the others. Counterfeiting is a practice of manufacturing goods often of a quality lower than the originals selling under a brand name which has not been authorised by the brand owner. Generally counterfeit goods are sold under a trademark that is identical or indistinguishable from the original trademark. Counterfeit goods are illegal, low priced- and often lower –quality replicas of products that typically possess high brand value (Lai and Zaichkowsky 1999). There is hardly any industry that remains untouched by counterfeiting. Right from soaps to jewellery to handbags to electric cords to medicines – all have been marred by counterfeiting. Basically anything that can be produced can be counterfeited. Many well- known brands, spanning across various industries are victims of counterfeiting. Some of the well - known brands that are victims of counterfeiting are Louis Vuitton, Burberry, Prada, Coach, Hermes, Dior and the names go on.

60% countries are known as counterfeiters with 70% of counterfeited products being manufactured in Asia itself and 30% in Mediterranean area (Maman). China is the main producer of counterfeits in the world followed by Russia, Argentina, Chile, Egypt, India and Israel. 7 % of world trade is in counterfeit goods as per the estimate of international chamber of commerce. (International Anti-Counterfeiting Coalition 2004). Growth rate in counterfeiting is 15% annually, 75% of counterfeited goods are produced in Delhi (Vikram 2013). United States Trade Representative (USTR) has named Nehru place and Palika bazar in New Delhi, Burma bazaar in Chennai, Manish market, Heera Panna, Lamington road and Fort district in Mumbai and Chandni Chowk in Kolkatta dealing in this high volume trade. It is not only the street vendor stalls where one can come across counterfeit products but also big legitimate stores. Overtime counterfeiting has become a very well organised and established business. It is now being sold increasingly online gaining higher penetration into the market.

## **DECEPTIVE AND NON DECEPTIVE COUNTERFEITING**

Consumers are being tricked into buying counterfeits without being aware that what they are laying their hands on is a fake product. This form of counterfeiting is known as deceptive counterfeiting wherein the consumer is not aware of the genuineness of the product. This is often seen in case of categories like electronics, pharmaceuticals, automatives (Grossmann and Shapiro 1988). On the other hand when the consumer is consciously making a counterfeit purchase that is being fully aware of the authenticity of the brand or let us say the non- authenticity of the brand that is called non deceptivecounterfeiting. This type of counterfeiting is particularly prevalent in luxury brands market (Nia and Zaichkowsky 2000). Herein the consumer by all means can differentiate a real product from a fake but makes no qualms about making the purchase of counterfeit product. This kind of counterfeiting is particularly worrisome.

## **WHY IS COUNTERFEIT INDUSTRY A LUCRATIVE MARKET?**

The advent of low cost technology has enabled the counterfeiters to have an access to inexpensive tools like photographic quality computer scanners and digital printers which allow them to replicate logos and create convincing looking packaging making it very difficult for a consumer to differentiate between a genuine and a fake product. (Hopkins,2003). To add to this the legal penalties to curb this menace is insignificant and almost non existing in some countries. Even when caught the counterfeiters escape with a moderate probation serving period. This is probably because this crime is not seen as big a crime as theft and other violent crimes. Therefore the culprits engage in the practise of counterfeiting fearlessly owing to lax attitude of law. Another reason behind this industry being lucrative is the gap between the demand and supply for luxury brand products. When the demand for the goods exceeds the supply for the same the counterfeits conveniently fill in the gap and provide cheap replicas to consumers at fraction of a price gaining both praise and profits.

Increased globalisation is seen as yet another reason behind the proliferation of counterfeit industry. The advantages of globalisation can never be undermined but it can also be not overlooked that globalisation has facilitated the free flow of trade across borders smoothening the transfer of counterfeit goods as well. Several countries have become notorious for rampant intellectual property violations. These foreign markets include China, Russia, India, Brazil, Indonesia, Vietnam, Taiwan, Pakistan, Turkey and Ukraine (Teresko, 2008). In these countries, brand names, patents, trademarks, and copyrights are regularly infringed by manufacturers and dealers who traffic in large quantities of counterfeit goods. The governments of these countries frequently do not go far enough to police the counterfeiting problem, and in some cases the local government is actually directly or indirectly encouraging the production and sale of counterfeits to increase employment or capitalize off the success of big businesses (Phillips, 2005).

