Consumer Behaviour in the Counterfeit Luxury Good Market: A Literature Review

Harneet Bhui Jayakar*

Abstract:

Luxury brands’ ongoing strategy to grow in volume is to offer accessible and conspicuous products thereby violating the core values of luxury: exclusivity and quality. This increases purchase of counterfeit products by making good copies easier to produce and lowering moral barriers associated with the purchase of counterfeits. The aim of this paper is to provide an encompassing literature review of consumer behavior dominant in the counterfeit luxury goods market. It includes a review of research done to explore the influence of consumers’ attitudes on their purchase intentions toward counterfeit products. Purchase intention is affected by variables like past behavior, attitudes toward counterfeits and individual characteristics (like materialism, fashion and value consciousness, and ethical judgments). The paper also illustrates how the actual consumption experience of using a luxury or counterfeit good affect a consumer’s psychological state and subsequent behavior. There is research investigating possibilities beyond the obvious authentic vs. counterfeit choice, adding a third option of rejecting both to show that one has better claims to status than “buying a label”. Although the word “counterfeit” has a negative connotation, there is research showing the counterintuitive effect of counterfeiting on the genuine luxury brand company. The objective is to tie together several unexpected results to understand when counterfeiting is in fact detrimental and when it actually might be beneficial to the genuine brand. The objective is to provide a 360 degree literature review to companies assisting them in realizing effective policies for stemming counterfeiting.

Keywords: Luxury Goods, Counterfeit Luxury, Consumer Misbehavior

Corresponding Author*

*Harneet Bhui Jayakar, Research Assistant, Marketing, SP Jain Institute of Marketing and Research, Mumbai, email: harneetbhui@gmail.com.
Counterfeits Defined and Differentiated: Introduction

Counterfeiting of luxury products dates as far back as 27 BC when a wine merchant in Gaul counterfeited trademarks on wine amphorae, selling inexpensive wine as expensive Roman wine (Phillips 2005). The global market for counterfeits today is estimated to exceed $600 billion, accounting for approximately 7% of world trade (World Customs Organization 2004). Dyer (2006) estimates that counterfeiting and illegal trade offsets the sales of genuine items by between $15 billion and $50 billion annually. Counterfeiting prevails throughout the world, accounting for about ten percent of the world trade or worth of about 500 billion dollars, and the U.S. loses a quarter of a trillion dollars due to global piracy and counterfeiting (Heffes 2008).

The most popular counterfeit market is clothing, followed by shoes, watches, leather goods, and jewelry. Louis Vuitton, Gucci, Burberry, Tiffany, Prada, Hermes, Chanel, Dior, Yves St Laurent, and Cartier are frequently pirated. Knockoffs of fashion brands are usually manufactured in China, South Korea, Taiwan, and South America (Ritson 2007). The federal authorities in U.S have seized 150 websites that used to traffic counterfeit brand merchandises in 2011.

Lai and Zaichowsky (1999) define counterfeits as illegally made products that resemble the genuine goods but are typically of lower quality in terms of performance, reliability or durability. They also stated that counterfeiting and piracy are the same in essence and could be used interchangeably. However, piracy is typically limited to technology categories, such as software and fixed medium content such as film and music recordings (Chow, 2000; Cheung and Prendergast, 2006). In addition to counterfeits, which impersonate a brand, knockoffs pose another threat to the exclusivity to which premium brands aspire. Knockoffs do not impersonate the brand but merely copy the design and appearance of premium labels. According to Wilson (2007), such design knockoff garments represent a market worth $9 billion. Both counterfeits and knockoffs impose the same penalty on genuine item consumers: They threaten the exclusivity that accompanies the purchase of a premium brand. Further, counterfeiting is not similar to other breaches of intellectual property rights like grey market goods. Grey market goods are, by definition, overruns from outsourced manufacturers that are distributed through
unauthorized channels (Huang et al., 2004; Gentry et al. 2006), whereas counterfeiting involves an illegally produced copy of the original article.

