

*Original Paper*

# Counterfeit Luxury Businesses in China: The Impacts of Counterfeit Consumption on Global Economy

Qiwen Wu<sup>1</sup>

<sup>1</sup> Qiwen Wu, Yashuo Education Technology Co., Ltd, Shanghai, China

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## **Abstract**

*Today, counterfeiting is growing prevalent all over the world due to enormous returns on investment and low levels of risk. Despite of all the intellectual and ethical issues proposed by criminologists and policy makers, the issue of counterfeit products has been addressed in the economic sector. It is conspicuous that global businesses are raising awareness in problems caused by counterfeit products. The purpose of this study is to investigate Chinese consumer's purchasing behaviours in counterfeit luxury products and discuss how they will potentially influence the global luxury market.*

## **Keywords**

*international business, chinese economy, consumer behaviour, luxury marketing, intellectual property, counterfeit economy*

## **1. Introduction**

The growth of counterfeit products has been perceived as a substantial threat to a variety of industries. Lai and Zaichkowsky (1999) believe that counterfeit products are a blunt imitation of an item from a high-valued brand, usually with lower quality. According to Staake et al. (2009), the growing amount of counterfeit markets in Asia caused numerous problems to the world economy, particularly to luxury fashion companies. While border controls are gradually eased to foster international trade, the emergence of massive counterfeits is irresistible all around the world, raising concerns over losing revenues as well as brand equity for luxury brand owners. China is identified as the dominant country of provenance for counterfeit products, and Hong Kong acts as a transit point for goods originally manufactured in China. The International Trademark Association estimates that China's counterfeit industry causes foreign companies to lose about \$20 billion annually. For example, the production of all types of counterfeit products have already cost the UK £30 billion and 14,800 jobs and significantly harmed their economy (Chen et al., 2018). Although companies strive to protect brands and prevent

infringements as much as possible, it is almost impossible to eliminate luxury counterfeiting due to the large scale of production, duplication techniques and low infraction costs, etc. (Bekir et al., 2011).

China, as the largest manufacturer and consumer partner for luxury companies, has dominated counterfeits market as a major supplier as well as a target consumer market. Around 5-7% of the global trade which ultimately boosts China's GDP is made up out of the production and sale of counterfeits. While 80% of counterfeit production continues, the Chinese economy is expanding enormously on flourishing businesses. As the problem of counterfeits continues, the corresponding demand of luxury counterfeits is incentivised to grow, resulting a larger number of supply of counterfeits in the world. (Kim & Karpova, 2010).

According to Bekir et al. (2011), luxury products and their unauthorised imitations often coexist. The impacts of counterfeits are deemed as paradoxical to the luxury fashion industries in various ways. Generally, as counterfeits are produced to take advantage of the brand equity of genuine luxury products, the considerable costs in advertising and marketing are saved for counterfeits sellers (Lai & Zaichkowsky, 1999). However, a few studies indicate that counterfeits and original products are mutually beneficial to each other as counterfeits have enhanced public brand awareness of authentic branded goods. Meanwhile, sellers are able to raise retail prices under a strict anti-counterfeiting regime (Yao, 2005). Moreover, in many cases, counterfeiting can cause a flattering effect that enlarges the authentic brand's snob value (Barnett, 2005). They may also accelerate the fashion trends by damaging the original's prestige, thus creating call for the original producer to design newer products. Clearly, luxury counterfeiting is not simply an illicit practice of selling close imitations of branded products for a reduced price, it is truly a multifaceted industry which cannot be ignored (Phau et al., 2009).

While existing literature mostly investigated the supply and demand of counterfeiting, the distribution channels and marketing tactics of counterfeits were rarely under spotlights. While e-commerce has contributed to the expansion of counterfeits, contemporary sellers of counterfeit products focus on advertising products in unconventional ways, attracting potential buyers and gaining brand equity through social media platforms. To develop methods that successfully counter the problem of counterfeiting, it is essential to keep up with the innovative strategy of counterfeit sellers. Secondly, previous studies often discuss how counterfeits damage brand equity of luxury brands. Although it's a given that counterfeits do enhance the awareness of luxury brands, the extent in which brand awareness influence counterfeit purchase behaviours is under-explored. Existing literature identified the presence of segments of consumers who purchase counterfeit goods and studied their purchasing motivations and behaviours. Nonetheless, there is a need to understand their ideas of consumption and their attitudes towards both counterfeits and genuine luxury products.

## 2. Literature Review

### 2.1 Research Context

Before diving into the research on Chinese customers, it is significant to explore the causes of continuation of product counterfeiting in China. In this chapter, luxury counterfeit industry in China will be discussed from different aspects, critical issues will be addressed to lay a foundation for further research in consumers.

#### 2.1.1 The Deep Root of Piracy in China

As a fast growing market, China has now reached more than 1 billion consumers in the apparel industry. Meanwhile, the consumption of luxury goods has increased by 10% within the last ten years (Kozar & Huang, 2018). While some countries in the West are identified as highly innovative societies, China, by contrast, is acknowledged as the engine of the global counterfeiting industry. According to European Union Intellectual Property Office (2017), counterfeit goods are estimated to take over 12.5 % of China's total exports and over 1.5 % of its total GDP. Not only in the domestic market, China was identified as the lead country of producing and selling counterfeits worldwide. It is commonly believed that countries in poverty prone to purchase and support counterfeits. Many researchers also argue that income level is a prominent driver in purchasing counterfeits. In a cultural perspective, Chinese consumers tend to pursue "face value" and take luxury consumption as a way to achieve desirable social status (Jiang & Cova, 2012). Therefore, consumers who purchase counterfeit luxury goods are less likely to be treated positively by friends comparing with those who buy genuine products. For the majority of consumers in China, luxury products are extravagant and unaffordable. For less affluent individuals, conspicuous consumption has given them opportunities to obtain a sense of belonging in a social class of higher income (Tom et al., 1998). The need for luxury products in China largely explains the growing demand for counterfeits, which are positioned in a much lower price range. However, some argues that financial inequality is not the sole factor of consuming counterfeits in the context of Chinese market.

