CHAPTER TWO
LITERATURE REVIEW

Counterfeiting is a serious problem that plagues the legitimate products' retailers, distributors and producers. The practice of product counterfeiting has spread to high tech and services from the traditionally counterfeited product: highly visible, strong brand name consumer goods (Czinkota, Ronkainen and Moffett 1999).

The topic of counterfeiting has generated a substantial body of scholarly discussion, research and thought. This chapter will discern type of consumers who had purchased counterfeit goods and counterfeiting strategies. Research concerning consumer accomplices who engaged in aberrant consumer behaviour will also be discussed. Lastly, some literature on supply side as well as demand side of counterfeiting will be revealed.

2.1 Type of Counterfeit Products' Buyers

When buying a counterfeit product, consumers may or may not be knowingly participants in the illegal practice. In some cases, consumers who buy a fake product may think that it is the genuine one. In such instances, the consumer represents a victim of counterfeiting. This practice has been termed as deceptive counterfeiting (Grossman and Shapiro 1988).

In some cases, especially with prestige goods, consumers buying counterfeit goods are more likely to be willing accomplices rather than victim of deception. The consumers may choose to buy a counterfeit product, knowing at the time of purchase that the product is a fake. This purchase activity has been termed as non-deceptive counterfeiting and is the focus of this study (Grossman and Shapiro 1988).
2.2 Counterfeiting Strategies

Harvey and Ronkainen (1985) have identified four typical counterfeiting strategies. The basic typologies discussed are divided into direct and indirect counterfeiting strategies.

2.2.1 Direct Counterfeiting Strategies

Direct counterfeiting strategies are characterised by explicit involvement in the theft or duplication of the product. The two direct counterfeiting strategies are briefly discussed below (Harvey and Ronkainen, 1985).

The first type of direct counterfeiting scheme involves the foreign firm / individual that wishes to counterfeit products. The counterfeiter (C) illegally acquires a product or in some cases purchases a product to be counterfeited. The counterfeiter obtains the product of the originating company (O) and has the product manufactured in a third country (M). The product is then sold in the counterfeiter's home market. The reason for manufacturing in the third market may be to reduce the probability of detection and / or to decrease legal remedies if the counterfeiter is legally prosecuted for selling counterfeit products. The process is illustrated in Figure 2.1.

The second direct method of counterfeiting is theft by employees of a company – has become commonplace in the computer industry. Although accounts of such thefts are sometimes mentioned in the mass media, most are not reported. Such thefts are not reported because the company is unaware of how counterfeitors have obtained the necessary data to duplicate their products, and secondly, the company does not want the publicity surrounding the theft because they may target themselves for future counterfeitors.

The process is presented in Figure 2.2. The employee confiscates inside information and sells this information to foreign competitors. The foreign competitor then uses the information to manufacture the product to be sold in the originator's home market. Approximately seventy five percent of counterfeit
goods are manufactured outside the United States, while twenty five percent are either made in United States or made elsewhere and labelled in the United States.

**FIGURE 2.1**
DIRECT THEFT: MANUFACTURED IN THIRD COUNTRY, SOLD IN COUNTERFEITER’S MARKET

![Diagram of direct theft](image)

**Key:**
- O = originating country or company
- M = foreign market
- C = counterfeiting organisation
- → = indicates direction of specified activity

Source: Harvey and Ronkainen (1985)

**FIGURE 2.2**
THEFT IN ORIGINATOR’S COMPANY: MANUFACTURED IN COUNTERFEITER’S MARKET, SOLD IN ORIGINATOR’S MARKET

![Diagram of theft in originator's company](image)

Source: Harvey and Ronkainen (1985)
2.2.2 Indirect Counterfeiting Strategies

Indirect counterfeiter strategies typically employ an agent and/or an intermediary to steal product information or specifications to be used by the counterfeiter. The agent becomes an intermediary working on behalf of the foreign firm that wants to manufacture or market the counterfeit products. The two most common strategies are outlined below (Harvey and Ronkainen, 1985).

