Consumer behavior towards counterfeit goods in lahore marketing essay

The research conducted in the paper refers to " An Investigation into Consumer Behavior towards Counterfeit Goods in Lahore". The intended purpose of this study was to highlight the major factors that determine the consumer behavior towards the counterfeits of fast-moving consumer goods. The primary data was collected through the unobtrusive observation and 20-Likert type scale survey questionnaire. The responses from 50 participants were gathered and a multiple regression as well as cross tabulations were carried out on SPSS 17. 0. The results depicted that the tentative theoretical framework consisting of six independent variables attained significant relationship with the dependent variable as a model. The unfair pricing of the original brand was the most significant factor that contributes to the increase in the number of counterfeit goods purchased. However, the indifference and lack of knowledge about counterfeits has least impact and the revised theoretical framework would eliminate this particular independent variable. Conclusively, the more exposure consumer had with imitated products, the better the recognition skills they had.

In layperson's terminology, counterfeit goods are the ' fake' or ' copied' items. Connotatively, the perceived level of risk associated with such imitated items is higher than that of the original brands. Also, the superficial quality characteristics of a counterfeit product are considered to be relatively substandard. Nonetheless, their value to the user might vary depending upon the respective demographic, lifestyle, and/or behavioral variables.

From a consumer's perspective, the manufacture and usage of pirated goods might be considered as an ' option' and/or ' variety in quality' of a certain product. However, the circulation of such fake items is detrimental towards

the trademark goods in several aspects. Creation, distribution, and consumption of counterfeit products violate the intellectual property rights of the branded items. Agreement on Trade-related Aspects on Intellectual Property Rights (TRIPs Agreement) solicited a vendetta against piracy whereby the goods must not be identical or similar to a trademark brand in terms of packaging as well as other attributes. In case an infringement of the rights takes place, the offence is considered as a ' white collar crime' that is to be penalized according to the jurisdiction of the particular state.

There has been a persistent effort on the parts of law-enforcing agencies, brands, governments, and other institutions to control and ultimately eradicate the counterfeiting. However, many micro & macro environmental factors hinder a uniform application of the prescribed measures against piracy all over the world. Some of such issues include bureaucratic complications, underground economy, and lack of public awareness, etc.

Historically, much attention has been given to the supply-side determinants of counterfeiting. Prior researches focus upon how and why the perpetrators of imitated goods indulge themselves into such activity. Nonetheless, it is of much significance to evaluate the demand-side factors that have offered an impetus to this sector to continue its operations. The comprehension and elaboration of consumer behavior is predominantly subjective in nature. Even though the process and factors of decision-making differ across every individual, there can still be thematic resonance among the segments which consume counterfeit products.

While consumption frequency and patterns vary across the type of product, the fast-moving consumer goods (FMCGs) demand is relatively uniform. Hence, a closer generalization can be made upon the driving forces behind usage of counterfeits in this category. FMCGs include groceries, food, toiletries, etc. These are relatively perishable products that are frequently purchased for consumption. The profit margin in FMCGs is lesser, even when the economies of scale are established. Thus, certain consumers seek to derive more utility and value from an item by paying lesser price.

Background of Counterfeit Goods

The origin of counterfeit products traces back to the use of false coins as currency. For instance, the Roman Empire had a high incidence of currency replication. The actual currency in circulation consisted of gold and silver coins. The criminal-minded people would use composition of alloys and metals in fake coins and plate the outer layer with gold and/or silver. The severity of counterfeiting penalty can be gauged by the fact that anyone caught manufacturing or using false coins was subjected to death sentence.

Still, the instinct of producing fake versions of different items was passed down to the generations either through nature or nurture. The categorical products being counterfeited extended to apparel, jewelry, antiquities, and FMCGs, etc. This trade flourished worldwide due to apparent lack of conscience, greed for illicit profits, and ineffective policymaking against it. The global North consists of the developed countries which are home to giant multinational companies. Their networks, revenue generation and investment have made them renowned, and intimidating. They have

targeted the esteem and self-actualization levels of Maslow's Need Hierarchy among the segments. Their products and services provide the person with essence of luxury and comfort in one way or another. The wants of the society have been shaped into needs. Hence, there are several instances where a consumer has preferred the esteem satisfaction instead of basic needs.

