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The Counterfeit Market and the Luxury Goods

Amélia Maria Pinto da Cunha Brandão and Mahesh Gadekar

Abstract

Product counterfeiting is a form of consumer fraud: a product is sold, purporting to be something that it is not. Counterfeit is illegally made products that resemble the genuine goods but are typically of lower quality in terms of performance, reliability or durability. There is a need to learn as much as possible about the counterfeit market and the luxury good’s market, as well as learning about the customers of both of these markets. A large number of counterfeits are purchased online as the customer relies only in the information provided by the seller that is easy to manipulate. The Internet makes it possible for counterfeiters to sell fake goods without prior consumer inspection. Thus, if the presentation of the product online is elaborated and advanced, it would influence the user’s perceptions of the authenticity of products in a positive way, which leads to an increase in the user’s willingness to buy online. The chapter focuses on the counterfeit market, its influence on luxury consumption and consumers’ drivers for the counterfeit. The chapter also discusses innovative ways how authenticity of luxury goods can be verified.

Keywords: counterfeit, counterfeit market, luxury goods, fashion goods, anti-counterfeit technology

1. Introduction

The luxury good’s market has grown from a value of US$ 20 billion in 1985 [1] to its current value estimated by Bain and Company (2012) of over US$ 260 billion, and the expectation regarding the growth of this market is of about 2 up to 4% annually for the next 2 years [1]. For instance, the high-end luxury good’s market came up to US$ 236 billion in 2009 [2]. While the market for luxury goods has grown steadily through the last 20 years representing a significant percentage of trades worldwide, studies have expressed concern about the existence of counterfeit, and generation of loss from counterfeit products amounts to US$ 12 billion per year [3].

Lai and Zaichkowsky [4] define counterfeits as illegally made products that resemble the genuine goods but are typically of lower quality in terms of performance, reliability or durability [5]. Counterfeit goods decrease companies’ profits because what these manufacturers’ sell is what the brands will not sell, which means that there is a direct steal of revenues from brands. This industry suffers with counterfeits resulting in seizures of large number of counterfeit goods. Thus, the increase in demand of luxury goods is the driver of the demand for counterfeits [6].

The need for individualism and uniqueness is one of important characteristics of counterfeit consumers. Studies have stated that people feel the need for
individualism and uniqueness [2, 7], and this necessity can be expressed by means of personal brand preference and buying decisions [8]. Since the idea that money acquires status, which can be seen through the goods people own, people started to acquire products not only for ‘what they can do, but also for what they mean’ [9] (p. 118). In addition, there is also meaning attached to goods, especially to luxury goods as with the ownership comes a sense of exclusivity. Thus, buying counterfeit goods translates into reality as a loss of exclusivity for the customers of genuine luxury brands [10].

Therefore, this chapter focuses on the counterfeit market, its influence on luxury consumption and consumers’ drivers for the counterfeit. Furthermore, the chapter discusses the innovative ways adopted by a Portuguese firm to control the growth of counterfeit market. In particular, start-ups are advised to plan, develop and implement a strategy for launching an anti-counterfeit technology product. However, reaching the customers with anti-counterfeit technology products is not easy and requires focus across the industry. Knowledge of the study helps to understand to control the growth of counterfeit market and loss of sales and image to the fashion firms.

2. Literature review

2.1 Counterfeits and counterfeit market

‘Product counterfeiting is a form of consumer fraud: a product is sold, purporting to be something that it is not’ [11] (p. 173). However there is also another concept that needs to be brought to light in order to provide further understanding on the subject, which is deception. According to [12], deception is a form of manipulating information with the purpose of influencing the behaviour of a customer of potential customer, by misrepresenting a product. [13]. Ekman [14] stated that there are two major deception strategies, which are concealment, where the deceiver hides relevant information without saying anything false, and falsifying, where the deceiver adds untrue information as if it were true in order to manipulate the customer [13]. In both cases, deception is intentional.