Counterfeiting deceptive or non - deceptive has far reaching consequences. The counterfeit products can not only pose serious health and safety concerns but also are used to solicit funds for terrorism. Counterfeiting damages the brand owners reputation and also lowers the consumer's confidence in the affected brands. It is the low price that propels the customer into buying the counterfeit product. To add to this easy accessibility also inspires the customers to buy counterfeits. Though many factors like conformity seeking, mimetism and post- modern ethics act as a justification for consumer misbehaviour the effect of counterfeiting still lies unaddressed. Counterfeiting be it deceptive or non-deceptive being a crime is never promoted through public media, television radio or any other communication channel. It is the word of mouth that turns out to be a possible factor responsible for developing the consumer's attitude towards counterfeits. Counterfeiting is a threat for a genuine industry especially when the consumers are consciously buying first hand copies or fakes.

## **FAVOURING COUNTERFEITS**

While there are ample researchers who have expressed displeasure at the counterfeit industry there is also a body of work that has out-rightly favoured counterfeit industry. The logic behind this favour has been the argument that counterfeits have managed to satisfy the need of consumers who have limited or no means to buy a genuine brand. Secondly some researchers have also stated that counterfeits have compelled the consumers to buy the genuine branded products. The presence of counterfeit s is more likely to help consumers to desire possessing the genuine item rather than the counterfeits therefore enabling the firms to have more revenue gains than losses (Yoo 2003). According to him this can indeed make the firms welcome and capitalise on counterfeits. High fashion luxury brands command a higher price and at the same time go out of fashion in no time therefore counterfeits are a cheaper alternative to these high brands satisfying the same need of economically restricted consumers (Juggessur 2008). Oftentimes, counterfeiting goes unchecked because many people perceive counterfeiting as a "Robin-Hood" sort of crime. Many people resent large successful corporations, particularly those that charge high prices for goods they view as unnecessary luxuries, such as manufacturers or distributors of designer goods. These consumers are not sympathetic when multinational corporations are victimized by counterfeiters, especially when the consumers are not aware of the economic and social damage caused by counterfeiting or the links between counterfeit operations and organized crime. In fact, in some circles it is now considered chic to own counterfeit merchandise, such as faux designer handbags (Phillips, 2005). In some countries, counterfeiters are often viewed as saviours who provide the downtrodden with opportunities for jobs and revenue in countries with growing unemployment problems (Hopkins, 2003). Anti-American sentiment also contributes to an "us versus them" mentality and reinforces the notion that counterfeiting steals from the rich and gives to the poor. This resistance to anti-counterfeiting efforts, both here and abroad, further exacerbates the problem.