There have been strata in the society that are unable to attain such lavish items and consequently they feel put out. To cater to such groups, the so-called ' low-scale, cost-effective production of similar products' started. Since the reductions of unit costs were impossible to achieve at a small scale, the counterfeit manufacturers started replicating the big brand products through substandard ingredients and processes.

While many perpetrators purge themselves of the blame by calling it a ' social service to less-privileged' sect in the society, the consumers also considered this as an act to remove the disparity between social classes. For them, the counterfeits were merely cheaper substitutes that they can afford. Since the consumers portrayed a misplaced notion of distributive justice, cannibalization of the actual products' sales was rigorously increasing. The counterfeits damaged the sense of value to original brand consumers. It also ruined the brand image of the companies which put it their financial, technical and human resources to develop a product. Hence, the active campaigning to remove the imitated products started in the Western world. Simultaneously, the consumer behavior towards counterfeit items was also regarded as an essential element of the subsequent elimination of piracy.

Global Significance of the Study

The renowned companies are capitalizing upon their brands. There tangible as well as intangible aspects of a well-established brands that differentiate them in the clutter of marketing tactics. The unscrupulous imitators of the original brands can devastate brand equity and future prospects of a company. In the present world, the consumers are literally being bombarded with the incessant marketing stimuli. Even if a slogan of a company rhymes with another, the consumers can easily confuse the two. Hence, if the products are of the same type and appearance, a consumer can be deceived into purchasing fake versions.

Moreover, some consumers intentionally opt for the imitated products regardless of substandard quality and higher risks. A research into consumer behavior towards counterfeits would highlight the factors that encourage people to buy such items. It will subsequently help a better problem definition of the global piracy problem. This will, in turn, lead to an improved action plan against counterfeits by incentivizing the consumers into choosing the original brands.

National Significance of the Study

In Pakistan, the concept of copyrights and patents were not considered compulsory in business operations initially. It was rated as ' healthy competition' to come up with the cheaper substitutes for an imported good. According to such perspective, the imitated counterparts were considered as progression of domestic manufacturing capabilities. However, the stronghold and operations of MNCs in Pakistan reflected that quality products can be

locally produced, without compromising on its features. Moreover, the global players started championing the elimination of counterfeiting and this concept was introduced in Pakistan too.

Nonetheless, counterfeiting is still widely practiced nationwide. One factor behind this is the smuggling of imitated goods produced in China and also the Afghan trade border, which are extensively sold and used here. Furthermore, the networks of domestic counterfeit producers and sellers are quite strong which makes it difficult to cleanse the society from it.

For all the FMCG companies operating in Pakistan, counterfeiting causes 7 – 20% loss in sales of each company. Taken into an aggregate, such practices incur an annual loss of Rs. 10 billion in Pakistan (Sattar, 2008). The combined resources of private-public sector through FIA, POLICE and Intellectual Property Organization (IPO) Pakistan are trying to effectively handle this problem nationally, but they have not achieved much success in this regard due to the consumer psychology, innumerable small-scale businesses, and lack of practical policies to deal with them.

The consumer behavior of domestic market might vary in comparison to the worldwide patterns being researched. So, a comprehensive study into the determinants of counterfeit demand in third-world country like Pakistan would help in establishing a framework to deal with this issue prevalent in other developing countries like India, Bangladesh, Morocco, Mexico, etc. Furthermore, there could be certain factors that are area-specific and deemed significant in understanding the spread of counterfeiting in Pakistan.

Research Question

The research question of the investigation into consumer behavior towards counterfeiting fast-moving consumer goods in Lahore:

" What are the most important factors leading consumers to purchase counterfeit goods in Lahore?"

