

Authenticity vs fakes in global industry



The concepts from strategic management that we covered in class for the past four weeks are definitely reflected in the real world of business. Several theories and strategies mentioned in class mostly related or can be beneficially applied to the current business environment.

The increase in global trade or globalization made business much more aware of external environment factors; i. e. up-to-date trends and technologies in order to sustain a competitive advantage or to at least survive in the intense competition as addressed in Chapter 2 or two (Dess, Lumpkin, Taylor, 2004). Furthermore, according to Chapter 3 or three, companies need to constantly pay attention to the internal environment; i. e. input such as material, knowledge workers, and intellectual property within the company to capture the relevant information in order to adapt or maintain an effective strategy.

Overall from the article "Fakes!", an ever-rising flood of fakes is coming into the world market. According to Business Week (February 7, 2005), counterfeiting accounts for 5% to 7% of world trade. This is one of the biggest challenges in the era of globalization. Multinational companies and outsourcing companies affected by this counterfeits' problem as well. The article states that businesses outsource some activities such as production to less developed countries, for example China, which has a lower labor cost. Their aim is to export those products to sell in the foreign market.

However, the same production also creates counterfeits and supplies them to both its local markets and the rest of the world. Ultimately, counterfeiters cost the original companies a lot of money. Year by year, the original

companies put maximum effort to research and develop the new products to respond with the consumer's behavior and market trends. However, those original works were imitated aggressively by the counterfeiters. One obvious example, highlighted in the front cover issue, is the case that Honda CG125 was knocked off by the Chinese counterfeiters. They make millions of motorcycles each year which sell for less than half of the real Honda.

The increase in the capabilities and the gain in experience, knowledge and technology from originals made things possible for the counterfeiters. In other words, if the things can be made, they can also be copied easily and quickly. From Porter's five forces analysis, global trade is mainly threatened by the forces. First, "the threat of substitute products" influence in the global market. Globalization arises the competition throughout the world.

Moreover, technology such as the Internet made information easier to access to the rest of the world. Eventually, everyone from everywhere can get the same relevant up-to-date information which allows them to compete in every possible way efficiently and effectively. There is always a demand for the products in the market. That is the starting point that arouses the counterfeiters to find ways to copy those demanded products in order to bring money back into their pockets. Counterfeiters can produce the same appearance of the products which are sometimes difficult to determine which one is real or fake. (See example of Honda motorcycles in cover page) Second, "the threat of new entrants" in the business.

Normally, every industry they have already had the competition themselves among their direct competitors and indirect competitors. Due to the increase in counterfeiting, every business maybe unwittingly was reproduced their products by imitators. It is very difficult to know or investigate those type of actions; for example, Company XYZ has business in some limited market, let's say only United States, they may find out later there are similar products in the international market which is absolutely not their product. It is very hard to forecast the possible new entrants which are definitely from everywhere possibly. Obviously, fakes started from the luxury goods industry, which has been affected by this for years, but recently it's becoming more of a danger to the health and pharmaceutical industry.

It seemed obvious that a number of counterfeit industries have grown rapidly without strong penalties to discourage these actions. According to the resource-based model in Chapter 3 or three from our book or (Dess, Lumpkin, Taylor, 2004)., a company will always have a competitive advantage and an above average return when resources are rare, costly to imitate, non-substitutable, and valuable. In this case, business needs to develop a defense strategy to protect the process of production.

They could make the resources rare by patenting; use the resources that are costly to imitate like the example of “ Budwiser” using imported foil on the bottles which is hard to find in China and costly to ship from other countries to make it appear as the genuine ones. Using price competition, counterfeiters were able to beat the price by lowering the fake product's price to compete with the authentic one by convincing the wholesalers or retailer to unwittingly buy the merchandise. With a lower sales price, they

still earned a high margin due to less costs on poorer quality merchandise and no costs of R&D as mentioned before. Today global economy is very challenging. Basically, in global market, it is driven by the innovation. That's why protecting new innovated products and technologies from the pirates are more important.

As the result of most of the laws and regulation against the counterfeiting don't enforce strong penalties as mention earlier, it seemed impossible to stop the counterfeiting entirely. Nevertheless business should try to develop the strategy to manage, control as much as possible before the phony merchandise reach the market. Government plays the key role to crack down those illegal forgers. The cooperation between governments and businesses from each country should at least help to decrease counterfeiting. They may form some kinds of strategic alliance to enforce the stronger laws, to crack down and to develop trade negotiator between them. World Trade Organization may be able to force the memberships to go along the international rule.

In addition, government in any countries should encourage the businesses to copyright or patent their innovated product to make it easier to police intellectual property violation. In my perspective, counterfeiting maybe classified as “ fast followers”. With the low costs of research and development, marketing, and speedy released to the market, the counterfeiters are able to earn a huge margin in return. The key task of counterfeiters is re-engineering from the genuine innovators which is a very easy way to make money.

Presently, advanced technology software, for example, computer aid manufacturing in three dimensions helps forgers easily learn and duplicate every single piece and part of the merchandise. For the consumer side, I believe that there are two types of consumers deal with faked products. First, consumer who intended to buy the counterfeiting products which the appearance look the same with the acceptable quality, but just less than half price of real McCoy. It is hard to stop their buying behavior. But the publicity may help to educate people by making them realized why it is unacceptable and don't support to buy fakes!. The second type of consumers who buy fakes without knowing that it fakes.

With poorer product quality, shorter life, counterfeits ruined the original because consumers may not buy that brand anymore. Business spent years in research and development both the merchandise and brand reputation, if they don't manage well, might lose it overnight. Losing sales is serious issue, but it's more important to protect brand and image. In case of licensees violate the copyright to produce fake. It is the business duties to strictly manage and control their franchisees, branches, factories overseas according to the agreement and contract.

I myself originally born and live in Thailand for 25 years, I had experienced both buy fake and unwittingly buy the counterfeits. I used to buy Louis Vuitton wallet that is made in Hong Kong which is counterfeits. I decided to buy because of the similar appearance with cheaper price. However, I realized after used for a while that the leather quality is not good if I compare with ones of my friend's who bought at the same place.

Because of no standardized product quality and unimpressed after-sales service, I realized that I won't buy it anymore. Once, my car has to fix at the garage in Thailand. I found out 2-3 months later that the parts that they changed for me are counterfeits which actually made in Taiwan instead of Japan. It didn't last long and I still faced the same problem.

Thailand is also located in South East Asia. I don't wonder why there are a lot of fake stuffs from neighbors. The big problem that I found in Thailand is copyright issues; music, movies, DVD, VCD, MP3. The speed of pirated music is amazing. The forged version is released on the same day as the authentic one.

Seizure of those illegal CDs has increase dramatically. That's because government attempt to sweep out all the counterfeits that made in Thailand. Laws have penalty effect on both sellers and buyers. The strict enforcement seemed to be able to keep phony at the lower level.

Also, the alliance of entertainment business promoted the campaign counterattack the counterfeit goods by setting up the concert which I think it is very effective to arouse the feeling of sympathy. To sum up, business needs to develop strategic defense or tactics to defend the competition from the competitors and also aware the impact of the counterfeits. The cooperation from government and business in both local and international level is the primary concern that business should realize to crack down those fakes. Even it is impossible to 100% investigate and control, business should be able to control as much as they can to avoid running out of profit and business finally.