## **THE CONSEQUENCES OF COUNTERFEITING**

Counterfeiting has far reaching consequences. It is not just the consumers who suffer because of it but also the manufacturers and government at large. To begin with counterfeiting poses a serious risk to consumers. As far as pharmaceutical industry is concerned or automotive industry is concerned counterfeiting can lead to illness and deaths. But in cases like luxury brand market counterfeiting causes no physical harm but can lead to losses in the form of financial harm to both the companies and consumers wherein the consumer has been tricked into buying the cheap product. To add to this criminal counterfeiting has enabled the solicitation of funds for terrorist activities which ultimately leads to loss of life. Establishing a direct link between the two is almost impossible but there is a lot of evidence to prove the link between the two. Seized al Qaeda training manuals advise recruits to engage in “the sale of fake goods as one means to raise funds” (Facts on Fakes, 2007). Counterfeiting poses threats to legitimate businesses as well. By counterfeiting a company’s product, that counterfeiter becomes a competitor of that legitimate company. As a result, that company loses sales and market share. Making matters worse, the counterfeiter has an unfair advantage, since it has not had to pay for R&D costs or brand development. Therefore, counterfeiters leech profits from American businesses in ways that no legitimate competitor can. (U. S. Chamber of Commerce, [www.thetruecosts.org](http://www.thetruecosts.org); Federal Bureau of Investigation). Counterfeiters also erode the value of the brands they counterfeit. As low-quality, inexpensive fakes flood the market, and as more and more customers are deceived by bogus goods, the market demand, and thus the market price of a particular brand, declines substantially (Hopkins, 2003). Customers who inadvertently purchase counterfeit goods “will conclude that the brand has not delivered on its promise” upon discovering that the product is a fake, and thus attach less value to a particular brand. As intellectual property represents roughly 45 % to 75% of the value of many Fortune 500 companies, this loss of brand equity is particularly painful for genuine businesses (Phillips, 2005). If that frustrated consumer stops purchasing that brand’s products altogether, the business not only loses brand equity but all future revenues that customer would otherwise provide (Phillips, 2005). Businesses who are victims of counterfeiting may also incur losses in the form of legal liability. If a consumer buys a counterfeit product thinking it to be genuine, and is injured by that product, “the brand holder may still face liability damages, and almost certainly will face legal costs in attempting to isolate themselves from responsibility” for the injury (Hopkins, 2003). That is, even if a legitimate business is not dealing with counterfeiters and has no knowledge of any illicit activity, that business could still be slapped with monetary damages for failing to implement sufficient anti-counterfeiting and authentication measures.

Moreover, the prevalence of counterfeit goods in the marketplace results in a higher number of warranty claims. When low-quality counterfeits fail, unaware purchasers complain to the legitimate producer. These consumers are dissatisfied upon learning that the product is bogus, because “consumers feel that it is the company’s responsibility to prevent counterfeits, and if the company can’t do this, then they feel the company should service the fake product anyway” (Hopkins, 2003). This presents businesses with a dilemma; they can refuse to service or replace the fake, or they can provide the owner of the counterfeit with a genuine product or an equivalent sum of cash. If they refuse to service the counterfeit, the customer may become infuriated and complain to his acquaintances. The business thus stands to lose future profits from not only the purchaser of the counterfeit, but other prospective customers as well. However, if the business gives in and replaces the product, it has not only lost the initial sale to the counterfeiters, it has also unfairly surrendered its inventory or money to appease the angry consumer. Either way, the legitimate producer loses.

Counterfeiting harms not only individual consumers and businesses, but also the government as a whole. The trade of counterfeit goods is clandestine in nature, and transactions frequently occur off the books. Therefore, government fails to

collect taxes off of counterfeiters' sales and profits. Were it not for the presence of counterfeit goods in the marketplace, consumers would buy goods from taxable, legitimate businesses. Counterfeiters thus deprive the government of tax revenues, leaving less money to fund schools, hospitals, roads, parks, fire and police forces, and other desirable public amenities (White Paper, 2005).

The existence of counterfeiting also serves as a disincentive to innovation. Because counterfeiters don't have to bear research and development costs incurred in inventing new products or processes, counterfeiters "can enter the market with a similar product in less than 2 % of the time and less than 1/1000 of the cost" (Hopkins, 2003). In the presence of widespread counterfeiting, innovators have a minimal incentive to expend the effort and resources necessary to produce beneficial new technologies, because counterfeiters can profitably misappropriate these new ideas and make it increasingly difficult for innovators to recover their expenses. Moreover, the prevalence of counterfeiting has forced businesses to divert R&D resources away from creating new technologies and into methods to deter counterfeiters. Respondents to a study conducted by the Organization for Economic Cooperation and Development "spent over half their R&D investment on anti-piracy technologies and product differentiation" as a response to the increasing incidence of counterfeiting in the global economy (Teresko, 2008). In this way, counterfeiting impedes technological progress, discourages economic growth, and hinders improvement of the standard of living. These are just a few of the reasons why counterfeiting hurts society; this list is by no means exhaustive.