According to Atwal and Bryson (2017), there is a universal consensus on counterfeits in China, it has formed the Shanzhai culture of China which is self-evident and socially recognisable, even in the art and architecture fields. Literally translated, Shanzhai means "bandit stronghold outside government control" (Tse, Ma, & Huang, 2009). In contemporary usage, however, it refers to low-cost knockoffs, including architectures (the Chinese version of Eiffle tower), stores (such as the unlicensed Apple store in Kunming that sold real but refurbished Apple products), and even TV shows (such as fabricated reality TV shows that were originally from America and Korea). In the context of luxury market, Shanzhai is described as products that mimic original brands through producing look-alike appearance or similar functions with more affordable price. Shanzhai has now become a phenomenon which is beyond counterfeit. Although counterfeits are often related to products of bad quality, Shanzhai, along with A product, are used to describe counterfeits that are close to the original ones in both appearance and quality standard. Therefore, a lot of Chinese consumers consider A Products or Shanzhai to be

legitimate because of the high similarity with genuine ones.

In recent years, the booming of Chinese innovation and ethnocentrism has driven many consumers to go for domestic products. During the period 1998-2009, the number of patents granted to private firms in China grew by 35 percent per year (Wei et al., 2017). In 2011, China overtook the United States as the country with the most patent filings in the world that year (WIPO, 2012). Chinese consumers from second or third tier cities generally hold a positive perception towards domestic brands, Consumer Ethnocentrism (CE) is relatively higher in cities other than Beijing, Shanghai and Shenzhen. Since the majority of land in China are small cities or towns, it is safe to say that a large number of Chinese citizens are supportive to domestic products.

### 2.1.2 Intellectual Property Protection in China

It is widely known that intellectual property rights are becoming a significant issue in many business sectors. The effort China has put in intellectual property protection was not insignificant. In 2011, the Chinese government launched a year-long law enforcement operation, arrested thousands of suspected counterfeit manufacturers and sellers, and closed many factories. China has of course passed the law on the recognition of intellectual property rights, but it has been adjusted to “improve the legitimacy of socialism with Chinese characteristics” (Fleming, 2014). Although China has been trying hard on IP protection and has intercepted a significant number of counterfeit products, the IP laws developed in China was considered outdated and insufficient to eliminate the problem of piracy from the root. As a member of the WIPO and the WTO, China was supposedly to follow all the rules. However, it is rather difficult for China to comply with the regulations due to a variety of reasons.

Many counterfeiters have bribed local government officials in order to continue their businesses. In some cities in China, counterfeiters are even considered one of the largest employers, creating thousands of job opportunities. Politically, counterfeiting is not deemed as a serious crime in China.

As a criminal enterprise, counterfeiting is considered to be a relatively low-risk enterprise because most counterfeiters in China are not likely to be arrested or prisoned. Comparing with committing crimes involved drugs and human trafficking, counterfeiting is a safer choice for those who do not wish to risk their lives. Due to China’s copyright policy, the only way for foreign companies to have trademark rights in China is to register your trademark in China. However, trademark protection is costly for businesses as it directly affects consumers through higher prices on authentic goods. China adopted the first modern era of patent and trademark law in the 1980s and passed the first copyright law in 1990. However, intellectual property law is still a relatively new phenomenon in societies that are highly concerned about expanding economic growth and maintaining social stability. Chinese attitudes and practices toward copying cannot change rapidly. As China’s economy develops further, the balance of interests may change, and the country may adopt a less lenient attitude.

*Hypothesis 1: Chinese consumers who support domestic products are more likely to have a positive attitude towards counterfeits.*

## 2.2 *The Theory of Luxury Counterfeiting*

### 2.2.1 Definition of Luxury Products

The concept of “luxury” originates from Latin “luxuria”, “luxus” is the root of “luxury,” meaning “to live a decadent life”. Luxuries are objects of desire that provide pleasure, at the same time they are identified as nonessential items (Li et al., 2012). In the scholarly reports, researchers use “luxury” to delineate the top notch prestigious brands (Vigneron & Johnson, 2004). They identified these luxury fashion brands as characterised by their rarity, extravagant prices, appearance and prestige, which merge to get them attractive for causes other than functionality.

### 2.2.2 Definition of Counterfeit Luxury

As opposed to luxury branded goods, counterfeits are seen as low standard and poor quality imitations at a low price. These fakes are not as durable and hardly reliable. Without high brand value products counterfeits cannot exist, reason to that is that the fake product’s characteristics are copied from an original product, only partly bearing resemblance to that of the original one (Eisend & Schuchert-Guler, 2006). Turunen and Laaksonen (2011) suggest that the commonly understood certitude of a luxury product is the main difference between that and a counterfeit product. The fakes are regarded as an attempt duplicate luxury by imitating its attributes, yet it can be also placed on the level of the brand in question. Arguably, it’s possible to divide luxury into distinct tiers depending on the circumstance and the people concerned, a counterfeit brand can be regarded as the lowest tier of luxury, and the consumers may profit from the “clone” brand as opposed to acquiring the original one as the props aid them to get the sought benefits.