CHAPTER 2

LITERATURE REVIEW

Gentry et al. (2006), the primary focus of the counterfeit-related studies has been upon the supply-side determinants. However, the research conducted by Gentry et al. (2006) investigated upon the consumer search and evaluation of the counterfeit goods. The spread of imitated goods is common, but not limited to, the Eastern part of the world. Such frequent encounter fine-tunes their ability to distinguish between the original brands and their cheaper knock-offs. Contrary to this, the Western consumers experience ' brand confusion' owing to the advanced technology involved in the counterfeits' production. For this particular study, the reported data from 102 informants in their respective countries were gathered. The purpose was to empirically evaluate how the consumers from different regions make their evaluations regarding counterfeit goods. Moreover, it was done to attain an insight about the consumer decision-making while selecting, purchasing and consuming the imitated goods. The primary population consisted of the ' international' consumers. So, in-depth interviews of 102 Non-Australian students/residents carried out (in which 20 countries and five continents were covered). Through such data collection procedure, the obtained comments and observations were rigorously analyzed whereby perceptions

and common themes were found out. The results of the research revealed that the consumers consider ' sales outlet' as an important factor. If the location of the store/vendor is attributed to high quality, it reinstates certain credibility. Moreover, the ' price' cues are also important because any product with seemingly cheaper price (for the claimed benefit) would be evaluated as a potential counterfeit. The ' quality' or the ' performance' of a purchased item usually divulges its counterfeit-identity during/after the usage. Overall, the inclination to buy a counterfeit at significantly lower price was mainly due to their wish to buy the ' brand'. Other factors included ' adventure', ' positive value-for-price', ' inexpensive trial', ' change of fashion', and ' novelty'. The people who deter from buying counterfeit products deem them as a loss to original brands and an illegal activity. A major insight from the study contradicts Western notions of Eastern price-conscious behavior. It means that the lowest-possible price sometimes allows Eastern consumers to judge a brand as ' cheap or fake' rather than ' best-value'. (Gentry, Putrevu, & Shultz II, 2006)

Tom et al. (1998) reinforced that the demand-side factors during various consumption stages are important to direct effective anti-counterfeiting strategies. It implied that the consumers of pirated goods are counted as an ' accomplice' of such illegal activity. The fundamental reason behind this research was to identify ' counterfeit-prone consumers' and discover product characteristics that trigger buying behavior. The study was divided into three parts whereby the stages of consumption, vis-à-vis prepurchase, purchase, and postpurchase behaviors, of residents belonging to a large metropolitan city in Northern California were analyzed. In the prepurchase phase, 129

consumers participated to respond regarding three different areas of counterfeiting. The responses to 13 statements with Likert-type scale were collected and the t-test of ' attitudes' was done. It showed that some consumers consider counterfeit purchase due to ' anti-big-business' sentiments. A significant number of participants reported lax attitude towards the lawlessness of counterfeit production and loss to U. S. economy. The purchase part of the study was also conducted in a shopping mall (232 participants) and a flea market (203 participants). Consumers were given a chance to buy either an original or an imitated good. It determined their purchase decision, product attitude and demographic information for cross-tabulation. A ' multiattribute format' model was used to gauge respondent attitudes according to product-attribute importance and product-attribute satisfaction. Majority (68%) of the participants opted for legitimate versions of the goods and had more positive attitudes towards them. ' Brand, function, and durability' were the preferred product attributes. Usually, younger people went for counterfeits while more mature participants with mean age of 38. 5 years preferred original brands with the former being less educated and having lesser income. The last phase of postpurchase dealt with the level of satisfaction and frequency of counterfeit purchases. Chi-squared tests and regression analysis on the consumer survey responses were carried out and the results showed that the consumers who've previously had positive experience with counterfeits would knowingly seek for pirated goods in future. In a nutshell, the results raised ' comfort & concern'. Such paradox exists as majority prefers legitimate goods, but a smaller segment of counterfeit buyers accounts for a colossal volume of purchase. (Tom, Garibaldi, Zeng, & Pilcher, 1998)