From the consumer’s perspective, there are two types of counterfeiting: deceptive and non-deceptive. Deceptive counterfeiting victimizes the consumer who unknowingly and unintentionally purchases counterfeit goods due to their uncanny similarity to the genuine product (Grossman and Shapiro, 1988); counterfeit as is the case in categories such as automotive parts, consumer electronics, and pharmaceuticals. In other categories, however, the consumers are willing participants typically aware that they are purchasing counterfeits (Bloch et al.). This form of non-deceptive counterfeiting is quite prevalent in luxury brand markets (Nia and Zaichkowsky 2000) in which consumers can often distinguish counterfeits from genuine brands on the basis of differences in price, distribution channels, and the inferior quality of the product itself.

**Trading Up and Trading Down**

Bain & Co. estimates the luxury market to have grown at an average of 8% over the past decade, despite the economic recession. This is attributable, in part, to the booming economies of the BRIC nations and the accompanying new millionaires. In addition to that, the “massification of luxury” encourages everyone with some disposable income to claim their right to happiness through the purchase of luxury products. This desire among consumers to trade up is further fuelled by luxury companies that trade down to offer “accessible luxury”. This opportunity offsets the limited volume sales associated with the luxury industry. Instead, the luxury industry now pursues a strategy of “abundant rarity” focusing on logo conspicuousness rather than craftsmanship, high quality and exclusivity. In an attempt to reduce manufacturing costs, some luxury companies are foraying into licensing agreements, wherein they give local manufacturers exclusive rights to produce, distribute and sell a host of luxury goods. These manufacturers, located in low labor cost countries such as China, pay royalties to the brand thereby reducing production costs, such as by manufacturing simpler products in larger volumes with lower objective quality. The growth of counterfeiting is a collateral effect of this trend due to the delocalization of production and diffusion of know-how, mainly in emerging countries which
also happen to be the ideal markets for counterfeits because of minimal law enforcement and probable absence of intellectual property laws. Another side-effect of outsourcing manufacturing is the steady quality improvement that the counterfeit industry has been witnessing over the past few years, approaching that of the real brand in some cases. For example, some of these manufacturers have added a “ghost shift” to their production runs to make counterfeit products which they can sell at higher margins (Phillips 2005). Although the counterfeits thus produced are typically constructed of inferior materials, they are produced with the same designs, molds, and specifications as that of the genuine brand (Parloff 2006). As a result, in the case of many luxury brands, the counterfeit-genuine distinction is evolving from a dichotomy to more of a continuum

**Consumer Misbehavior**

The theory of planned behavior by Icek Ajzen (1999) explores situations under which counterfeit purchases occur and the factors influencing the purchases. Penz and Stottinger (2005) determined that the respondents’ perceived behavioral control over their actions was the strongest influence on their purchase intentions. They identified consumer related drivers, such as readiness to assume risk and/or moral commitment, as more important than supply-related factors, including attitude towards piracy in general. Chakraborty et al (1996) explored the influence exerted by country of origin and consumers’ ethnocentrism on the purchase of counterfeits. They concluded that patriotic feelings (ethnocentrism) positively correlate with a preference for original domestic products, thus manufacturers of genuine products should emotionally appeal consumers regarding the economic damage that piracy imposes on their nation. Bloch  et al (1993) arrived at similar conclusions when researching counterfeit fashion goods. Additional studies have shown a similar outline by testing influencing factors such as a counterfeits’ price, associated perceived risk and situational elements in a purchase situation (Albers-Miller, 1999; Eisend and Schuchert-Güler, 2006; Suter et al, 2006)
Identity Construction through Counterfeit Consumption

Owners of luxury products, both authentic and counterfeit, obtain real and symbolic benefits from their purchase and consumption behavior by projecting a desired social image that contributes to their identity construction. According to Quintanilla et al. (2010), although the goods consumed in the process are of questionable legality and mostly are a secret, consumers reported gains such as efficiently optimizing their resources, experiencing fun and adventure, risk, enjoyment and getting away with fooling others. Consumers of counterfeit products, in the process of accomplishing these inner goals, constructed a positive identity of themselves as being “savvy” individuals (Quintanilla et al., 2010). Their research suggests that the experience of purchasing a counterfeit luxury product is a memorable, adventurous one for its consumers and thus luxury brands should also aspire to create such singular and rewarding experiences. Additionally, genuine luxury brands must negatively enforce this behavior by emphasizing the legal, social and ethical dilemmas plaguing counterfeit consumption.

