

Chapter 12

Luxury Counterfeiting: Understanding Supply, Demand, and Anti-Counterfeiting Strategies

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ABSTRACT

Luxury counterfeits are appealing to certain shoppers because they provide the signaling value of luxury brands at a lower price. Because of the myriad challenges facing policymakers and law enforcement, the stigma of using counterfeits has been diminishing and counterfeit sales have been on the rise. Research has been conducted on the characteristics of those more likely to purchase counterfeits, and investigations into the social and emotional motives that underlie counterfeit use have also been undertaken. Despite all of this attention, it is still unclear which levers can be utilized by law enforcement to enact demand-side limitations that will reduce the on-going proliferation of counterfeits. The chapter reviews the literature, particularly in marketing, in order to provide some insight to brand managers, policymakers, and law enforcement agencies who are attempting to curb counterfeit consumption.

INTRODUCTION

The dramatic increase in the availability of counterfeit luxury goods has been motivated by returns on investment that are often greater than drug trafficking (IACC, 2015; Blakeney, 2009) with significantly lower levels of risk for the parties involved. This increase has negatively impacted brand owners, consumers, federal, state and local governments, and society as a whole. Despite the myriad negative effects of this industry, it has been noted that little is known about counterfeiting in general and even less is known about counterfeit luxury fashion goods in particular (Wall & Large, 2010). Moreover, the attention that counterfeiting has received is disparate in nature which makes it difficult for policy makers and practitioners to make informed decisions about the best ways to address the various drivers of luxury counterfeiting. The present chapter attempts to address this problem by first providing a thorough review of marketing research which has investigated the topic of luxury counterfeiting. This chapter then

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attempts to spur additional research from marketing practitioners and academics while also providing a base of knowledge that might inform professionals who are interested in the regulation of intellectual property and the formation of legal and policy changes that might curtail the spread of counterfeits.

The chapter begins with a working definition of luxury counterfeits and a summary of the reasons why the key stakeholders (i.e. brand managers, governments, consumers and society more generally) should be motivated to reduce the distribution and demand of counterfeit luxury goods. Next a review of the existing marketing literature on the topic of luxury counterfeits is provided. The chapter ends with proposed areas for future research aimed at addressing four key challenges facing key stakeholders in their attempts to reduce the proliferation of counterfeits and their negative downstream effects.

BACKGROUND

Luxury Branding

In order to understand the effects of luxury counterfeits it is necessary first to understand the unique status of luxury goods. Luxury goods display a different set of dynamics that often result in marketing actions that are directly opposed to standard marketing practices (Kapferer & Bastien, 2009). As a result, luxury branding is “much less understood and less well serviced by the literature” (Wall & Large, 2010, p. 6). It should come as no surprise then that there is no universally agreed upon definition of luxury brands (Wall & Large, 2010).

While there is little agreement on a single, succinct definition of “luxury” (see Wall & Large, 2010 and Wiedmann, Hennigs & Klarmann, 2012), experts appear to agree on some critical characteristics. For example, luxury goods are very high in quality and craftsmanship, they are associated with rarity and exclusivity (real and artifactual) and they are typically related to a history, heritage and tradition that usually goes back to an individual (e.g. Coco Chanel, Thierry Hermès, Ralph Lauren). The innately hedonic nature of luxury brands is strengthened and conveyed through high levels of service and, while quality and craftsmanship ensure functional satisfaction, luxury products provide more important psychological and social needs than other products (see e.g. Lu, 2013 and Amaral & Loken, 2016). The desire to fulfill these social and psychological needs has driven the luxury goods market to over \$1 trillion in 2016. These characteristics also create brands that consumers form personal connections with, which further strengthens the usefulness of these products as signals about the social groups with whom the users wish to be affiliated.

The high signaling value, and low accessibility, of luxury products draws consumers to their counterfeits. As a result of lower prices, and more accessible distribution channels, counterfeiting has become a significant problem for luxury producers. Estimates of the annual costs of counterfeiting are as high as \$600 billion (International Chamber of Commerce, 2013). This figure includes losses in diverted revenue for luxury goods manufacturers, losses in the labor market, and losses in tax revenues to various levels of government (Cunningham, 2011; Thomas, 2009). While counterfeiting is also a problem for many other sectors (e.g. pharmaceuticals and sporting goods; see Kollmannova, 2012), luxury brands are among the most commonly seized counterfeit items by the U.S. Customs and Border Protection Agency (Cunningham, 2011). At this point it would be informative to provide the definition of luxury counterfeits that will be the focus of this chapter.

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