Harvey & Walls (2003) denoted that exhaustive studies on ' black markets' [with illegal, counterfeit goods] require the researchers to overcome unsurpassable barriers. In their research regarding such underground economy, they collected high-precision data for empirical analysis by implementing a ' controlled laboratory markets' in Las Vegas and Hong Kong. The purpose of the study was to obtain quantified components regarding counterfeits' demand. The methodology included econometric analyses according to ' individual-specific choice model'. Such statistical evaluation revealed differences in the respective populations of Vegas and Hong Kong. Moreover, it analyzed the demand elasticity with respect to monetary costs and criminal penalties. The findings depicted that people from Hong Kong were more inclined to buy counterfeit goods, as compared to Vegas subjects. However, it also revealed an asymmetry whereby the consumers in both locations would purchase an authentic good if the ' price of the original brand' and ' expected cost of criminal penalty' increase by the same amount. (Harvey & Walls, 2003)

Higgins & Rubin (1986) related the increase in counterfeit goods with the additional functions served by a ' brand name'. Apart from the differentiating factor of quality, brands now depict class, luxury, and connotation of superiority. This evolution makes motives behind a purchase even harder to understand. Moreover, the desirability of acquiring the brand name also increases with it and the people unable to afford the brands resort to unlawful counterfeits. According to the model suggested by this study, the ' replica' purchases were not generally done unknowingly. The model had been derived from the renowned model by Leibenstein. The value of

trademarks was evaluated with respect to the model, and the results revealed that the demand for ' snob goods' depends on price and consumer expectations of units consumed. However, the consumers of these luxury goods can be categorized as high-income and low-income individuals. Both types of consumers required exclusivity from the trusted brand. Nonetheless, in absence of such exclusivity, a lower-income group was more inclined towards the purchase of counterfeit items. It reduced the value of trademarks, so such activity was rendered illegal. Another suggestion by this study was to make the fine or penalty of counterfeiting should equal to the marginal social cost of such businesses. Moreover, a public enforcement in the regime of imitated goods is needs because private measures would incur more costs. Also, the taxation (lump-sum or ad valorem) would not help in reducing counterfeit production and/or consumption. (Higgins & Rubin, 1986)

Marcketti & Shelley (2009) mentioned that the success of Eastern economies, distribution of digital products, reduced costs of innovation and advent of e-commerce have made counterfeits widespread than ever before. The paper was meant to explore the linkage of ' concern with apparel industry issues, ' knowledge about counterfeiting' and ' attitude towards counterfeit apparel goods' with ' consumer willingness towards paying premium for non-counterfeit products'. The research was conducted through surveying 244 undergraduate students majoring in fashion & apparel fields at Midwestern University. The existing literature and the scales referred to Bang et al. (2000). For the data analysis, Cronbach's coefficient alpha, Pearson's correlations, confirmatory factor analysis (CFA), multiple linear regression, and structural equation model were used. The results showed

that the willingness to pay a premium increased with greater knowledge, concern and attitude towards counterfeits. However, as expected, the whole sequential path (from concern, knowledge, attitude, behavioral intention and expected behavior) was not followed. The major suggestions by this study included that the demand-side variables should be controlled to eradicate counterfeiting, since the supply-side factors have not been successfully reduced till now. (Marcketti & Shelley, 2009)

Penz & Strottinger (2008) remarked that the ' free riders' in the market affect the legitimate brand sales by offering their replicas at a discounted price. Since imitated items are successful in deceiving the consumers and/or snatch the sales away from original products, the research intended to evaluate the consumer understanding about ' original' and ' counterfeit' brands. It expressed the similarities and differences between these two concepts and the ability of the users to allocate relative importance to those aspects. Both qualitative and quantitative methods of data collection were utilized. For instance, 127 adults were interviewed in German to identify the components of the concepts. The findings reflected that the word associations regarding ' counterfeit brands' were quite diverse. It implies that people have less experience with such products because frequent exposure generates homogenous associations commonly. The original products evoked positive emotions and responses where the attributes of luxury, exclusivity, and aesthetics were significant. An important insight gained from the study was that the environmental settings (home country especially) is a major contributor in determining consumer association with the pirated and legitimate goods. (Penz & Strottinger, 2008)