Influential Factors of Luxury Counterfeit Purchase and Consumption

Factors Influencing Consumption

Wang, Stoner and John (2014) in their paper propose that consumer interest in counterfeit luxury products is perpetuated by the process of moral disengagement, where unethical behavior such as purchasing illegal counterfeit products is rationalized. They examine the role that social feedback plays in moral disengagement and find that when counterfeit users receive a compliment from other people, they are more likely to morally disengage and desire additional counterfeits in the future. However, the opposite occurs when others question the source of the counterfeit goods. Hu and Lee (2014) suggest that perceptions of relative status can impact counterfeit purchases. They propose that perceptions of low or high status in relation to others interact with implicit self-esteem leading to the desire to purchase counterfeit luxury products. They find that counterfeit luxury consumption can be driven by a discrepancy between perceived social status and implicit self-esteem. Lee, Shrum and Yi (2014) examine the conspicuous consumption of luxury goods and show that social exclusion effects on conspicuous consumption versus pro-
social (non-conspicuous) behavior are culture-dependent. They propose and find that responses to explicit and implicit exclusion differ cross-culturally because of cultural differences in communication norms. Exclusion that is communicated in a norm-congruent manner produces pro-social behavior, whereas exclusion that is communicated in a norm-incongruent manner produces conspicuous consumption. Additionally, Wang and John (2014) propose that using luxury products in public makes consumers feel self-conscious and needing to monitor their behavior carefully in front of others. This mindfulness depletes one’s self-regulatory resources and impairs self-control on subsequent tasks.

**Factors Influencing Purchase**

In their paper, “Buy Genuine Luxury Fashion Products or Counterfeits?” Yoo and Lee investigated the consumer-side determinants of intent to buy authentic and counterfeit luxury goods, in particular, what factors influence the decision-making between counterfeits and originals. They found that past purchase experiences, attitudes toward buying counterfeits by economic and hedonic benefits, and individual characteristics (that is, materialism, perception of future social status, and self-image) are major determinants of the purchase intention of counterfeits and originals. In addition, the study confirmed that purchase intention of originals decreases purchase intention of counterfeits, whereas purchase intention of counterfeits increases purchase intention of originals.

Oneto, Gelb, et al in their paper, “‘Buying Status’ By Choosing or Rejecting Luxury Brands and their Counterfeits”, add a third possibility to the previous diabolical choice of authentic versus counterfeit – rejecting both types of luxury brands to show that one has better claims to status than just “buying a label”. Goods with designer labels surely send the right brand signals into society for status-seeking consumers, but at what maybe an impossible price. A counterfeit of that label may also send the same signals but not to the ones who value authenticity. Finally, goods with no luxury label may be perceived to be sending a better signal – that status comes from character and not the labels that one purchases. Building on this complex choice, the study presents a model of three alternative brand type choice processes and supports the importance of status considerations in the selection or rejection of luxury brands.
Counterintuitive Effects of Counterfeiting