The counterfeiting firm (C) contracts with an intermediary (A) to obtain the product and/or information necessary to counterfeit the product of the originating company (O). Once the agent has obtained the product or information, the bogus products are manufactured in the counterfeiter’s home market and then sold in other foreign markets (3rd). The use of an agent reduces the potential legal consequence of the theft of the original product or information for the foreign MNC. The process is illustrated in Figure 2.3.

**FIGURE 2.3**

INTERMEDIATE THEFT: MANUFACTURED IN COUNTERFEITER’S MARKET, SOLD IN THIRD MARKETS

Key:
3rd = third market where the product is sold
A = agent/intermediary
Source: Harvey and Ronkainen (1985)

A more complex form of indirect counterfeiting involves the use of an agent (A) and the manufacturing of the counterfeit product in a foreign market (M) other than that of the counterfeiter (Figure 2.4). The counterfeit product is then sold in the counterfeiter’s home market (C), other foreign market (3rd) as
well as the originator’s home market (O). This type of counterfeiting is used by MNCs located in developed economies. Manufacturing the bogus product in less developed countries, the counterfeiter thus takes advantage of lower labour rates and weaker legal manufacturing restraints. At the same time, the counterfeiters are able to shelter themselves from legal inquires from the United States based MNC. For example, more often than not a buyer from outside Taiwan brings a sample of a famous brand to a local manufacturer and asks him to copy it.

FIGURE 2.4
INTERMEDIATE THEFT: MANUFACTURED IN THIRD MARKET, SOLD IN ALL MARKETS

O → A

A → C

C → M

M → 3rd

Source: Harvey and Ronkainen (1985)

2.3 Aberrant Consumer Behaviour

Purchase of counterfeit products is a form of aberrant consumer behaviour. Fullerton and Punj (1993) define aberrant consumer behaviour as “behaviour in exchange settings which violates the generally accepted norms of conduct in such situations and which is therefore held in disrepute by marketers and most consumers.” (p.570). Example of behaviours includes credit misuse and abuse, compulsive buying, purchase of illegal products, illegal market transactions, misuse of the products, fraudulent return of merchandise, fraudulent requests for warranty service, purchase of counterfeit product, violation of licence agreements, gambling and other addictive behaviours. In
order to have a better understanding on consumer behaviour towards counterfeit products, it will be beneficial to review some studies on aberrant consumer behaviour.

Hassey and Smith (1996) try to examine compulsive behaviour, they hypothesised to use consumer’s consumption motives as a method of differentiating compulsive from non-compulsive buyers. Consistent with the hypotheses, it is found that compulsive buyers are more likely to return products, to exhibit greater concern for store return policies, and to report higher return volumes than non-compulsive buyers. In addition, the compulsive buyer is not found to have significantly higher level of non-store purchases (i.e. teleshopping, direct mail).

Babin and Babin (1996) study the relationship between ethics and aberrant behaviour. They investigate the interplay of morals and emotions in shoplifting decision calculus. The results verify the notion that emotions are important in explaining the aberrant consumer act of shoplifting. They suggest that adults’ behavioural intentions to shoplift are affected by their moral beliefs, with attitude toward the act of shoplifting serving as a partial mediator of these effects.

Dodge, Edwards and Fullerton (1996) explore consumers’ ethical beliefs and tolerance toward a variety of aberrant behaviours by consumers. The results indicate that consumers are ethically predisposed as they generally express little tolerance for behavioural transgressions on the part of the customer. However, their research suggests that an individual’s acceptance of unethical behaviour is more situational than attitudinal.

Cole (1989) introduces deterrence theory to research on consumer fraud. Seven fraudulent behaviours are investigated (such as using an expired coupon and eating something without paying for it). The results of her survey indicate that perceptions of formal sanctions, especially the perceived probability of being caught and extralegal variables are related to intentions to engage in fraudulent behaviours.
Albers-Miller (1999) attempts to model the decision to purchase illicit goods by using four predictor measures: product type, buying situation, perceived criminal risk and price. The results show that product type, buying situation and price are all significant predictors of willingness to buy. The interactions of risk with product type and price with product type are also significant predictors for some clusters.