Franses & Lede (2010) focused upon the developing countries with regard to counterfeiting. The purpose of the study was to compare diffusion of original versus counterfeit goods in a developing economy. A South American country called Suriname was taken as parameter of the research. Unlike other studies that focus upon opinions, the authors based their research upon credible facts. The imports data of three categories of products [televisions, mobile phones and DVDs] were collected and analyzed. The model of the study was similar to that suggested by Bass (1987) for the diffusion sequences of products. The findings highlighted that the rate of diffusion of legitimate goods and counterfeit items are the same. Usually, the counterfeit goods are introduced later in the market and they serve as the substitute for the original counterpart. However, the counterfeit items never completely override the original brands as the sales of both types of goods are equal. (Franses & Lede, 2010)

Gordon (2003) termed its evolution as ' premier criminal enterprise'. He mentioned few crucial determinants like less setup costs, lower economic risk, fewer barriers to entry, etc. as being the main lures for the perpetrators of counterfeits. Contrary to this, the owners of an original brand and the users of knock-off products are at a significantly higher risk. The author expressed that the mitigation of this widespread problem can only be achieved through coordinated efforts of every stakeholder. Moreover, the author explained the progress of counterfeit business from replication of currency and legal documents to all sorts of businesses. Now, every form of product is susceptible to imitation. However, to counteract this phenomenon, several civil and criminal legislations have been developed. In addition to

such legal tools, the participation from consumer end is a compelling need for eliminating piracy and imitations. It's essential because the scope of counterfeit business has increased the extent of potential hazards attributed to cheap knock-offs. Only combined efforts at multiple social, legal, and ethical levels can contain and eventually remove counterfeiting. (Gordon, 2003)

Vida (2007) conducted a study on Slovenia – a small EU state regarding non-deceptive counterfeit goods. Contrary to the technologically expert status of EU region, the recognition and eradication of imitated goods are not completely possible. This industry of illicit brand replicas is flourishing regardless of legal pressure and law enforcement measures. The focus of the study was to evaluate the demand-side determinants of counterfeiting by analyzing the perceptions of consumers. A convenience sample of 223 consumers from a transitional economy like Slovenia was taken because prior studies on such phase of economy are scarce. Likert scale questions in a survey to measure socio-psychological factors and willingness were administered. Factor analysis, alpha estimates, and path analysis for structural relationships were carried out to examine the determinants of counterfeit purchase. The important findings of the research revealed that the willingness and idiosyncrasy related to pirated goods were inconsistent across different product categories. Hence, the consumer behavior towards illegitimate products was rated to be product-specific. (Vida, 2007)

Mohammad and Wang Jing (2005) related the advent of Chinese piracy due to implemented policies as an open economy. The progress of China rated to be controversial. It is usually attributed with the widespread Chinese

counterfeits for myriad brands. It expressed that the technology transfer from foreign countries has resulted in an antagonistic consequence in the form of counterfeits. Taking specific example of a Chinese city, the research was conducted to find out the socio-demographic factors that play pivotal role in buying behavior w. r. t. counterfeit goods. A survey was carried out with 301 respondents, and the collected results were analyzed through descriptive statistics, spearman correlation and logit analysis. The results showed that many socio-demographic attributes had significant relationship with an intention to buy counterfeit goods. The consumers deceived into buying an imitated good were usually older in age. However, the younger segment opting for non-deceptive counterfeit goods was mostly less educated. It implied that they were unaware and careless regarding the consequences related to counterfeit products. According to the study, effective law enforcement techniques and motivational efforts to deter consumers from purchasing pirated goods were ranked as best-possible solutions to end counterfeiting. (Mohammad & Wang Jing, 2005)

CHAPTER 3
METHODOLOGY

Research Type

The research entails the evaluation of the drivers involved in the consumer behavior towards the purchase of counterfeit goods. The type of the research would be quantitative majorly.

Data Type and Research Period

After the literature review of the existing work regarding demand-side of counterfeits is done, the primary data would be obtained through various sources like field observation, and survey questionnaire. The primary data collection would offer more precise picture of the current situation with regard to consumer purchase behavior for counterfeits.

Sources of Data

A background study on the topic from the reliable sources of marketing literature like Journal of Marketing, Journal of Consumer Behavior and other journal articles/research papers available through EbscoHost, Jstor, ScienceDirect, and Wiley Online Library. For primary data collection, the survey questionnaire consisting of 20 Likert-type questions would be circulated in the selected sample. Also, visits and observations from the disclosed counterfeit manufacture and distribution facilities would be carried out to gauge the apparent buying behavior through unobtrusive means.