### 2.2.3 Definition of Deceptive Counterfeits

It’s crucial to make a difference between the two types of transactions made in counterfeiting namely deceptive and non-deceptive. Grossman and Shapiro (1988) described deceptive counterfeiting as a place and time the consumers do not know that they acquired a fake item at the time of the purchase. However, most of the time, the clientele may fully be knowledgeable that the product acquired isn’t an authentic product when purchased. It turns out that many counterfeit dealers believe that what they are doing is not wrong or shouldn’t be illegal because the consumers are conscious of the fact that they are purchasing a counterfeit product. This is called non-deceptive counterfeiting and is quite common in the luxury brand market. Thereby, in this study, it is critical to identify the consumers’ ethical awareness of deceptive counterfeiting and non- deceptive counterfeiting.

### 2.2.4 Brand Value

From previous studies on brand equity, recognised brand value collects a lot of attention from analysts. Kim et al. (2010) suggests that brand value according to the consumer’s perception includes social/sentimental value, physical value, service value and sentimental value. Perceived quality pertains to a customer’s personal opinion on a label’s general excellency (Zeithaml, 1988), it is considered as a prominent factor of brand value by consumers.

However, Pinheiro-Machado (2016) believes that in the local language of traders and producers of

counterfeit goods, there is a broad, standardised discourse that can be found in different parts of the world, based on the common view that the copy is actually identical to the real product and is the only difference is the price. As a result, those who commercialise these products benefit society by bringing “identical” products to the market to differentiate them from restrictive elite circuits and make them popular.

Thereby we purpose that:

*Hypothesis 2: A consumer's perceived brand value of luxury brands could affect one's decision of purchasing counterfeits.*

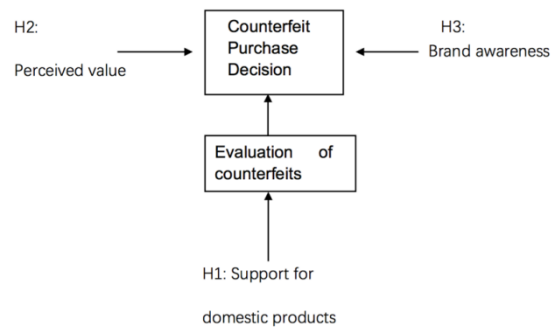
#### 2.2.5 Brand Equity

Fake products may damage the original luxury brand in question. To make it possible for researchers to retrieve useful information to answer to this presumption, the consumers' understanding of authentic luxury brands has to be measured and then analysed in multiple manners. One of them being to measure the brand equity (Aaker, 1991),

Brand equity helps customers by improving their understanding and improving their ability to process information of the brand, their certitude in buying decisions and their contentment (Aaker, 1991). If we merge Aaker (1991) and Keller's (1993) approaches there are four matters of interest: brand awareness, brand loyalty, brand associations/images and perceived quality.

Brand awareness indicates the consumer's ability to recognise or remember a brand between other brands and other product categories (Aaker, 1991; Keller, 2003). Brand awareness is CBBE's backbone because it's essential for a consumer to be aware of a brand to be able to associate accordingly (Aaker, 1991; Keller, 1993). Brand Awareness occurs when the consumer is repetitively opened to a brand by seeing, thinking or hearing about it and after a few connections, the brand will be set up in the consumer's mind and will automatically be associated with the brand in the future (Radder & Huang, 2008). Ritson (2007) proposes that counterfeits do not affect sales of authentic branded luxury products. While thousands of knockoffs are traded everyday, very few of them could affect the sales of real luxury goods. This hypothesis was further developed into the “non-cannibalization” theory. Supporters of the non-cannibalization hypothesis tend to believe that counterfeit buyers and genuine buyers are different groups of consumers, purchasing behaviours of counterfeit buyers will not affect that of genuine buyers since their purchase intentions are different (Ahuvia et al., 2013).

*Hypothesis 3: There is a positive correlation between brand awareness and the desire of purchasing counterfeits.*



**Figure 1. Research Model**

### 3. Methodology

In this chapter, relevant research process and approaches will be indicated and specified to fulfill the objectives. With a genuine and clear methodology, the researchers are able to create validity and reliability of the thesis. This chapter will further explain more detailed which research approach that have been used, the research design and what strategy that was used.

#### 3.1 Research Philosophy

Pragmatism will be adopted in this study because it is considered as a philosophy fundamental to the mixed method approach (Creswell & Creswell, 2017). Interpretivism is not appropriate because it takes subjective feelings as the theoretical basis. Since objectivism argues that social context and their significances exclude social behaviours, it is not ideal to implement this approach in a study focusing on human experience. While constructionism relies humans to interpret their perceptions and positivism tests hypotheses through quantitative data, pragmatism seeks a common ground between these philosophies and gives researchers freedom to decide which area should be focused on.

#### 3.2 Research Approach

It is essential to adopt an approach which is coherent to the aim and objectives of the study. In this case, both induction and deduction should be implemented in this research project. Deduction is considered a lower-risk strategy aside from the non-return of questionnaires. However, induction can be risky because sometimes, it can be time-consuming to look for links between causes and effects. Meanwhile, it is believed that deductive approach is too rigid (Saunders et al., 2009). For hypotheses which are established based on existing theories, it is essential to test hypotheses with deductive approach, while for other research questions investigating perceptual experience of participants, inductive approach will be in use.