While defining the counterfeit market, [15] believes there are two types of markets for counterfeits, deceptive markets, where the customers are imperfectly informed or are not familiarised with the product, which makes them unable to distinguish between genuine and fake products and leads to the purchase of fake goods by accident [7], and nondeceptive, where the customer can easily differentiate fake from authentic, which cannibalises the purchase of genuine products; this sort of market applies more to the luxury goods industry, since consumers are fully aware they are purchasing a counterfeit when it comes to the date of acquisition; here buyers are accomplices rather than victims [13].

OECD [16] came to the estimate that 5–9% of the global trade volume is counterfeit production, which translates to a basis of a yearly volume of US$ 9 billion; this means that the counterfeit industry accounts for a loss between US$ 450 and US$ 810 million [7]. World Custom Organisation [17] computed that the global market for counterfeits is to exceed US$ 600 billion, accounting for approximately 7% of world trade [3]. The estimate from [18] states that the loss from counterfeiting luxury goods or brands amounts to US$ 12 billion per year [3], which means that sales of counterfeit items have caused billions of dollars in lost sales for legitimate luxury good producers [19]. A different source found was the International Chamber of Commerce, which cites a similar estimate where counterfeits account for 5% all the way up to 7% of worldwide trade, which are worth US$ 600 billion yearly [11].
The counterfeit industry operates in a ‘grey market’; this means that solid numbers are hard to estimate and to come by, hence all of the different yet similar numbers stated above; there is a gap in the academia when it comes to recent and updated statistics for the counterfeit market [11].

All of the estimates mentioned above, namely, that counterfeits account for 5–9% of world trades, have remained static for a few years now, and the assessed percentage does not seem to be based upon empirical findings [11]. Keeping this problem in mind, back in 2016 [16], the Organisation for Economic Cooperation and Development reassessed the issue and projected a value that seems more reasonable and accurate for the volume of counterfeits traded globally, which was based on solid evidence; this value came down to 2% [20], which is significantly lower than the previously estimated value. Another one of the most recent statistics belongs to Interpol (2009), where the value released confirms that counterfeits account for 2% of worldwide trades [10], which goes along the lines of the value released by the [16].

Havocscope [21] confirms that the current value of the counterfeit good’s market is about US$ 12 billion. Information extracted from [21] provides us with knowledge regarding the amount of US$ lost by sector per year. As can be seen in Table 1.1, in the Appendix, show companies and clothing manufacturers lose up to US$ 12 billion yearly due to illegal counterfeit activity, while the cosmetic sector loses up to US$ 3 billion per year [21].

With the presented information, it can be seen that there is a real loss in the luxury goods market due to the emergence of this ‘grey market’ of counterfeits. What this means is that luxury brands face a serious problem: counterfeiting. The luxury goods market has grown from a value of US$ 20 billion in 1985 [1] to its current value estimated by Bain and Company (2012) of over US$ 260 billion, and the expectation regarding the growth of this market is of about 2 up to 4% annually for the next 2 years [1]. Although the technical term ‘luxury good’ is independent of the goods’ quality, customers consider these kinds of products to be of the highest quality available in the market, since that is how these types of brands position themselves; they make the extra effort to associate elevated prices with high-quality standards [22].

The global luxury goods industry, which includes drinks, fashion, cosmetics, fragrances, watches, jewellery, luggage and handbags, has been on an upward climb for many years [23], the luxury goods market is significant, not only in terms of its market value, but also in terms of its growth rate [1, 24]. Luxury goods manufacturers meet consumer demand by focusing on brand, aesthetics, quality materials, superior craftsmanship and pricing to transform everyday objects into status symbols. The industry rises and falls with the gross domestic product (GDP), seeing demand climb in times of economic stability and plummeting in unfavourable economic climates [23]. The United States has long been the largest regional market for luxury goods and is estimated to continue to be the leading personal luxury goods market in 2013, with a value of 62.5 billion euros [23].

2.2 Acquiring counterfeit Good’s online

One third of counterfeit sales of luxury goods are made online [2, 3]. Also, and according to [25], consumers of counterfeit goods acquire them mostly through the Internet, especially when they are well aware they are buying a fake good, since it is easier for them to analyze all the information provided, as well as compare the fake products with the genuine articles.