Theoretical Framework

After preliminary research through secondary data sources like existing literature, official records, videos, etc., informal unstructured interviews and observations, a conceptual model or theoretical framework for the study is developed. The variables have also been identified for this purpose and operationally defined for the research.

Dependent Variable

The dependent variable identified is Number of Counterfeit Goods Purchased.

Operationally defining this variable, it will include the number of counterfeit and/or imitated goods purchased from 2005 till present. The specified time period would add parameters as the availability of pirated goods has varied over time. Moreover, the participants of the research would be able to recall relatively recent purchases more easily. The nature of counterfeits may be deceptive or non-deceptive. This implies that the buyer might have planned the willing purchase of a counterfeit product or its identity might be revealed during the post-purchase stage. A thematic estimate from the respondents of the survey would be obtained.

Independent Variables

Unfair Pricing of Original Brands: It's the consumer perception of branded goods that they are priced at very high profit margins. Such strategy sometimes excludes/filters the consumers according to their purchasing power. According to certain consumers, the principle of distributive justice i. e. equitable distribution should be followed. It will be measured through survey questions by asking them to rate the level of ' unfairness' of the branded goods on a scale.

Speed of Trend Change: It's the expected frequency by which newer versions of a product are introduced. Operationally, it will be regarded as ' change of fashion & versions' according to the consumer expectations. By application, the sooner the new/updated version is introduced, the sooner an existing product becomes obsolete. Therefore, the perceived risk with the purchase increases for the consumer.

Price-Value of Counterfeits: By operational definition, it's the tendency of consumers to believe that the counterfeit goods offer more functionality/performance at a lower price; hence, creates more utility or value for the consumer. The research participants will be asked for their personal estimates of ' how many times more/less is the price-value of counterfeits' as compared to their original counterparts for fast-moving consumer goods.

Status-Conscious Actions: According to the operational explanation, it's the inclination of people to be social-image conscious, whereby they purchase counterfeit goods to associate themselves with certain groups. Their motive might be to improve or retain their existing social status. The variable needs to be analyzed through regression results of a survey question.

Indifference or Lack of Knowledge about Losses: Operationally, it's the level of awareness about the losses the legitimate brands incur due to the imitated goods. If the level of knowledge regarding revenue and other losses are high, and the subsequent number of counterfeits purchased is also high, the consumer attitude would be ranked as ' indifferent'. A survey question would be evaluated for this purpose.

Inability to Differentiate b/w Original and Fake: It is the tendency of a consumer to be unsuccessful in discovering the nature of the product (original or fake) during the purchase process. Usually, this holds true in case of deceptive counterfeits that are presented as ' cheaper original' versions.

Intervening Variables

Affordability: Operational definition of affordability in this case would be the ability of consumers to buy increased volume or number of products belonging to the same or other categories. Since it includes perception on the part of consumers, mere financial estimates would not suffice.

Anti-Brand Attitude: Operationally, it is the transitive or permanent state in which the consumer willingly opts for a counterfeit product even when he/she can go for the branded items.

Moderating Variable

Deception of Seller: In this case, it's considered to be the tendency of a shopkeeper (wholesaler or retailer) to hide the true identity of a counterfeit product and promote it as its original version. The survey would be used to find out the involvement of sellers in such counterfeit sales outlets.

Relationship between Variables

The relationship between the independent, intervening, moderating and dependent variables is represented in the attached schematic diagram or theoretical framework below. Through the available literature and research on the demand-side concerns of the counterfeiting, it is discovered that the unfair pricing of the original brands and the speed of trend change results in an anti-brand attitude. During this phase, the consumer prefers to purchase the counterfeit good intentionally to undermine the authority of the brand. Another reason of the anti-brand attitude could be the ' disposable lifestyle' consumers are experiencing nowadays where the substitutes and newer versions come up quickly that reduces the derived utility of the original

brands (and renders it less functional or obsolete). So, the people prefer such

imitated products due to shorter life cycles of a version. All variables h