#### 3.3 Data Collection Methods

Quantitative is a data collection technique mainly used to generate and analyse numerical data (Saunders et al., 2009). This approach is formalised, highly constructed and controlled to test the relationships between variables. In quantitative research, numerical data plays a dominant role in the process.

Qualitative methods are employed to collect data about activities, events, occurrences and behaviours and to seek an understanding of actions, problems and processes in their social context. From this perspective, qualitative research is perceived as distinct from quantitative research as it does not produce quantified findings or have measurement and hypothesis- testing as an integral part of the research process.

In this study, mixed-method approach will be used to fulfill different purposes in the study. For research hypotheses generated from existing literature, quantitative method will be applied to test variables and eventually develop theories based on numerical data; since luxury counterfeiting is a sensitive issue for consumers, it is necessary to conduct a qualitative research to investigate different insights of individuals regarding different issues.

### *3.4 Data Collection Tools*

#### *3.4.1 Quantitative Data Collection*

SPSS (Statistical Package for Social Science) is identified as one of the major data collection tools in quantitative data collection. It is a commonly used statistical data analysis software package which is user-friendly and functional in analysing primary data. In this study, the following SPSS analysis will be applied: Descriptive Statistics, Correlation Analysis and Regression Analysis.

#### *3.4.2 Coding*

Coding is the process of organising and sorting data. In the course of an interview, code can be used as a way to mark, compile, and organize data. Coding allows researchers to assign a label to a section of data. In qualitative research, Coding becomes the basis for development analysis when linking data collection and interpretation data. Before beginning data collection and the coding process, it is good to begin with a “start list” of pre-set codes. These initial codes derive from the conceptual framework, list of research questions, problem areas, etc. For the study, pre-set codes will be created based on the research questions. In the process of conducting interviews, we categorized the data by the thematic content analysis, and then developed comparisons between the coded reports of the software tool NVivo9 in order to identify the emerging themes.

## **4. Results**

### *4.1 Introduction*

In this chapter, the data collected from primary research will be presented and analysed. The chapter will begin with describing the quantitative data, showing results from the survey and systematically presenting the data with SPSS analysis tool. Quantitative data will then be interpreted by the researcher and hypotheses will be tested in order to answer research questions of the study. For qualitative research, findings will be labelled as codes and categorised into themes in order to be presented as findings. In the following sections, demographic information of the sample will be presented and discussed.



## 4.2 Quantitative Findings

### 4.2.1 Descriptive Analysis of Demographic Information

The process of conducting the self-administrated questionnaire has lasted for a month. In total, more than 400 participants took a part in the questionnaire. To ensure reliability of all the responses, in-complete questionnaires and questionnaires collected from the same IP address were removed.

**Table 1. Descriptive Analysis of Demographic Information**

variable	category	Frequency	Percent
gender	Male	196	49.0%
	Female	204	51.0%
age	18-24	149	37.3%
	25-34	149	37.3%
	35-44	64	16.0%
	over45	38	9.5%
	Secondary school and below	25	6.3%
education	Junior College	44	11.0%
	Undergraduate	199	49.8%
	Master	110	27.5%
	Phd	22	5.5%
your monthly disposal expenses	Less than 3000 RMB	111	27.8%
	3001-5000 RMB	160	40.0%
	5000-10000 RMB	80	20.0%
Where do you mostly see counterfeit luxury products	More than 10000 RMB	49	12.3%
	Stores on the streets	91	22.8%
	Online shopping platforms (Taobao/JD)	189	47.3%
	Social media platforms (Weibo/Wechat/Instagram)	107	26.8%
	Others	13	3.3%
Total		400	

Based on the results of the demographical information, it can be seen that the number of male and female participants are quite even, generation Y and generation Z have taken the largest proportion of all participants, accounting for more than 70% of the sample. The overall education level of the respondents is relatively high, more than 80% of them have received college/university education. Overall, the distribution of the gender, age, and academic coverage is relatively wide in this study.

Therefore, the result is effective and the sample can be considered representative. In the following section, how respondents rate counterfeit luxury products will be discussed.

#### 4.2.2 Descriptive Statistics of Counterfeit luxury products

**Table 2. Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
Similarity with GLPs	400	1	5	3.48	1.033
Quality	400	1	5	3.33	1.216
Value for money	400	1	5	3.54	1.154
Purchasing experience	400	1	5	3.01	1.241

In the descriptive analysis of counterfeit luxury product evaluation, the score is between 3.01-3.48, which is positioned at the upper-middle level, indicating that the evaluation of counterfeit luxury products is generally positive in general. Based on the results, “value for money” has obtained a score of 3.54, followed by “similarity with GLPs (genuine luxury products)”, obtaining a score of 3.48. The attribute of “quality” was rated as 3.33 in the table, followed by “purchasing experience” (3.01), which is much lower than all the other attributes of counterfeit luxury products.

#### 4.2.3 Correlation Analysis

The correlation analysis starts with testing the correlation between counterfeit luxury purchase decision and evaluation of counterfeit luxury products using Pearson Correlation.

**Table 3. Correlation between Counterfeit Luxury Decision and Evaluation of Counterfeit Luxury Products**

	evaluation of counterfeit luxury products	purchase counterfeit luxury
Pearson Correlation		
evaluation of counterfeit luxury products	1	0.189**
counterfeit luxury purchase decision	0.189**	1

Based on Table 3, it can be seen that counterfeit luxury purchase decision is positively correlated with evaluation of counterfeit luxury products.

