

Introduction

SONY



If, as the old expression goes, imitation is the sincerest form of flattery then the top brass at brands such as Louis Vuitton, Sony and Microsoft must be blushing like crazy. Approximately seven percent of world trade is in counterfeit goods, according to The International Chamber of Commerce and 40% of brands counterfeited are composed of a list of only 25 brands. That's \$350billion a year that could be funnelled through legitimate channels and into the hands of companies that invest in their development and promotion.

That counterfeiting is a criminal activity that can have tragic consequences is not in dispute. What is in dispute, however, is that counterfeiting is not always damaging to brand and can actually be leveraged to a brand's advantage. Counterfeiting can give brands access to new markets and be a benchmark of a brand's health. It can increase a brand's awareness such that when the economic climate of a country or an individual's improves, sales migrate from counterfeit to original. And it can also compel the authentic brand owner to protect, innovate and expand its products, services and markets to keep ahead of its imitators and squeeze out the competition.

The good, the bad and the ugly

There are three main channels to market; the good, the bad and the ugly. In the 'good' first channel, authentic goods through authentic channels, the brand owner is in full control of the distribution and pricing and supports the product with investment. This is the position most brand owners seek to maintain as brand equity can be controlled fully.

However, it is not a perfect world. With the increasing demand for higher margins and lower prices, brands have outsourced the manufacture of their goods to developing countries where labour and cost of production are much lower. 80% of seizures of counterfeit brands are traced back to Asia where they were manufactured and distributed. The 'bad' second channel, also known as the grey market, is partly fuelled by this production in countries like China and India. Authentic products find their way into non-authorized retail distribution outlets which are beyond the control of the brand owner. The retail outlet could be a street hawker, a backstreet shop or it could be a mainstream retailer, such as Asda. Asda, having been denied supply of the new England football shirts by Umbro in February 2006, sourced five thousand shirts from surplus stock in Europe and sold them at a 12% discount to the official ones to be launched by the FA three days later – scuppering both the FA's and Umbro's pricing and distribution strategy.



ASDA



Brand piracy

The third 'ugly' channel is also known as the black market, where unauthentic goods are sold through unauthorised channels. This can have disastrous consequences with products that are imbibed, such as cigarettes, pharmaceutical products or baby formula, with products such as machinery which cause automobile or aeroplane accidents, or with other products such as cosmetics and software. This is the dark side of counterfeiting. But ugly ducklings can turn into swans.

Piracy's benefits

There are a whole raft of brands for which both black and grey market counterfeiting is advantageous. We've all seen the fake Rolex watches, Burberry caps and Louis Vuitton bags. Contrary to popular belief this doesn't actually damage the brand equity but actually supports it. There is no cannibalisation as the people who generally buy these fake products are not in a position to buy the original - as soon as their economic condition changes they will run to the front of the queue to buy the original. Awareness of the brand rockets in markets in which the authentic product operates as more consumers have access to these products that would otherwise be out of their reach. This increased brand exposure helps drive sales of authentic products from those who can afford them.



Understanding of the product's values is also not diluted as the owner of the counterfeit products knows it is just that, a fake, and therefore does not expect the same performance from it. In fact, decisions to purchase the counterfeit products usually reaffirm the brand's values as the recipient buys the article to project the very image the brand is trying to portray through its advertising and promotion. This endorsement encourages loyalty, generates awareness and strengthens the brand's values with the owner of the fake as well as everyone with whom they come in contact.

Another reason brand piracy can help increase a brand's value is it is a good indicator of a brand's strength. Brands which are not faked are considered too weak to generate consumer demand and are consequently not produced. Consumers know this is the case so their decision to buy an original is, in part, derived from the popularity of their chosen brand in the grey channel.



If counterfeiting is damaging to brands, how come none of the most commonly counterfeited brands, such as Nike, Gucci, Adidas, Prada, Chanel or Burberry are suffering? Turnover at Nike, for example, has increased by 45% since 2001. Burberry has seen turnover increase by 68% over the same period with operating profit more than doubling. And Microsoft, which accounts for more incidents of IP theft than any other brand, has seen its turnover up by 57%. Figures like these defend the position that counterfeited brands are more likely to succeed.



Brand piracy

Some brands do embrace the counterfeit market rather than seeing it as a threat. Giorgio Armani, on a recent trip to Shanghai, purchased a fake Armani watch for \$22 instead of the £710 his authentic watches retail for. He said “It was an identical copy of an Emporio Armani watch...it’s flattering to be copied. If you are copied, you are doing the right thing.” Although this was a publicity stunt it does highlight the fact that consumers of fake merchandise are polar opposites to consumers of the authentic and therefore pose no significant threat to the brand owner.

Another benefit of counterfeiting is that it closes off the competition. High priced branded goods encourage competition to enter the market at slightly lower price points. Counterfeiters then produce branded goods and sell at significantly below the cost of the competition. This means the competition is squeezed out as it has nowhere to go – it’s priced out of the top market by the original brand and can’t compete with the counterfeit as their prices are too low.



Counterfeiting in these circumstances therefore presents a significant opportunity for branded goods. One such example of an opportunity that was taken was with Spanish brandy Fundador in the Philippines. Counterfeit was rife of Fundador, it was an endemic way of life in virtually all Philippines’s communities. Children would collect the labels and bottles of the original and sell them to counterfeit production plants who would refill the bottles with a counterfeit product to sell back to the Philippine communities.

This eventually offered the brand owner the opportunity to convert them over to the genuine product by developing an extremely generous advertising promotion. Prizes such as Harley Davidsons and Pajero cars were offered on the bottles’ labels which the counterfeiter’s could not either compete with or copy because the offers were changed every six weeks. Sales of the genuine product quadrupled in three years with this strategy.

Counterfeiting can give brands access to new markets. For example, a Thai based manufacturer of branded tinned produce used to have a large presence in China. It pulled out a number of years ago and since then the Chinese competition have copied the brand and developed the market. There now remains a much larger market opportunity for the genuine, original brand to exploit by re-entering the market. Awareness has been maintained, penetration has increased and the competition has been closed off.

Conclusion

There are, of course, negatives to counterfeiting. But if the fake is distinguishable from the original then the genuine brand owner is presented with significant opportunities: increased awareness, access to new markets, closing off the competition and an affirmation of the brand’s values. And if brand owners take hold of these opportunities and leverage counterfeiting to their advantage, then they will be blushing not just from the imitation but also from the congratulations from their achievements.

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