2.4 Supply Side Dimension of Counterfeiting

In the area of counterfeiting, most of attention in the literature relates only to the supply dimension of the counterfeiting problems. It can be grouped into three main categories.

<table>
<thead>
<tr>
<th>Category</th>
<th>Research</th>
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<tbody>
<tr>
<td>a) Factors contributing to</td>
<td>Kaikati and La Garce (1980)</td>
</tr>
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<td>counterfeiting and its effects</td>
<td>Nurton (1996)</td>
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<td></td>
<td>Kotler (1996)</td>
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<td>b) Protection strategies</td>
<td>Gopal and Sanders (1997)</td>
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<td>and regulatory actions</td>
<td>Joseph (1999)</td>
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<td>Rames (1996)</td>
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<td></td>
<td>Retsky (1996)</td>
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<td>c) Positive effects of</td>
<td>Bernhardt and Slive (1998)</td>
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<td>counterfeiting</td>
<td>Mc Donald and Robert (1994)</td>
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<td>Arelleno (1994)</td>
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Some of the factors contributing to counterfeiting as discussed by the researchers are consumer good shortage, status symbols, narrowing technological gap, increased interest in foreign market, low risk factor and so on.

The researchers also suggest that criminal enforcement need to be carried out rigorously, government officials in alliance with industry
representatives must formulate new initiative to protect IP right, the manufacturers of legitimate products may initiate more criminal proceedings against counterfeiters. In addition, they may consider using mainstream press to educate the public about the harm of counterfeiting.

Nevertheless, there are some researchers claim that counterfeiting do bring some positive effect. For example, it encourage economic development, especially for those developing countries, counterfeiting may become one of the attraction to the foreign tourists. It also allows technology transfer and provides alternative pricing or competition. They believe that counterfeiters have found a niche market and try to satisfy the customers need. In addition, it may also be an profit maximising strategy for the software manufacturers to tolerate piracy by home consumers- this will increase the demand for software by business users.

2.5 Demand side Dimension of Counterfeiting

Counterfeiting has flourished due to strong world-wide demand for high profile brand which carries a premium price and is easy to copy. Hence, it is vital for marketers and producers to understand the demand side dimension of counterfeiting.

2.5.1 Motivations to Purchase Counterfeit Products

Mowen and Minor (1998) suggest that people often buy products not for their functional benefits, but rather for their symbolic value. Hence, the products that the consumers purchased can reflect their personalities. Figure 2.5 illustrates the communication of self to others via symbolic products.

In Step 1 the consumer buys a product that communicates his or her self-concept to the audience. In Step 2 the consumer hopes that his or her audience will have the desired perception of the symbolic nature of the product. Finally, in Step 3 the consumer hopes that the audience will perceive him or her as having some of the same symbolic qualities as the product. It is believed that some consumers purchase counterfeit goods because they want to enjoy the status of displaying a prestigious label without paying for a high quality product.
In addition, Lefkoff-Hagius and Manson (1993) argue that if the consumer perceived that the counterfeit product is comparable to the branded original in terms of durability, quality and physical appearance, he or she is more likely to purchase it.

Another possibility for counterfeit purchase is the viewpoint on its legality. Studies have shown that counterfeiting is largely viewed as a victimless crime. Buyers don’t see themselves as victims and denied that they are committing a crime (Newland 1998).

Swinyard, Heikki and Kau (1990) discover that the cultural history of Asia does not generally support the idea of protecting propriety creative work. A survey conducted by them indicated that Singaporeans are more knowledgeable about software piracy copyright law but less supportive of these laws than Americans. However, they are more inclined to make pirated copies of software and more influenced by the benefits of their actions instead of legality of the decision.