#### 4.2.4 Consumers' Correlation between the Value Perception of Genuine Luxury Brands and Counterfeit Goods Purchasing Decision

In order to determine whether there is a linear correlation between consumers' perceived value of luxury products (value, the brands' reputation and history, craftsmanship) and their purchase decision in counterfeit luxury as well as the closeness and direction of the relationship, Pearson correlation will

be used in correlation analysis. The results are shown in Table 4

**Table 4. Correlation between the Perceived Value of Genuine Luxury Brands and Counterfeit Luxury Purchase Decision**

	value	the brands' reputation and history	craftsmanship	purchase counterfeit luxury
Pearson Correlation				
price	1			
the brands' reputation and history	0.157**	1		
craftsmanship	0.184**	0.216**	1	
counterfeit luxury purchase decision	-0.230**	-0.273**	-0.264**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the results, it can be seen that there is a significant positive correlation between consumers' perceived value and the price, reputation and craftsmanship of luxury brands. Consumers' perception of luxury prices and counterfeit luxury purchase decision are negatively correlated, the correlation index shown in the table is  $r=0.230$ . Reputation and historical perception of luxury brands and counterfeit luxury purchase decision were negatively correlated, with a correlation  $r=0.273$ . The production process (craftsmanship) and counterfeit luxury purchase decision were negatively correlated, with a correlation  $r=0.264$ . Overall, consumers' purchase decision in counterfeits is most relevant to their acceptance of the reputation and history of genuine luxury products, followed by craftsmanship and lastly price.

#### 4.2.5 Correlation between Luxury Brands Preference and Counterfeit Luxury Purchase Decision

In order to determine whether there is a linear correlation between consumers' preference in luxury products (well-known luxury brands and niche luxury brands) and their counterfeit luxury purchase decision as well as the closeness and direction of the relationship, Pearson correlation will be used in correlation analysis. The results are shown in Table 5:

**Table 5. Correlation between Luxury Brands Preference and Counterfeit Luxury Purchase Decision**

	purchase well-known luxury brands	purchase niche luxury brands	Counterfeit luxury purchase decision
Pearson Correlation			
purchase well-known luxury brands	1		
purchase niche luxury brands	0.579**	1	

Counterfeit luxury purchase decision	0.456**	0.357**	1
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\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the Table, it can be seen that the correlation between the preference for well-known luxury brands and niche luxury brands was significantly positive, correlation  $r=0.579$ ;

The preference of purchasing well-known luxury brands and counterfeit luxury purchase is positively correlated, correlation  $r = 0.456$ ;

Purchase niche luxury brands and counterfeit luxury purchase decision are positively correlated, correlation  $r = 0.357$ .

#### 4.2.6 Correlation between Support for Domestic Products and Evaluation of Counterfeit Luxury

In order to identify whether there is a linear correlation between Chinese consumers' support the domestic products (Innovation, Accessibility, Sympathy) and their evaluation of counterfeit luxury products and direction of the relationship, Pearson correlation is used to analyse the data. The results are shown in Table 6:

**Table 6. Chinese Consumers' Support to Domestic Products and Their Evaluation of Counterfeit Luxury Products**

Pearson Correlation	Innovation	Accessibility	sympathy	evaluation of counterfeit luxury products
Innovation	1			
Accessibility	0.288**	1		
sympathy	0.497**	0.268**	1	
evaluation of counterfeit luxury products	0.254**	0.200**	0.232**	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

Based on the results, it can be seen that there is a positive correlation between “Innovation”, “Accessibility”, and “Sympathy” of domestic products in China;

“Innovation” of domestic products and the evaluation of counterfeit luxury products are positively correlated, correlation  $r = 0.254$ ;

“Accessibility” of domestic products and evaluation of counterfeit luxury products are positively correlated, correlation  $r = 0.20$ ;

“Sympathy” of domestic products and evaluation of counterfeit luxury products are positively correlated, correlation  $r = 0.232$ ;

Evaluation of counterfeit luxury products and “Innovation” are the most relevant to each other, followed by “Sympathy”, and finally “Accessibility”.

#### 4.2.7 Regression Analysis

Consumer’s perceived value of the luxury brand (price, the brands’ reputation and history, craftsmanship) is taken as the independent variable and counterfeit luxury purchase decision is identified as the dependent variable in the regression analysis. The result is shown in Table 7:

**Table 7. Regression Analysis of Consumers’ Perceived Value of Genuine Luxury Brands and Their Counterfeit Luxury Purchase Decision**

Independent Variable	Unstandardized Coefficients		Standardized Coefficients	T	sig	R2	F	sig
	B	Std. Error	Beta					
(Constant)	3.014	0.127		23.753	0.001			
value	-0.121	0.035	-0.163	-3.410	0.001			
the brands’ reputation and history	-0.195	0.045	-0.206	-4.300	0.001	0.137	22.189	0.001
craftsmanship	-0.158	0.040	-0.190	-3.939	0.001			

Dependent Variable: counterfeit luxury purchase decision.

According to the coefficient Table:

The regression coefficient of the independent variable value against the dependent variable “counterfeit luxury purchase decision” is -0.121,  $T=-3.410$ ,  $P=0.0001<0.05$ , which shows that value has a significant effect on purchase counterfeit luxury;

The regression coefficient of the independent variable “brands’ reputation and history” for the dependent variable is -0.195,  $T=-4.300$ ,  $P=0.001<0.05$ , which shows that the brands’ reputation and history have a significant impact on counterfeit luxury purchase decisions;

The regression coefficient of the independent variable “craftsmanship” against the dependent variable “counterfeit luxury purchase decision” is -0.158,  $T=3.939$ ,  $P=0.001<0.05$ , which shows that craftsmanship has a significant impact on purchase counterfeit luxury;

The largest influence independent variables have on dependent variable is from “brands’ reputation and history”, followed by “craftsmanship” and “price”.