According to [26], a massive 87% of counterfeits are acquired online; the sources this website uses are based on empirical evidence, such as news and feedback from
online platforms (eBay, AliExpress, Amazon and Facebook). eBay is currently dealing with the highest percentage of counterfeit complaints; however, and according to [26], it is the only one of these platforms doing something to prevent and protect their customers against the counterfeit problem, unlike Amazon, who warns customers to buy at ‘their own risk’. The Internet makes it possible for counterfeiters to sell fake goods without prior consumer inspection [13]. [27] estimates that US$135 billion were sold online in counterfeit alone, back in 2008 [13].

When buying online, the customer relies only in the information provided by the seller—text, pictures or videos—which is easy to manipulate [13]. A study elaborated by [13] showed that if the presentation of the product online is elaborated and advanced, it would influence the user’s perceptions of the authenticity of products in a positive way, which leads to an increase in the user’s willingness to buy online.

The Internet has made the practice of selling counterfeit goods much easier, since it decreases costs and increases information asymmetry between parties, making it more difficult to prosecute online deceivers [12, 13].

2.3 Drivers of the counterfeit market

There is a need to analyse what guides this parallel market, what is the appeal behind living of an illegal activity. According to the literature, the two main forces driving this market are, firstly, the high margins obtained by counterfeit manufacturers and, secondly, the demand for name-brand goods and lower prices [3].

World Custom Organisation [17] states that the key driver for this market is the exponential growth of China and the intensification of their exports [11]. Naturally not all counterfeited products come from China; however, an astonishing 2/3 of the total counterfeit shipments detected by authorities actually departed from China; this percentage accounts for about 241 million pieces seized globally [11]. US Customs and Border Protection [28] states that top commodities preferred by counterfeiters include footwear, apparel, watches, pharmaceuticals and electronics [13], which confirms that there is a real issue to be studied.

For consumers, luxury has to be seen by everyone; customers acquire an expensive item or a counterfeit item for their own self-esteem and for others to see as well, in order to attain or increase their social status [13]. The interest in purchasing a high-end product decreases if potential customers consider the set of products to be held by the masses [29], because the decision to buy branded products is based upon social benefits, such as the prestige of holding a good of this nature [29–32]; holding a luxury good represents a symbol of success for the customer [32], and any fashion brand needs to maintain its exclusivity in order to attract customers, since if a brand wants to price the products at designer prices, then it means that it cannot be held by too many consumers [29].

Authors have presented a theory concerning two types of social groups, the elites and the masses; the elites seek to distinguish themselves from the masses, hence their high-end purchases, while the masses have a need to emulate the choices of the elites [29]. The primary value of luxury brands is psychological and that their consumption is dependent on a distinctive mix of social and individual cues [1]. Han et al. [33] states that people do not desire counterfeit goods; they desire the real product; however, sometimes customers whom aspire to own luxury products are unable to afford to pay for the genuine product and can use counterfeits as a poor substitute [19], which means that consumers’ desire for counterfeit luxury goods always derives from their preference for genuine luxury brands, and counterfeits provide the user with social status at a low price, but also at a low quality [10], which, besides hindering innovation, employment and trade [34], does not really hurt the final customer in any way, hence their continuous purchases.
In 1993, [15] conducted a study that led to the conclusion that people attach more importance to the image that a brand conveys than to the acute lack of quality and functionality of a copy [7]. As expected, people pay more attention to what holding a certain luxury brand really means to others, more so than to the actual quality of the product; they pay more attention to the external rather than the internal attributes of the product; specifically, this factor leads Asian consumers to have a stronger appetite for luxury goods [19]. Consumers buy the fake goods due to the brand status they get from it, counterfeit status goods often offer similar qualities as the original merchandise and the consumer of these goods is not at any risk of bodily harm; however, consumers of these goods subject themselves to social risk, since these goods are of high symbolic value and social visibility [35]. Bloch et al. [15] states that the true driver for the demand for counterfeits is the demand for luxury goods; as stated above, consumers of fake luxury goods are willing accomplices rather than victims of deception [10], in which counterfeit luxury goods stimulate consumer demand for brand-name items, to some extent [19].

