



Integrating consumers' motives with suppliers' solutions to combat Shanzhai: A phenomenon beyond counterfeit

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Abstract Imitation goods are widely spread throughout the global business world. Shanzhai imitation (山寨) represents a type of imitation that mimics the original brand through surface or functional similarities but often provides enhanced or innovative features adapted to local market needs. Although both practitioners and academics have studied and provided solutions to combat counterfeits, solutions for original brand manufacturers to address threats from Shanzhai products are lacking. In this article, we first differentiate Shanzhai products from counterfeits. Using a mixed-method approach that combines interviews and laboratory experiment results, we then identify social, individual, functional, and financial (SIFF) factors as driving forces behind consumers' purchasing of Shanzhai products. Shanzhai buyers place more weight on functional value and price/quality ratio than do counterfeit buyers, who in turn favor social value and materialism more than Shanzhai buyers. Finally, we provide several recommendations to original manufacturers from both the demand and supply sides.

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1. What is Shanzhai manufacturing?

For years, the world has witnessed the emergence and success of a number of multinationals from emerging economies that made their 'first bucket of gold' by imitating leading original brand

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manufacturers. In fact, these late movers from East Asian countries (e.g., South Korea, China) rapidly industrialized their production by copying market leaders' offerings to gain a large portion of the market share. A recent trend in these companies is to add innovative features to their products to satisfy local consumers' unmet needs in combination with imitating the exterior look of the original brand. For example, by copying Nokia and Motorola and collaborating with MediaTek, Tianyu—a leading Taiwanese semiconductor company—was able to mass produce easy-to-use, multifunctional, and extremely affordable products for price-sensitive consumers in emerging markets (e.g., a solar battery charging system) and thus became China's third-largest cell phone maker (Luo, Sun, & Wang, 2011).

Products that imitate original brands through visual or functional similarities and offer additional product benefits are often referred to as *Shanzhai* (山寨) products. *Shanzhai* originates from the Chinese characters '山寨' (Chubb, 2015), which represents a "bandit stronghold outside government control" (Tse, Ma, & Huang, 2009). As indicated by the name, *Shanzhai* manufacturers often develop from small private firms that sell copied products. For example, since 2008, firms in mainland China—especially in the Pearl River Delta region—produced more than 60% of the 1.2 billion *Shanzhai* cell phones in the world (Zhu & Shi, 2010). *Shanzhai* products significantly imitate but easily can be differentiated from original products by consumers without much confusion (Balabanis & Craven, 1997; Foxman, Berger, & Cote, 1992). Additionally, *Shanzhai* products often provide enhanced innovative features and have solid potential to become innovative brands. Two examples are cell phone manufacturers Xiaomi and Huawei, which evolved from *Shanzhai* with enhanced innovation and eventually became leading Chinese brands. Xiaomi started by imitating leading mobile phone brand Apple but with a unique business model and was once called the "Apple of the East" (Barboza, 2013). Xiaomi is now the world's fourth most valuable tech startup, with a wide range of products and annual sales of \$1 billion USD in 2016 (Fang, 2017).

Many multinational firms from developed economies noticed the tremendous threat posed by new *Shanzhai* manufacturers (Ren, Yu, & Zhu, 2016). CEO of China's e-business giant Alibaba Group and one of the world's 50 richest billionaires, Jack Ma publicly endorsed *Shanzhai* products, stating that China's *Shanzhai* products have an even better price/quality ratio than the originals (Li, 2016). In fact, many *Shanzhai* products—counterfeits and greychannel goods—are traded every day on Jack Ma's Alibaba and Taobao, two famous online

trading platforms in China that pose significant challenges to original brand manufacturers.

Despite its relevance in the marketplace, little is known about *Shanzhai* from a research perspective. For example, why do consumers choose *Shanzhai* products instead of counterfeits? How should original brand manufacturers combat *Shanzhai* products, especially those that provide enhanced innovative features? In this article, we compare and contrast *Shanzhai* and counterfeits, investigate consumers' motivation to purchase *Shanzhai* products instead of counterfeits, and recommend solutions for original manufacturers to address the threat from *Shanzhai* products from both consumer demand and company supply sides.

2. What are *Shanzhai* products?

Cordell, Wongtada, and Kieschnick (1996, p. 41) defined counterfeiting as "any unauthorized manufacturing of goods whose special characteristics are protected by intellectual property rights (trademarks, patents, and copyrights)." There are three distinct types of counterfeits: high-quality counterfeits, low-quality counterfeits, and lookalikes or knockoffs (Cesareo, 2016). Both high- and low-quality counterfeits use the original's trademark without authorization and aim to recreate the original in terms of product appearance, brand name, logo, and design. High-quality counterfeiters replicate the original as closely as possible and may easily deceive consumers. Low-quality counterfeits are often made of inferior materials, and therefore are not as deceptive as high-quality ones. Lookalikes or knockoffs copy the original products but use different brand names. In addition to the aforementioned three types of products, greychannel goods are worth attention in the counterfeit literature. Greychannel goods are "legitimate and original products distributed through unauthorized channels" (Cesareo, 2016, p. 2). Although producing counterfeits represents intellectual property right (IPR) infringement and is legally prosecutable, selling legitimate products through grey market channels is, in many cases, legally justifiable (McDonald & Roberts, 1994).

Shanzhai products include pure imitation and smart innovation. Pure imitation *Shanzhai* products are the new entrant products that look similar but not identical to the original products. This type of *Shanzhai* product manufacturer often just changes a few letters of the original brand name with the obvious intention of confusing consumers. For example, a pure imitation *Shanzhai* brand of the Danish butter Lurpak is called Norpak, which may deceive unknowing consumers. We also call pure imitation items noninnovative *Shanzhai* or *Shanzhai* knockoffs.

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