The adjusted coefficient (adjusted R squared) is 0.137, which indicates that the independent variable can effectively interpret the variation of the factor dependent variable by 13.7%. Therefore, the explanatory degree of the independent variable selected by the model is considered to be high. The test results obtained after bringing the independent variables into the regression equation: F value = 22.189,

Sig. value is  $0.001 < 0.01$ , which has significant statistical significance, indicating that the linear relationship between the independent variable and the dependent variable is significant, and the established regression equation is valid.

The regression equation is:

$$Y = -0.121X_1 - 0.195X_2 - 0.158X_3 + 3.014$$

Y: purchase counterfeit luxury

X1: value; X2: the brands' reputation and history; X3: craftsmanship

#### 4.2.8 Regression Analysis of Luxury Brands Preference and Counterfeit Luxury Purchase Decision

The preference of consumers for luxury goods (well-known luxury brands, niche luxury brands) was used as an independent variable, and counterfeit luxury purchase decision was used as the dependent variable for the regression analysis. The results are shown in Table 8.

**Table 8. Regression Analysis of Luxury Brands Preference and Counterfeit Luxury Purchase Decision**

Independent Variable	Unstandardized Coefficients		Standardized Coefficients		T	sig	R2	F	sig
	B	Std. Error	Beta						
(Constant)	1.110	0.100		11.117		0.001			
well-known luxury brands	0.220	0.032	0.375	6.900		0.001	0.217	56.357	0.001
niche luxury brands	0.083	0.032	0.140	2.579		0.010			

Dependent Variable: counterfeit luxury purchase decision.

According to the coefficient Table, the regression coefficient of the independent variable "well-known luxury brands" against the dependent variable "counterfeit luxury purchase decision" is 0.220,  $T=6.900$ ,  $P=0.001 < 0.05$ . It can be seen that the well-known luxury brands have a significant impact on counterfeit luxury purchase decision.

The regression coefficient of the independent variable "niche luxury brands" for the dependent variable "counterfeit luxury purchase decision" is 0.083,  $T=2.579$ ,  $P=0.010 < 0.05$ . It can be seen that niche luxury brands have a significant impact on counterfeit luxury purchase decision. The largest impact on the dependent variable is well-known luxury brands, followed by purchase niche luxury brands.

The adjusted coefficient (adjusted R-squared) is 0.217, indicating that the independent variable can effectively interpret the variation of the degree dependent variable by 53%. Therefore, the explanatory degree of the independent variable selected by the model is considered to be high. The test results

obtained after bringing the independent variables into the regression equation: F value = 56.357, Sig. value is  $0.001 < 0.01$ , which has significant statistical significance, indicating that the linear relationship between the independent variable and the dependent variable is significant, and the established regression equation is valid.

The regression equation is:

$$Y=0.220X_1+0.083X_2+1.110$$

Y: counterfeit luxury purchase decision

X1: purchase well-known luxury brands; X2: purchase niche luxury brands.

#### 4.2.9 Regression Analysis of Chinese Consumers' Support to Domestic Products and Their Evaluation of Counterfeit Luxury Products

Chinese consumers' support for domestic products (Innovation, Accessibility, Sympathy) is considered as the independent variable and the "evaluation of counterfeit luxury products" is used as the dependent variable in the regression analysis.

**Table 9. Regression Analysis of Chinese Consumers' Support to Domestic Products and Their Evaluation of Counterfeit Luxury Products**

Independent Variable	Unstandardized		Standardized		T	sig	R2	F	sig
	Coefficients		Coefficients						
	B	Std. Error	Beta						
(Constant)	2.270	0.193			11.777	0.001			
Innovation	0.113	0.040	0.159		2.836	0.005	0.086	13.507	0.001
Accessibility	0.112	0.046	0.122		2.417	0.016			
Sympathy	0.079	0.037	0.120		2.154	0.032			

Dependent Variable: evaluation of counterfeit luxury products.

The regression coefficient of the independent variable "innovation" to the dependent variable "evaluation of counterfeit luxury products" is 0.113,  $T=2.836$ ,  $P=0.005 < 0.05$ , which shows that innovation of domestic products has a significant impact on consumers' evaluation of counterfeit luxury products; The regression coefficient of the independent variable "accessibility" against the dependent variable "evaluation of counterfeit luxury products" is 0.112,  $T=2.417$ ,  $P=0.016 < 0.05$ , which shows that accessibility has a significant impact on consumers' evaluation of counterfeit luxury products; The regression coefficient of the independent variable "sympathy" against the dependent variable "evaluation of counterfeit luxury products" is 0.079,  $T=2.154$ ,  $P=0.032 < 0.05$ , which shows that sympathy has a significant impact on the evaluation of counterfeit luxury products; The largest influence independent variables have on dependent variable is from "innovation", followed by "accessibility", and "sympathy".

The regression equation is:

$$Y=0.113X1+0.112X2+0.079X3+2.270$$

Y: evaluation of counterfeit luxury products

X1: Innovation; X2: Accessibility; X3: Sympathy

#### 4.2.10 Hypotheses Check

H1: Chinese consumers who support domestic products have positive attitudes towards purchasing counterfeits.