Some counterfeit buyers believe they are receiving comparable goods at lower prices; they see nothing wrong with the action and perceive designer prices as unfair [36], instead of thinking about what really goes with designing and assembling a luxury product [10]. Prestige, brand image and fashion are important to purchasers of premium brands; however, buyers of counterfeits value the same, but try to gain the image benefits at a bargain price [37]. Marketers keep focusing on the quality/price ratio: consumers often find they can get sufficient quality for the price they are paying [10]. The transaction of a counterfeit product may seem advantageous to the seller and to the consumer at the time, but it harms the brand being duplicated, since there is a direct steal of revenues.

According to a study performed by [38], the consumer values ethical standards, and when they feel that a company is not living up to those standards, they will sacrifice themselves to punish the company, which could translate into going out and acquiring counterfeits. The opposite can also happen; customers may sacrifice themselves to defend a company with high moral standards [10, 38]. The study concluded that if the price of the original good is much higher than the price of the counterfeit good, the quality is sufficient, and the customer feels no need to support the manufacturer of the original product; then it is more likely that the customer will acquire the counterfeit, since price remains one of the most important indicators in the market of a product's value [39]. which means that consumers that knowingly acquire a counterfeit good are willing to trade up quality and performance for the fake image purchased at a discount price [37].

According to the literature, there are three main reasons that lead people to acquire counterfeits. Firstly, the price of the counterfeit is much lower than the original; secondly, the quality of the fake is comparable to that of the original; and lastly, customers do not see any reason to support the company that manufactures the original good, which relates to the social responsibility of the company [10]. Poddar et al. [10] conducted a study which provided us with two relevant conclusions for this report, namely, if price differentials are higher and quality differentials are lower, then purchase intentions increase, and, second and extremely relevant in the sense that it confirms what has been said previously, customers are more prone to acquiring counterfeits if they feel that other people will not be able to tell the difference [10].

As seen before, counterfeiters are dealing mainly online, and they provide the customer with professional-looking websites, low prices, faster delivery times and a wider range of delivery, and this poses a real threat to luxury houses [35]. Cordell et al. [40] understand that potential deception occurs in commercial transactions
due to information asymmetry and opportunistic behaviour [13], and this is easier to occur online, where everything can be manipulated, in terms of information provided by the seller, as well as visual aids. Research by [41] confirms that advanced presentation online affects buyers in a positive way; it leads to the decrease of apparent risk, creates a better mood for customers and provides a more entertaining experience for them [13].

One of the more relevant factors for consumers that purchase counterfeits online is price; usually these consumers use the Internet as a tool for gathering information and even as a means to compare the fake with the original product [8, 35]. Another factor that is valued by customers is safety; when counterfeiters produce goods, they have no regard for the customer's personal safety [37]; however, this does not impact the luxury-counterfeited goods, since most of them are products to wear, instead of medical drugs, for example, where the danger of buying altered goods is more clear to the end-customer [11].

Counterfeit items have some symbolic value for the customers who buy them with the desire of enhancing their social status [1, 19]. According to [18], the desire of consumers for counterfeit luxury goods depends on the extent to which such brands fulfil the social motivation guiding the luxury brand preferences of those consumers [19]. Thus, consumers with strong face consciousness preferred counterfeit luxury goods that can be used in public to those that can be used in private situations, which supports findings by other authors stating that situational effects are important in considered analysis of nondeceptive counterfeit luxury products [42].

2.4 Innovative way to fight off counterfeits

MobilityNow is a start-up company that has its sole focus on mobile solutions. While there are more than 1.2 billion users who already access the Internet through mobile devices and almost half of them use their mobile in the electronic shopping process, MobilityNow is playing a huge role by adapting the technologies. Mobile device is of growing importance nowadays, since more than 15% of all the Internet traffic comes from mobile devices, which means there is a need for companies to adapt their technologies, and that is where MobilityNow plays a huge role.

The MobilityNow was founded in 2012 under design to develop solutions for the mobile world to help people and businesses to create and manage, with security, a strong digital presence. The company believes the online world has been made to be permanently connected to the offline world through mobile platforms and advocates building an ecosystem where people, machines, sites and cities are securely linked and identified.