Chan, Wong and Leung (1998) investigate consumers’ ethical judgments from a Chinese perspective. The results show that a consumer in different cultures utilises similar rules to assess the ethicality of a given situation.
However, findings also show certain cultural elements that are unique in influencing Chinese consumers’ ethical judgments. For example, it is interesting to note that even though some behaviours are illegal in Hong Kong, the respondents tend to view them as “not wrong”. This may explain why so many consumers in Hong Kong ignore intellectual propriety rights and buy counterfeit products. Similar findings can also be found in the research of Singhapakdi, Rawwas, Marta and Mohd (1999). They compares consumers from Malaysia and the United States in terms of their perceptions of marketing ethic situation, their attitude towards salespeople and business, and their personal moral philosophies. The results reveal that Malaysian consumers are less sensitive to unethical marketing practices compared to United States consumers. In addition, Malaysian consumers also found to have less favourable attitudes towards salespeople and business compared to United States consumers.

Cheng, Sims and Teegen (1997) in their studies underlines reasons why individuals pirate software and motivation of individuals who purchase software as opposed to those who pirate it. The three most important reasons for pirating software includes the price of original software is too expensive, the consumers want to try out the software and the consumers can not afford to buy the software. On the other hand, three most important reasons for purchasing software are the consumers are required to use it for school work or workplace, they need to use the software all the time and they want the its.

Taylor and Shim (1993) conduct a comparative examination towards software piracy among business professors and executives. It is found that executives tend to report less unauthorised copying activities. On the other hand, academicians tend to view unauthorised copying as being less unethical.

Glass and Wood (1996) attempt to use social exchange theory, in particular, equity theory, to predict the influence of situational factors on subjects’ intentions to participate in software piracy. Consistent with the predictions of equity theory, input and outcome situational variables are found to significantly affect a person’s intentions to commit software piracy.
2.5.2 Consumer Accomplices in Product Counterfeiting: Some Empirical Studies

a) Tom, Garibaldi, Zeng and Pilcher (1998)

They attempt to identify consumer demand for counterfeit goods. Their studies consist of three phases. Part One of the study investigates the extent that the prepurchase variables attitude distinguishes between consumers who do not purchase counterfeit goods from those who do. Consumer attitude towards counterfeiting is measured with the use of a 5 point Likert type scale for 13 statements. It is necessary to highlight here that the statements in Section 2 of the present questionnaire are adapted from Part One of their studies. Their hypothesis 1 is: Consumers who have purchased counterfeit products hold attitudes more supportive of counterfeiting than consumers who have not purchased counterfeit products. Participating in the study are 129 consumers, 79 from the malls where consumers would unlikely to encounter counterfeit goods and 50 from the flea markets, where consumers would be more likely to find counterfeit goods. The findings support the hypothesis 1. Approximately 39 percent of the sample stated that they have knowingly purchased counterfeit goods; 61 percent stated that they have never knowingly purchased counterfeit goods. In addition, their studies also discover that consumers surveyed at the flea markets hold more positive attitudes towards counterfeiting than those at the malls.

In Part Two of their studies, consumers are presented with an opportunity to purchase counterfeit products in a simulated shopping experience. The purposes is to assess the proportion of consumers whom, when given opportunity to purchase either a counterfeit or legitimate version of consumer goods, would choose to purchase the counterfeit item. It also intends to identify the consumers product attitudes. The product selected for their studies are CDs, software, t-shirts and purses. Their hypothesis 2 is: Consumers who preferred the counterfeit/legitimate version of the product should have amore positive attitude toward the version than its alternative. The findings show that 32 percent of the consumers selected the counterfeit version and 68 percent opted
for the legitimate version. However, the preference for counterfeit or legitimate versions differed by product category. Consumer attitude for the legitimate product and the counterfeit product indicate that overall, consumers have a more positive attitude towards the legitimate version of the product than towards the counterfeit version. However, consumers who prefer the counterfeit version of the product have a more positive attitude towards the counterfeit version, the consumers who prefer the legitimate version of the product indicate a more positive attitude towards the legitimate version of the product. These results support the hypothesis 2.

The purpose of Part Three of the study is to determine if consumer propensity to purchase counterfeit goods is related to their satisfaction with counterfeit goods. The results show that the intention to purchase counterfeit products is positively related to the satisfaction of the consumers with the counterfeit goods, it also suggests that among consumers who admit to knowingly buying counterfeits, there may exist a loyal subsegment who intend to purchase counterfeit goods in future.

