

Counterfeiting improves fashion quality, study finds

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Counterfeit products have the power to stimulate innovation in the fashion industry and benefit consumers, according to a new study published in *Marketing Science*, a journal of the Institute for Operations Research and the Management Sciences (INFORMS).

Untangling Searchable and Experiential Quality Responses to Counterfeiting is by Professors Yi Qian of the University of British Columbia Sauder School of Business; Qiang Gong of Wenlan School of Business, Zhongnan University of Economics and Law, China; and Yuxin Chen of New York University Shanghai.

The research investigates two questions: (1) how do brands react to counterfeits? and (2) what are effective means of enforcement against counterfeits?

The authors studied financial statements of 31 brands selling fashion leather and sports shoes in China over a 12-year period. During this time, counterfeit production surged due to a change in the government's enforcement policy.

Most observers assume that counterfeits are bad for producers of original genuine products. However, the authors find that such producers react to counterfeiting by using superior materials and better shoe designs, whereas no corresponding improvements occur for "knock-offs." The improvements focus primarily on better aesthetic appeal for consumers.

The study outlines scenarios where counterfeits in the market can stimulate authentic producers to improve aesthetics for high-income consumers and improve affordability for low-income consumers. In these cases, many consumers are, in fact, better off.

"Established companies don't sit idly by while they are copied shamelessly," Yi Qian says. "They react by improving their products to set themselves apart from their illegal competitors."

When counterfeiters fool too many customers, authentic brands step up their design game. The authentic producers make the most of their cost advantages to produce more highly differentiated goods from the counterfeits, which shoppers can easily identify as real. In fashion, this differentiation strategy can mean an increased investment in aesthetics. Consumers benefit from this strategy because part of their satisfaction derives from superior aesthetics.

This isn't good news for every sector:

"Improving appearance is good for the clothing industry but not the pharmaceutical industry," Yuxin Chen points out. "Consumers are worse off if counterfeiters force pharmaceutical companies to waste their resources on aesthetics rather than safety or effectiveness."

Qiang Gong adds, "In markets where aesthetics is unimportant, counterfeits can drive out authentic products."

This phenomenon is similar to what occurs in the used car market, when the proliferation of "lemons" prevents sellers of superior used cars from receiving a higher price for their product.

Intellectual property enforcement is seldom perfect, even in wealthy nations, the authors maintain. Their research suggests that policy-makers

should take note of how counterfeiters may impact producers differently in different markets.

"Sometimes, it is efficient to leverage a private brand's information and incentives to self-differentiate from knock-offs through innovation. This, combined with government enforcement, could effectively combat counterfeits." Yi Qian says, "Even in the case of counterfeits, market can serve consumer welfare as an 'invisible hand,' to use Adam Smith's words."

More information: *Marketing Science*, [pubsonline.informs.org/doi/abs/...1287/mksc.2014.0867](https://pubsonline.informs.org/doi/abs/10.1287/mksc.2014.0867)

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