Based on the correlation analysis, “Innovation” of domestic products and the evaluation of counterfeit luxury products are positively correlated ( $r=0.254$ ); “Accessibility” of domestic products and evaluation of counterfeit luxury products are positively correlated ( $r=0.20$ ); “Sympathy” of domestic products and evaluation of counterfeit luxury products are positively correlated ( $r=0.232$ ). “Innovation” is the most relevant one to the positive evaluation of counterfeit luxury products, followed by “Sympathy”, and finally “Accessibility”. In the regression analysis, all three attributes appear to be positive to counterfeit purchase decision as well, the most significant attribute of domestic products is “innovation”, followed by “accessibility”, and “sympathy”. Therefore, Hypothesis 1 is supported.

H2: A consumer’s perceived brand value of luxury brands could affect one’s decision of purchasing counterfeits.

According to the correlation analysis, consumers’ perception of luxury prices and counterfeit luxury purchase decision are negatively correlated ( $r=0.230$ ). Reputation and historical perception of luxury brands and counterfeit luxury purchase decision were negatively correlated ( $r=0.273$ ). The production process (craftsmanship) and counterfeit luxury purchase decision were negatively correlated ( $r=0.264$ ). Based on the regression analysis, the regression coefficient of the independent variable value against the dependent variable “counterfeit luxury purchase decision” is  $-0.121$ ,  $T=-3.410$ ,  $P=0.0001<0.05$ , which means that perceived value has a significant effect on counterfeit luxury purchase decision.

Overall, it can be concluded that consumers’ perceived brand value has strong influence on their purchase decision in counterfeits and the effect is negative. Among all the value attributes of luxury brands, “reputation and history of genuine luxury products” can cause the most significant effect, followed by “craftsmanship” and lastly “price”.

H3: There is a negative correlation between brand awareness and the desire of purchasing counterfeits.

The preference of purchasing well-known luxury brands and counterfeit luxury purchase is positively correlated ( $r = 0.456$ ); Purchase niche luxury brands and counterfeit luxury purchase decision are positively correlated ( $r = 0.357$ ).

Based on the regression analysis, consumers who prefer luxury products with more well-known brand names are identified more likely to purchase counterfeits than those who prefer niche luxury products. Obviously, there is a positive correlation between brand awareness of a luxury brand and consumers’ decision in purchasing counterfeits, therefore, hypothesis 3 is proven to be false.



#### 4.2.11 Summary of Quantitative Results

The analysis is able to support two out of three hypotheses of the study. H1 is proven to be true since all the features of domestic products are positively related to consumers' evaluation of counterfeits. H2 was supported as Chinese consumers' perceived brand value of luxury brands could affect their decision of purchasing counterfeits. Based on the results, the higher value of luxury goods they perceive, the less likely they would purchase counterfeit luxury products. Therefore, perceived value of luxury brands could negatively influence consumers' purchase decision in counterfeits. H3 cannot be supported because brand awareness is a significant factor of causing counterfeit purchase decision. Generally, Chinese consumers who prefer well-known luxury brands are more likely to purchase counterfeit luxury goods.

#### 4.3 Qualitative Findings

One of the major objective of this study is to gain an insight of Chinese consumers' knowledge of counterfeit luxury products. To do this, it is essential to discover their ideas in the following three aspects.

##### 4.3.1 Concepts of Counterfeiting

Based on the findings, it can be said that most consumers' understanding of counterfeit luxury industry is quite limited. Most respondents are not able to distinguish counterfeiting luxury into two categories: deceptive counterfeiting and non-deceptive counterfeiting, which were frequently addressed in the chapter of literature review. One of the respondents has identified counterfeit luxury as "deceptive-counterfeiting".

*"Counterfeit luxury is a type of luxury products from illegal sources."* (Youxi, Male, Shaoguan)

*"Counterfeit luxury is a type of luxury products, it is more affordable, but some of them can cost thousands RMB."* (Zhou, Female, Shanghai)

*"Counterfeits are high-value products without patents."* (Zhuolin, Male, Qingdao)

A considerable number of respondents have defined counterfeit luxury as a type of luxury products that are almost equivalent to luxury products. It is worth noting that some of them believe that the price difference between genuine and fake is not that drastic, some counterfeits such as Chanel and Hermes would cost as much as few thousands RMB. Counterfeits are not seen as a cheap version of imitation by these respondents.

##### 4.3.2 Demand for the Chinese Market

When answering the first question in the interview, many respondents have mentioned that "counterfeiting has met the demand of Chinese market today". Meanwhile, many respondents have mentioned that the invention of counterfeits has seized the desire of consumers. It has helped them with pursuit of social status and fulfilled their vanity.

*"Imitation is an effective way to do business in China...it is a profitable industry, it is a win-win for consumers and businesses."* (Qing, Female, Shenzhen)

*"Non-deceptive counterfeit purchasing has become a normal thing today, because there is demand in*

*China*” (Lan, Female, Suzhou)

*“Not everyone is able to afford genuine luxury, especially people who earn less than 10,000 RMB a month.”* (Hui, Female, Shanghai)

Almost all respondents believe that counterfeits look very similar with genuine luxury products. Many of them stated that “very few can tell the difference”. Key words “materialism” and “Pursuit of social status” were often brought up during interviews, they are identified as the features of both young and old Chinese consumers. Overall, the counterfeit market in China can be seen as a result of the high demand of luxury products at lower prices.