In short, the results of all three parts reveal that a sizable proportion of consumers are accomplices to the purchase of counterfeit goods. It also indicates that consumers who are accomplices to the purchase of fake goods can be distinguished from consumers who are not.

b) Bloch, Bush and Campbell (1993)

They have conducted a field experiment to answer three main research questions:

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 perception of genuine articles?
3) What personal characteristics distinguish between persons selecting a counterfeit and those who are not?
A sample of 100 adult consumers is obtained from each of two locations, i.e.: shopping mall and flea market. The product selected for the study is knit sport shirt. Respondents are required to make a selection out of three choices (well-known designer brand signified by a distinctive logo selling at premium price, counterfeit version selling at lower price and genuine version but without the logo selling at lower price also). The results show that 29 percent of the respondents chose the designer label (DL), 67.5 percent selected the counterfeit shirt (CF) and the remaining (33.5 percent) chose the non-logo shirt (NL).

To provide further information on the observed choice patterns, respondents are asked to evaluate all three shirts on a series of product attributes. Namely, attention getting, attractive, high quality, fashionable, good value, prestigious, comfortable and well made. The author wish to highlight that attributes of 1, 4, 7, 8, 9, 10 and 11 in Section 3 and 4 of the present questionnaire are extracted from their studies. The findings indicate that for those choosing the DL shirt, it is consistently rated highest across the list of product attributes. Only for the attribute "Good value" was significant advantage not observed. For those respondents choosing the counterfeit, the CF shirt is judged superior to the other two on value for money. Among respondents choosing the NL shirt, a mixed pattern of ratings is observed.

The third analysis is to determine which individual traits are useful in predicting a willingness to buy counterfeit goods. Respondents are asked to respond to a series of self-image items. They are outgoing, confident, individualistic, careful, decisive, reserved, successful, high status, like to stand out, anxious, worried, stylish, well off financially and adventuresome. All these items have been replicated by the author in Section 5 of the questionnaire. On the basis of analyses of variance, the three groups significantly differ on several self-image items. Respondents who have selected the DL and NL shirts perceive themselves as being more confident, more successful and having higher status than did those choosing the counterfeit. In addition, those choosing the CF see themselves as being less well off financially than those selecting more expensive DL shirt (there is no difference between the CF and NL groups.
on this factor). Respondents choosing the NL also see themselves as being more careful than those selecting CF shirt or the DL shirt.

c) Chow, Soo and Kim (1995)

They offer conceptualisations of possible non-price determinants of consumers' behavioural intention towards the purchase of counterfeit products. The possible non-price determinants are discussed as psychographic (attitude, brand status, materialism, novelty seeking, and risk taking); product-attribute (appearance, durability, image, perceived fashion content, purpose and quality) and demographic (age, educational attainment and household income) variables. It is important to note that attributes of 2, 3, 5 and 6 in Section 3 and 4 of the present questionnaire are derived from their studies.

The sample consists of 916 college students or working adults. Four different categories of counterfeit product are used in their study: literature (textbooks and reference books), computer software, leather wallets/purses and watches. The findings support the contention that the more unfavourable a person's attitude towards counterfeiting, the lower would be his or her intention to purchase counterfeit products. They also suggest that non-price determinants, particularly those related to perceived product attributes and attitude towards counterfeiting do affect consumers' intention to purchase counterfeit products. The type and magnitude of influence of these, however, differ across products and individual. For example, the product attribute - purpose - found to influence the decision of consumers in purchasing counterfeit software and literature. Product attributes – quality and appearance – have influences in leather wallets/purses and watches purchases. Durability on the other hand seems to have no influence in determining the purchase intention of all the counterfeit products.

d) Cordell, Wongtada and Kieschnick (1996)

They hypothesise that consumer attitude toward lawfulness is negatively related to their willingness to purchase counterfeit products. Mixed support is found in the relationship between product performance expectations and
willingness to purchase counterfeit products. The extrinsic performance expectation cues used in this study are brand, retailer and price. In specific, branding and price conditions found to influence willingness to purchase low, but not high, investment-at-risk products; retailer condition found to influence willingness to purchase high, but not low, investment-at-risk product.