## **WHAT SHOULD BE DONE TO CURB THE MENACE OF COUNTERFEITING**

There is a need to address the problem of counterfeiting owing to its fatal consequences (Kevin, 2009). As counterfeiting affects not only an individual but the businesses and the government as well, it becomes inevitable for the three to work in collaboration to deal with this problem.

Consumer's end: From the consumers point of view it is important that consumers engage in some sort of moral policing and abstain from purposely buying counterfeit goods. A price too good to be true is an indication of a counterfeit good and a consumer should be wary of making such purchases. It is important for the consumer to realise that counterfeiting industry harms the whole society. As far as deceptive counterfeiting is experienced wherein the consumer is not aware of the wrong purchase made by him, any change in the quality, feel or colour of the product should be immediately reported to the business house. Consumers should resort to buying goods from legitimate producer and dealers and be alert of buying from suspicious dealers. Only if the consumers show interest in dealing with the problem the government shall put in efforts to curb the menace. (Lewis, 2009)

Businesses's end: Firms must utilize a multi-faceted approach to discourage counterfeiters and protect consumers at large and their profits. Businesses have multiple tools at their disposal, such as supply chain management, legal action, product identification technologies and cooperation with interested parties. A successful anti-counterfeiting strategy will incorporate several of these tools, as well as quantitative methods for monitoring the progress of the strategy. Firms must secure their channels of distribution from counterfeiters, regardless of whether or not the firm is aware of any past or current counterfeiting activity. It is crucial for businesses to prevent their waste from entering the legitimate distribution chain because individuals who engage in counterfeit trade prey on waste repositories, scrap yards and reclamation centres to grab the inferior goods which have been discarded by the brand owners (No Trade in Fakes, 2006). Companies can conduct surprise raids to catch the culprits red handed. The fear of being caught can deter the distributors from engaging in the unscrupulous activity altogether. The companies just need to make sure that the surprise raids are actually surprise

else the whole effort can go wasted. Other than this the simplest way to handle the problem is educate the consumers so that they can efficiently distinguish between a fake and a genuine product. Internet is flooded with tips that can help a consumer make a right decision. To add to all this the most effective method to prevent counterfeiting is to invest in developing customer loyalty that is so strong that customer simply refuses to switch to cheaper counterfeit alternatives. Secondly there is a need to educate and alert marketers to the possibilities and make them more pro-active in seeking whatever protection is viable. Some technological methods should be used from designing packaging and labels in a manner that imitation becomes cumbersome.

Government's end: An international response to an international problem (Philips 2005). It has been rightly said that the problem of counterfeiting is not peculiar to one country but to many. It is important for governments of different countries to collaborate together in order to put some stringent laws in place and penalise the counterfeiters. Stringent laws in every country leaves no scope for the counterfeiters to run their operations in more permissive countries. This is a solution only if every country becomes intolerant of the counterfeit industry.

## **MANAGERIAL IMPLICATIONS**

This paper sheds light on the menace of counterfeiting and the need to formulate plans to curb it at the earliest. The business community needs to devise plans to fight counterfeiting in terms of new advertisement campaigns. The consumers need to be taught to differentiate between a real and a fake product so that they can refrain from buying counterfeit products. The consumers need to realise that buying counterfeit products inadvertently or deliberately harms not only the consumer but the businesses and the society at large. The government has to put stringent laws in place to leave no scope for the unscrupulous trade to flourish the way its flourishing as of now. It is important for the consumers the government and the businesses to work in collaboration in uprooting the problem.

## **CONCLUSION**

In this paper an attempt has been made to present theoretical insights on a "hot" topic in the luxury industry: counterfeiting of luxury goods. Luxury brands are extremely popular with the consumers therefore are vulnerable for counterfeiting. Counterfeiting is a social and economic problem as already has been stated and supported a number of times. The problem of counterfeiting is so severe that a solution to it is the need of the hour. Not only a consumer but business houses and government have to bear the brunt of lax attitude towards the menace. It is inevitable for consumers, government and business houses to work in collaboration and fight the problem vigorously.

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