Risky Business - Reducing Demand for Counterfeit Goods

Presented to the Marketing and Public Policy Conference
May 2010, Denver, Colorado

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Counterfeit Goods Defined

- The unauthorized copying of trademarked or copyrighted goods (Bamossy and Scammon 1985; Grossman and Shapiro 1988)
- Generic products are those that resemble the original product but do not bare the trademark or violate copyrights
- Pirated products are a subset of counterfeit products involving mostly copyright infringement (Brauneis and Shecter 2010)

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Magnitude of the Economic Impact of Counterfeit Goods

- The global counterfeiting market is worth over $200 billion annually (OECD 2007)
- Intangibles such as the harm to people and loss of brand equity magnify the impact
- 1% to 10% of total medicines sold globally are counterfeit (WHO 2007)

Previous Research on Counterfeit Goods

- Prior work on the demand side of counterfeiting has identified the motivation behind purchasing counterfeit goods (Wilcox et al. 2009; Tom et al. 1998; Bloch et al. 1993)
- However, research on the conditions that would cause a consumer to choose a counterfeit good over a legitimate good is lacking

Theoretical Framework

- Risk versus return (Bearden and Etzel 1982)
  - Are the benefits that you receive worth the risks that you will incur?

- Information asymmetry (Akerlof 1970)
  - When consumers are unsure which product is counterfeit and which is legitimate they risk paying a higher price for a product that is actually counterfeit

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Propositions

- Choice of counterfeit goods will be dependent on the amount of perceived risk associated with the product

- Fear of purchasing a counterfeit product will cause subjects to choose an expensive good over an cheaper good

- Choice of counterfeit goods will be dependent upon the price differentials between the counterfeit and the legitimate product

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Methodology

- Three studies using an experimental design with hypothetical scenarios

- Manipulated: Perceived Risk (High:Drugs vs. Low: DVDs), Price (High: \$15 vs. Low: \$6), Counterfeits vs. Non

- Student sample for reasons of convenience and because previous research has found that those 25 and younger have more exposure to counterfeit goods than those older than 25 (Tom et al. 1999)

- Pre-test: Perceived Risk, $F(1, 43) = 33.943$

DVD	Drugs
$M = 4.09$, SD = 1.34	$M = 1.98$, SD = 1.05

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Studies 1 & 2

Study 1: 2 (Type of Good: Drug vs. DVD) x 2 (Price of Good: $6 vs. $15) ANOVA, no mention of counterfeits, 51 subjects

Study 2: 2 (Type of Good: Drug vs. DVD) x 2 (Price of Good: $6 vs. $15), counterfeits in the marketplace but not identifiable, 60 subjects

Results Studies 1 to 2*
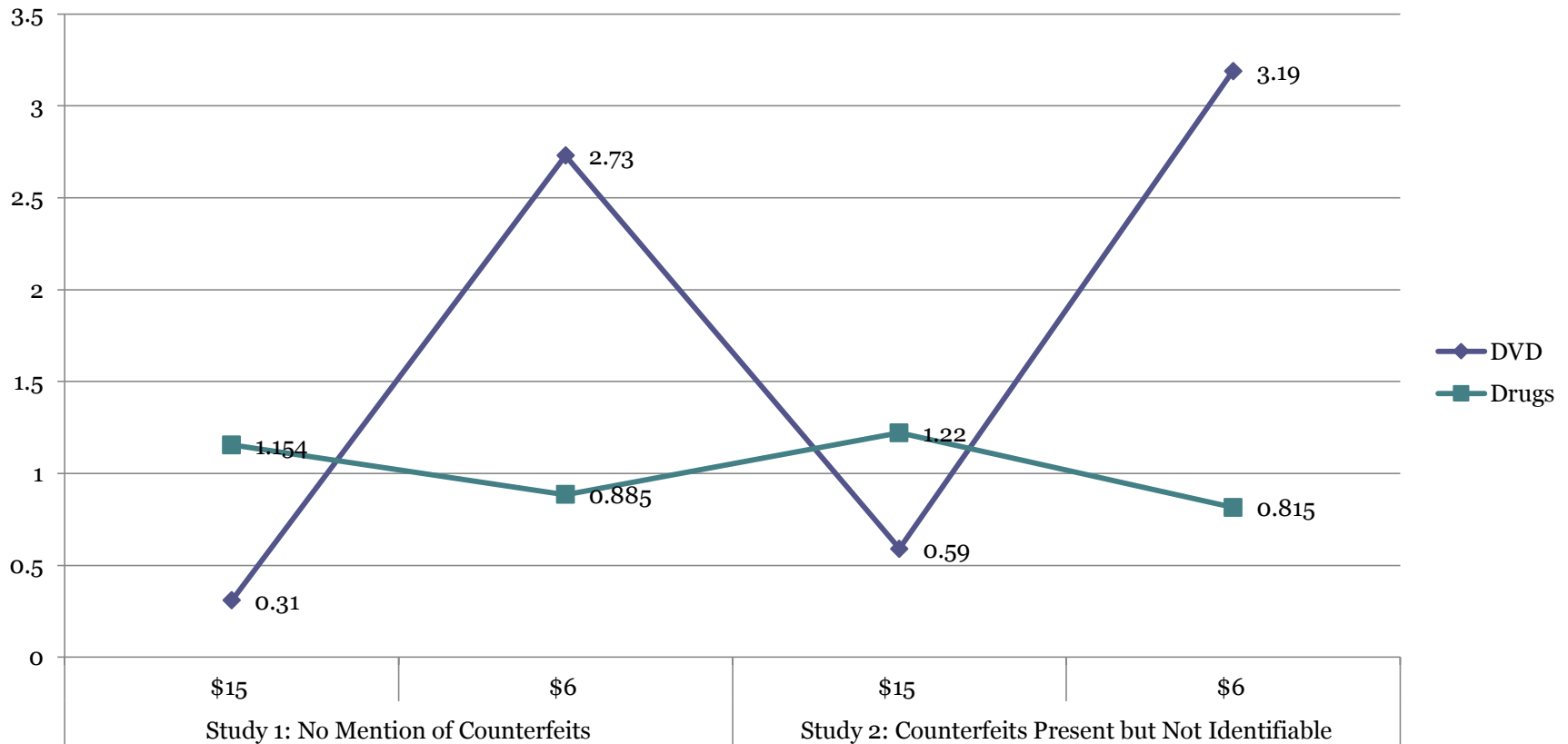
*All interactions within studies significant at $p < 0.001$

Study 3

- Perceived risk can be enhanced due to situational factors

- Perceived risk towards DVDs was enhanced by emphasizing the legal risks as well as the social risks

- A manipulation check confirmed that subjects felt that perceived risk was higher when the DVD was being purchased for one's boss than when it was being purchased for one's self
  - $(F(1, 43) = 21.30, p < 0.0001, M_{study2} = 1.98, SD = 1.95$ vs. $M_{study3} = 3.956, SD = 1.31)$

Key findings

- Increasing the purchase of legitimate goods over counterfeit goods is dependent upon: perceived risk

- Perceived risk can be manipulated in order to either increase or decrease preferences for counterfeit goods

Implications

- Advertising campaigns that extol the risk associated with the product
  - "When it just has to work" - Duracell

- Products that traditionally carry with them little perceived risk from usage can increase the amount of risk through marketing communications
  - "Would you risk your eyes to glasses that only looked like Oakley sunglasses?"

Thank You

Questions/ Comments?