Collateral Damage Effects of Non-Deceptive Counterfeits on Legitimate Brands

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What would people buy if counterfeits of luxury brands were not available? Results of our experiment suggest a “collateral damage effect”: the majority of sales of counterfeit goods come at the expense of legitimate brands in the same or even lower price range as the fakes.

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Previous research, however, offers mixed conclusions regarding the influence of counterfeits on the demand for genuine brands. Wilcox, Kim and Sen (2009) demonstrate that in many cases the presence of the counterfeit reduces consumers’ desire to purchase genuine luxury brands. Commuri (2009) finds that while counterfeits can make consumers of genuine products abandon luxury brands, they may also lead them to view themselves as champions of the brand. Nia and Zaichkowsky (2000) argue that in certain contexts counterfeits can enhance demand for the real brands. Thus, while it is apparent that counterfeits can influence consumers’ desire for genuine brands, it is unclear whether counterfeits have a positive or negative effect on genuine brand preference.

This current research demonstrates that the availability of counterfeit brands can decrease or increase desire for genuine luxury brands. We propose that the influence of counterfeit brands on consumers’ preference for genuine luxury brands depends on consumers’ processing mindset. Processing at a local, concrete level leads consumers to identify dissimilarities (Förster, Liberman, and Kuschel 2008) between the products and contrast the genuine brand with the counterfeit version. As a result, the presence of a counterfeit version increases desire for the genuine version. Processing at a global, abstract level leads consumers to identify similarities between the products and assimilate the genuine brand with the counterfeit version. As a result, the presence of the counterfeit reduces desire for the genuine version. We show that the assimilation process that reduces desire for genuine brands can be interrupted by consumers’ goals. When consumers have active self-expression goals (i.e., purchase brands to express their values), which are inconsistent with counterfeit consumption, the counterfeit increases consumers’ desire for the genuine version even when they process at an abstract level.

This conceptualization is investigated in three studies. In the first study, we manipulated processing style by having participants write about all of the things they consider when they think of why (abstract mindset) versus how (concrete mindset) they intend to improve their health. Then, as part of an unrelated study, they were asked to indicate their likelihood of purchasing a genuine Louis Vuitton watch when a counterfeit version was or was not available.

As expected, participants who adopted a concrete mindset were more likely to purchase the genuine watch when a counterfeit version was available compared to when one was not available. Participants who adopted an abstract mindset were less likely to purchase the genuine watch when a counterfeit version was available.

The second study replicates the results of the first study using temporal construal (immediate versus distant future) to manipulate processing style. We show that when the purchase is being made in the immediate future (concrete mindset) the counterfeit increases consumers’ desire for the genuine version; when the purchase is being made in the distant future (abstract mindset), the counterfeit decreases consumers’ desire for the genuine version.

Additionally, we demonstrate that priming a self-expression goal, by having participants evaluate an advertisement for an unrelated product promoting self-expression, interrupts the assimilation process when people process at an abstract level. Specially, we show that a self-expression goal increases consumers’ desire for a genuine brand when a counterfeit is available, even under an abstract mindset.

The third study demonstrates that the effects observed in previous studies are due to assimilation and contrast. Specifically, we show that perceptions regarding the similarity between the genuine and the counterfeit brand mediate the influence of the counterfeit on consumers’ preference for the genuine brand. Additionally, we measured the strength of self-expression goal activation in this study to demonstrate that the results in the second study were due to an active self-expression goal and not a reaction to a primed concept.

These findings suggest that goals can override processing style and have a positive effect on genuine brand preference. Thus, managers may want to consider appealing to self-expression motives through their marketing communications because doing so may increase sales, particularly in markets where counterfeits are available.