Although the Internet assists in counterfeiting spread faster and easier, there are several software that can prevent counterfeiting. BULLA is a simple and innovative solution to fight off counterfeits. It consists of integrating a secure near-field communication (NFC) chip in the target product as well as associating this chip with the company authentication server, BULLA-id. It is also described as a short-range wireless communication between electronic devices. The system through android mobile app and product management platform can immediately verify the authentication of the brand. The NFC can be embedded into the products and contain electronically stored information that can be read by mobile devices. One of the benefits that the NFC provides is that they are quicker to read; hence, it is less time consuming and less laborious. It can be read by a smart phone through mobile apps. NFC is the powerful tool that makes use of the latest authentication technologies. It results in providing producers and consumers access to a new world of possibilities.
that bring them closer and solidify their bond of trust. Thus, BULLA can be integrated into several categories of products.

In fashion industry, BULLA can be integrated to reduce the risk of counterfeiting and protecting the brand—its processes, products and innovations—from fakes and simultaneously reduces companies’ losses. For example, brands by placing the BULLA seal on the bottle will help in identifying counterfeit. The users of BULLA are benefitted in three ways—first, BULLA provides the end-user with authenticity validation. Because it works as a direct way for the customer to interact with the brand, it provides an open line of communication with the brand. Lastly, it is easy and simple for the consumer to use and has a user-friendly interface. For example, a user can scan the BULLA tag placed on the brand through downloaded mobile application.

2.5 Strategic phase of reaching consumers

Considering the presence of competitors for anti-counterfeiting technology solutions products, MobilityNow identified the strength and weaknesses of BULLA to provide value that consumers can relate with their problems of counterfeit products. BULLA has two main strong points worth mentioning, such as its simplicity of usage and it being very easy for the final user to understand and utilise; and, the connections MobilityNow have within the wine sector may come to be a strength towards developing partnerships. The company also identified the role of the content marketing.

Content marketing is a special kind of marketing that has recently emerged due to the evolution of technology and the impact this evolution has had over social media. It is a technique that involves the creation and sharing of media and publishing content in order to acquire and retain customers [43]. Content marketing can be thought of as a way of providing relevant information to customers or potential customers, and the set of information has the aim and the power of maintaining or even changing behaviours [44]. A video was prepared to engage with the consumers and help new consumers to stay connected on the website focusing on the intended benefits of BULLA. The BULLA website was clutter free and concise. The website is easy to navigate and gets in touch with us easily in case potential customers are interested, and most important of all, it is simple to understand what BULLA is all about, how it can be used and where it can be applied.
3. Conclusion

When it comes to the luxury goods market, only a fraction of the market acquires these legitimate products, the ones that can afford these goods. The other ones, those who cannot afford it, go for the option of buying a fake, since some of them have the need for these sorts of items but not the availability to acquire them. Most of them do not even see it as harmful towards the brands, since they are established and money does not appear to be a problem. The counterfeit market, according to the sources found, has been growing steadily through the years; since manufacturers from China keep emerging and the sanction they pay if they get caught is not heavy enough to make them stop producing counterfeit goods, the profit they make is worth the risk. The chapter suggests the relevance and importance of alternative technology for tags and labels especially through the NFC technology to prevent counterfeit. The chapter relates with the anti-counterfeit software of BULLA to prevent counterfeit. BULLA could have a fighting chance, with this growth brands would want to take action when it comes to protecting their assets.

BULLA would probably work better on an international level, since in Portugal, manufacturers are not willing to spend extra funds to better or to protect their business; however, they do not suffer as greatly from this malady as bigger companies do. Bigger companies are willing to fund something as long as it has some appeal and some potential to increase their business. This means that the efforts regarding BULLA should be made in the direction of partnering up with bigger and solid companies; if not, the focus should at least be in selling our product to other technological companies and receiving a percentage of their profits; in this second option, the efforts on our part would be minimised.

MobilityNow is now an accredited entity under Portugal 2020. Its expertise and competency has been recognised in provision of mobility consultancy services. In addition, the company has been marketing at present the near-field communications and its multiple uses for the premium brand. Over the years, the strategies of reaching consumer through their anti-counterfeit products have been successful.

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