#### 4.3.3 Ethical Awareness

*“I do not think producing/purchasing counterfeit luxury is ethical at all...because it does not respect originality.”* (Yuxian, Female, Hangzhou)

*“Counterfeit is unethical because it involves in copyright piracy.”* (Vanessa, Female, Nanchang)

For most respondents who believe that counterfeiting is unethical, they are focusing the problems of copyright/patent on the supply side. However, other respondents have proposed some interesting views. “Selling counterfeits at a price as expensive as the original one is considered really unethical, but I don’t see anything unethical about non-deceptive counterfeiting”. (Lan, Female, Suzhou)

*“Counterfeiting has nothing to do with ethics, but it is necessary to regulate these activities”.* (Yi, Male, Shanghai)

It can be seen that counterfeiting is not identified as a serious case of crime by consumers from all over China. In general, purchasing counterfeits is not considered as unethical by majority of the interviewees. According to some participants, buying behaviours does not involve product piracy; meanwhile, many consumers have purchased counterfeits deceptively and they were considered “innocent” as they do not have intentions of purchasing counterfeits initially.

#### 4.3.4 Potential Damages Caused by Counterfeits

*“Counterfeiting is unethical because it has damaged brand equity and sales of genuine luxury products.”* (Zhuolin, Female, Qingdao)

*“Counterfeiting is unfair to original luxury designers. As the society is gradually accepting counterfeits, less people would support authenticity.”* (Vanessa, Female, Nanchang)

In this question, the majority of respondents have concerned about how piracy can damage originality and authenticity of genuine luxury products. As counterfeits are becoming more popular in the marketplace, the sales of genuine luxury companies would be damaged and designers would eventually lose their passion in creating new products. However, only a few respondents have awareness of how counterfeit products might damage Chinese consumers.

Based on the finding from interviews, it can be concluded that respondents from different part of China hold different views about counterfeit luxury products. Participants from first-tier cities are generally more open-minded towards counterfeits. They recognise counterfeits as a solid demand of the Chinese market and they believe that counterfeits are great value for money. While they enjoy shopping

counteracts, they are scared of being exposed at the same time. Most participants from second-tier cities appear to have a negative attitude towards counterfeits as they argue that it is considered as piracy and unethical. Their shopping behaviours tend to be more conservative as they try to avoid purchasing counterfeits and losing face. For participants from third-tier cities, although they believe that counterfeits are unethical, they are not against buying or wearing counterfeits because “no one can tell the difference”. Although participants believe that counterfeits are well-made and the similarity between counterfeits and genuine branded goods is quite high, they rarely support the idea that counterfeit consumers could influence genuine luxury consumers in purchasing behaviours.

## 5. Discussion

Consumers’ understanding of counterfeit industry is vague and unclear. Some consumers have a misconception of counterfeits, categorising them into luxury goods. Although most of respondents believe that counterfeiting is unethical, they are unaware of the potential damages posed by counterfeits to the society aside from intellectual property rights. Among all the variables that could possibly affect counterfeit purchase decision, “perceived value” is considered negative while “support for domestic products” is considered positive. In other words, consumers who approve the value of luxury products will be less likely to purchase counterfeits, while people with Ethnocentrism (support for domestic products) will be more supportive to counterfeits. Although brand awareness is identified as a variable that positively affects Chinese consumers’ counterfeit purchasing decision, it is found in the qualitative research that niche luxury brands with lower brand awareness could be harmed by counterfeits more.

It can be discovered that people from first-tier cities generally have a more open-minded attitude towards counterfeiting than the rest. However, consumers from second-tier cities are identified as the most unsupportive to counterfeits, they are also the ones who believe that purchasing behaviours of genuine buyers would not be affected by counterfeits.

Marketing/advertising strategies in the counterfeit industry are diverse and up-to-date. Sellers not only know how to avoid being detected by the internet police, they have taken advantages of strategies of genuine luxury products when advertising counterfeits. Comparing with online shopping experience, consumers found that physical store experience is boring and unpleasant. The impact of counterfeit buyers on global luxury economy is controversial. On one hand, many respondents argue that wealthy consumers who are capable of purchasing genuine luxury do not have demand for counterfeits. On the other hand, the superior quality of counterfeits produced in China has convinced some respondents that most consumers will eventually turn to counterfeits. It can be seen that the support for domestic products plays a predominant role in people’s attitudes towards counterfeits.

This study contributes to understand Chinese consumers’ attitudes, preferences and shopping behaviours in purchasing counterfeit luxury products. From exploring Chinese consumers’ understanding of counterfeit luxury products, problems with ethical issues were addressed. As most Chinese consumers are fully aware of the damages counterfeiting poses on copyright, other threats

should also be taken into consideration (e.g. safety, environmental issues). The discovery of marketing strategies of counterfeit sellers can be deemed as a significant breakthrough in this study. As manufacture technologies of producing counterfeits are improved, marketing/advertising is identified as another major force of thriving the counterfeit industry.

The limitations based on the sample size, which was not large enough to draw a strong conclusion. The limited time frame and the financial resources made it impossible to collect answers from respondents spread in the whole geographic area and a convenience sample was therefore collected. As our respondents are mostly generation Y and generation Z, it is difficult to study about counterfeit purchasing behaviours of older generations in China.

Due to limited resources and limited time frame, the study developed a research model based on only three categories: perceived brand value, brand awareness and support for domestic products. Although the results show that brand awareness is positively correlated with counterfeit purchase decision, the relationship between brand awareness and counterfeit purchase behaviours appeared to be unclear in the qualitative research. As this research project aims to study counterfeits from perspectives of Chinese consumers, another proposal to future research would be to study the negative effects of counterfeit luxury products on luxury companies from other dimensions.

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