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EXTENDED ABSTRACT

“Non-deceptive” counterfeits are products known to be counterfeit by the end users who purchase them (Grossman and Shapiro 1988; Eisend and Schuchert-Güler 2006; Gistri et al. 2009). There is much debate around the effects of non-deceptive counterfeits on the original brands they copy. One common area of dispute is the extent to which non-deceptive counterfeit goods serve as direct substitute purchases for authentic luxury brands (Eisend and Schuchert-Güler 2006, Nia and Zaichkowsky 2000, Tee, Tan and Cheok 1995). For example, had counterfeit Gucci handbags not been available, how many consumers would have purchased an authentic Gucci handbag in their stead? (Nia and Zaichkowsky 2000, Silverstein and Fiske 2003, Van Kempen 2003)

The debate is often framed so that a direct substitution effect indicates that counterfeits are a problem; whereas the lack of a direct substitution effect shows that counterfeits are relatively benign, a victimless crime. The current research seeks to reframe this debate by introducing the notion of “collateral damage effects.” Collateral damage effects occur when the purchase of a brand X fake substitutes for the purchase of a brand Y original. Take for example, a consumer who purchases a fake Gucci purse for $100. Had fakes not been available, might the consumer have spent $250 on an authentic entry-level luxury brand (like Coach in the US or Hogan in Europe)? If so, the legitimate brand suffered from unfair competition. It was penalized for following trademark law, by losing sales to a competitor operating outside the law.

Collateral damage effects come in three types: trade up, parallel, and trade down effects. Were counterfeits somehow eliminated, in a trade up effect the erstwhile counterfeit consumer would now purchase a brand which cost more than the counterfeit, in a parallel effect the consumer would purchase a brand priced the same as the counterfeit, and in a trade down effect the consumer would now purchase a brand which cost less than the counterfeit. Which of these effects occurs depends on the preferences and budget of the consumer. In our initial exploratory study we use a student sample at an Italian public university. This population often sees counterfeits as “fun” and does not always try to hide the product’s counterfeit status. Therefore, the purchase of a fake does not necessarily indicate a strong desire to own a prestige brand. Furthermore, these students are often under strict budget constraints. Hence, we hypothesize that for this population, if the fakes were not available we would primarily see parallel or trade down collateral effects.

An experimental study using a within-subjects design was used to test our hypothesis. The sample consisted of more than 350 female undergraduate students living in two medium-size cities of Italy. While Italy is best known for its production of legitimate luxury brands, it is also Europe’s largest producer of counterfeits (OECD 2007). Subjects were required to express their purchase intention and choice among five levels of women’s handbags: (1) budget products at € 30, (2) quality non-luxury brands at € 80, (3) counterfeit high-end designer luxury brands at € 80, (4) authentic entry-level luxury brands
at € 200, and (5) authentic high-end designer luxury brands at € 550. After expressing their purchase intention and choice for that consideration set, subjects repeated their purchase intention and choice for a new consideration set identical to the previous set, except with the choice of counterfeit brands removed.

To test H1 we analyzed the transition matrix, which shows how the choice of individual subjects changed from consideration set 1 (with counterfeits) to consideration set 2 (without counterfeits). Out of the 350 subjects, 48 choose counterfeit products when that choice was available. After the counterfeit option was removed from the choice set, only 3 of the 48 counterfeit choosers then chose an authentic luxury brand at € 550. The log-linear model employed fit well, supporting the hypothesis. A further examination of the data show that the 48 subjects who initially chose counterfeits, mainly selected products at same price level (€80) as the counterfeit brands (25 subjects made this choice). The remaining 20 subjects were evenly distributed between the 10 who chose a lower priced budget brand (€30) and the 10 who stretched their budget upward to choose an entry-level luxury brand (€200).

These results suggest the importance of collateral damage effects generally as a major form of economic loss from counterfeit luxury goods, as more than 90% of the sales lost to counterfeits in this simulation came from brands other than those being counterfeited. Measured in number of items sold, counterfeits in this experiment took their biggest bite out of non-luxury brands at the same price level as the counterfeits. In addition, because the prices on luxury and entry level luxury brands are quite high, even a smaller number of lost sales in these two categories can be as significant as a much larger number of lost sales to less expensive brands.