The mere mention of the word “counterfeit” connotes negativity, fraudulence, and inferior quality. Countries and companies have taken significant and costly actions to deter counterfeiting for reasons ranging from lost revenue to the tarnishing of a brand. While most research emphasizes the negative consequences of counterfeit, Poehlman et al. (2011) explored the counterintuitive benefits that counterfeits can have in the marketplace. They demonstrated that perceived prevalence of counterfeit can boost the market price consumers would pay for genuine products in the marketplace. While high levels of counterfeit boost high-end brands, low perceived levels of counterfeit boost low-end brands. In either case, companies must be perceived as being active in their anti-counterfeit efforts resulting in the ironic implication that in some cases, companies may privately need to condone and even encourage counterfeiting while publicly seeming to fight counterfeiting. Townsend et al. (2011) explore the tradeoff between signaling and quality with respect to counterfeit, specifically considering the role of consumer intelligence. “Smart” consumers are more aware of the signaling power of luxury brands and of the unsubstantiated mark-up of some luxury products to convey “quality”. As such, smarter consumers are more likely than less intelligent consumers to prefer counterfeit products to benefit from the signaling, self-presentation aspects of counterfeit while avoiding the feeling that they are paying more for quality that does not justify the premium price. Wilcox et al. (2011) have investigated how construing products at an abstract or concrete level can actually increase or decrease preference for a genuine product. Specifically, construing products concretely leads to a comparison of differences thereby increasing preference for the genuine product whereas construing a product abstractly leads to a comparison of similarities resulting in a preference for the counterfeit product. A self-expression goal trumps the effect, however, as consumers with the goal to self-express prefer the genuine brand regardless of processing style. There is literature to show how counterfeit negatively impacts brands other than the one being counterfeited i.e. “collateral damage” that a counterfeit excises on other genuine brands that may have otherwise been purchased in the absence of the counterfeit. The result suggests that 90% of lost sales come from other genuine brands and not the brand actually being counterfeited.
By means of two studies, Romani et al (2012) show how the market presence of luxury counterfeit items can increase consumers’ willingness to pay for original brands. In the first part, they show that the presence of luxury counterfeits can increase consumers’ willingness to pay for well-known original brands, but not for lesser-known ones. Brand awareness plays a moderating role in the positive relationship between counterfeiting and willingness to pay (WTP). In the second part, they address the psychological mechanisms that explain this increased willingness to pay. The results show that consumers’ (a) pleasure at being envied, (b) pleasure in distinguishing themselves, and (c) perception of the quality of the original goods fully mediate the relation between the presence of counterfeit in the market and consumers’ WTP for originals. Contrary to the conventional viewpoint (Staake et al. 2009), which claims that the presence of a counterfeiting activity is always and unconditionally undesirable because it devalues the ownership of luxury brands, they show that, under specific conditions, such brands could benefit from their presence. Specifically, the positivity of the relationship between counterfeiting and consumer WTP for the genuine fashion luxury good is applicable to well-known brands, but not for lesser-known ones. In respect of the latter, WTP declines in the presence of counterfeits, thereby changing the direction of the relationship from positive to negative. They emphasize the relevance of brand awareness and, more broadly, of brand equity in driving WTP. Elevated brand awareness stimulates counterfeiting, because counterfeiters target famous brands; in contrast, brand awareness makes the brand’s price less vulnerable to counterfeiting’s detrimental effects. Strong brands can harness the benefits of increased WTP in the presence of counterfeits. At the same time, lesser-known brands, such as new brands or newly imported brands, should beware. The presence of counterfeits reduces the original’s WTP for lesser-known brands. The second key concept in their research is that counterfeiting’s effects on consumer WTP for the genuine good are fully and positively mediated by three factors that are linked conceptually to the three dimensions of the perceived value of luxury consumption identified by Wiedmann et al. (2009): individual, social and functional.

Consumers’ pleasure in distinguishing themselves is a “self” regarding concept and can be considered an individual dimension. Consumers might wish to stand out from the crowd and its generic lifestyle by buying an original product. This satisfies an inner individual motivation
unrelated to social or functional drivers that justifies the increase of WTP in the presence of counterfeits. Conversely, being envied can be considered an “other” regarding concept, that is a specific form of social approval (Wilcox et al. 2009), implying a feeling of superiority over others in terms of status. The third factor is quality perception as a product-related concept and it constitutes the core feature of the functional dimension of luxury perceived value. In the presence of counterfeiting, consumers appreciate better the higher quality of originals compared with fakes and they are willing to pay more for the genuine article.

References: