



# Asymmetrical effects of past experiences with genuine fashion luxury brands and their counterfeits on purchase intention of each<sup>☆</sup>

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## ABSTRACT

As counterfeiting activity continues to thrive around the world, marketers of fashion luxury brands work hard to discourage counterfeiting and to protect their revenues. This research evaluates the business risk related to fashion counterfeit consumption behavior by examining the effect of past experiences with counterfeit luxury brands (CLBs) and genuine luxury brands (GLBs). Based on survey data from five designer fashion product categories, Study 1 finds an asymmetrical effect that past experiences with GLBs are negatively related to purchase intention of CLBs, whereas past experiences with CLBs do not relate to purchase intention of GLBs. Study 2, based on experimental data from two luxury handbag brands with realistic price information, confirms the results of Study 1. This study also discusses research and managerial implications.

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## 1. Introduction

McCarthy (2004) defines counterfeiting, or “manufacturing knockoff,” as “the act of producing or selling a product containing an intentional and calculated reproduction of a genuine trademark. A counterfeit mark is identical to or substantially indistinguishable from a genuine mark.” Counterfeiting activity is estimated to account for 5 to 7% of world trade, depriving genuine manufacturers of about \$600 billion a year, with a growth rate of 1700% over the past 10 years (Economist, 2010). As for luxury fashion brand counterfeiting, in the U.K., more than 64% of the U.K. Customs seizure cases were luxury brands (The Financial Times, 2005). U.S. Customs and Border Protection also reports luxury brands as a major object of counterfeiting, seizing about \$273 million in 2008, a 39% hike in value from the previous year (Casabona, 2009). Counterfeit luxury brands are so prevalent that the U.S. Congress advocates the Innovative Design Protection and Piracy

Prevention Act, which extends copyright protection to fashion brands and works for the Anti-Counterfeiting Trade Agreement with eleven countries that represent the major counterfeiting victims and offenders (The U.S. Congress, 2010).

Counterfeits create enmesh problems for the global society. First of all, they pose a serious threat to legitimate businesses by undermining innovation, which is a key component of corporate revenues and national economic growth (Wilke & Zaichkowsky, 1999). The U.S. Customs and Border Protection blame counterfeit merchandise for the loss of more than 750,000 American jobs as well as the loss of tax revenues (Meyers, 2008). Criminal investigations also find that counterfeits serve as a major means of supplying funds to terrorist organizations, including Al-Qaeda, Hezbollah in Lebanon, and the group accused of the Madrid train bombings in 2004 (International Herald Tribune, 2007; Ungoed-Thomas, 2005). Consequently, manufacturers, distributors, researchers, and policy makers pay a great deal of attention to developing strategies that discourage counterfeiting to protect the victims of counterfeiting. They propose and implement various anti-counterfeiting measures, including diligent legal litigation (Economist, 2010). Nevertheless, counterfeiting continues to thrive around the world because of the growing demand worldwide for well-known luxury brands, lack of consumer and counterfeiter morality, production and distribution capabilities in less developed countries, inadequate penalties for counterfeiters, and technological

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advances enabling counterfeiting activities (Chaudhry, 2006; Green & Smith, 2002; Lee & Yoo, 2009; Olsen & Granzin, 1993; Wee, Tan, & Cheok, 1995).

While marketers of genuine luxury brands (hereafter called GLBs) struggle with their corresponding counterfeit luxury brands (hereafter called CLBs), ironically, in the software industry, counterfeits are known to benefit original brands. For example, Conner and Rumelt (1991) find that software piracy increases the number of program users; consequently, manufacturers object to software protection. Givon, Mahajan, and Muller (1995) also find that the sales of genuine word processors and spreadsheets in the U.K. significantly increase because of active word-of-mouth resulting from pirated items. Slive and Bernhardt (1998) insist that software manufacturers maximize their profit by tolerating piracy. Maltz and Chiappetta (2002) oppose eliminating software pirates because they can help firms identify useful innovative technologies. Haruvy, Mahajan, and Prasad (2004) demonstrate with real market data that piracy aids a full and fast market penetration of software. The photocopying of journal articles by users (Liebowitz, 1985) as well as illegal music file sharing (Peitz & Waelbroeck, 2006) also has similar findings.

An important question that arises is whether, as observed in pirated software, inferior products (CLBs in our research) benefit quality products (GLBs) (McGinnis & Gentry, 2009). Obviously, marketers of GLBs must not agree, but little research has investigated the effect of CLBs on GLBs and vice versa. Therefore, the purpose of this research is to examine the effect of past experiences with CLBs (GLBs) on the purchase intent for GLBs (CLBs). The result will be a major contribution of this study to the literature. In the study, we narrowly define *counterfeit consumers* as consumers who are not deceived by counterfeiters, but knowingly purchase and consume CLBs. In fact, such nondeceived consumers of CLBs comprise the majority of such consumers; they are well aware of unlawful retail outlets selling GLBs, and such sellers also explicitly inform consumers that they are selling CLBs (Gentry, Putrevu, Shultz, & Commuri, 2001; Grossman & Shapiro, 1988).

In the following sections, we summarize the current research trend on CLBs, develop research hypotheses, and conduct two studies to test the hypotheses across luxury fashion product categories. Finally, we discuss the managerial and research implications of the findings.

## 2. Research trend and hypothesis development

### 2.1. Research trend and past behavior

Researchers describe possible antecedents of intention to purchase CLBs by a variety of variables (Lee & Yoo, 2009). Based on a comprehensive literature review, Eisend and Schuchert-Güler (2006) classify the determinants into four groups. The first group includes demographic and psychological characteristics (Bloch, Bush, & Campbell, 1993; Cheung & Prendergast, 2006); self image (Bloch et al., 1993; Yoo & Lee, 2009); social expressions (i.e., to express themselves and to fit in; Wilcox, Kim, & Sen, 2009); attitudes toward counterfeiting (Cordell, Wongtada, & Kieschnick, 1996; Penz & Stöttinger, 2005; Schlegelmilch, Stöttinger, & Der Kauf, 1999); readiness to take risk, fashion involvement, ethical predisposition, self identity, and price consciousness (Penz & Stöttinger, 2005); and materialism and expected future social status (Yoo & Lee, 2009). The second group consists of product-related features such as product importance, retailer image, durability, style, fashionableness, and price (Bloch et al., 1993); product attributes and brand image (Bian & Moutinho, 2009); price of GLBs (Harvey & Wallas, 2003); and quality differences between CLBs and GLBs (Jenner & Artun, 2005; Schlegelmilch et al., 1999). The third group has social and cultural contexts such as expected penalty associated with counterfeit purchase and culture (Harvey & Wallas, 2003); social norm (Penz & Stöttinger, 2005); and anti-counterfeiting campaigns (Schlegelmilch et al., 1999).

The fourth group includes purchase situations and mood of consumer such as access to the counterfeits (Penz & Stöttinger,

2005). The above review shows that little research has investigated two important issues on counterfeiting: first, how marketing activities of GLB firms affect CLB purchases and, second, how past behavior (e.g., purchase experiences with CLBs) affects CLB and GLB purchase intentions. The purpose of this study is to examine the role of past behavior on CLBs and GLBs. Future research needs to examine the effect of GLB marketing activities on CLB-related consumer behaviors.

The theory of reasoned action finds that past behavior affects future behavior more significantly than intentions or perceptions of behavioral control do (Bagozzi, 1981; Ouellette & Wood, 1998). Past behavior generates an inertial habit with repeated behavior and predicts future behavior better than cognitive evaluations of alternatives do (Bamberg, Ajzen, & Schmidt, 2003). As a result, past behavior heavily influences the current and future shopping patterns of consumers. This view predicts that once consumers use CLBs, they are likely to buy them again, although such product choice inertia may diminish in the long run. Seetharaman, Ainslie, and Chintagunta (1999) confirm that inertial choice behavior formed by past behavior makes consumers repeat the same purchase patterns and is less sensitive to marketing programs developed to change such decision-making.

Such findings about past behavior suggest that the more consumers experience CLBs the more they will be likely to purchase them. However, in the context of luxury fashion brands, past behavior is likely to provide consumers with unique consequences; some of them are negative and others are positive. These consequences would in turn affect the behavior related to GLBs in a unique way, which might be different from the consumers of pirated software. Specifically, our four hypotheses investigate the effect of past purchase experiences with CLBs and GLBs on the future intention to purchase each.

### 2.2. Research hypotheses

#### 2.2.1. The effect of past experiences with CLBs on the purchase intention of CLBs

As consumers experience CLBs, the research expects that they are likely to purchase more CLBs not only because of habitual behavior with regard to buying CLBs, which is the strongest reason, but also for the following weaker reasons. First, many consumers tend to buy CLBs for novelty and variety needs, and such novelty- and variety-seeking behavior is more frequently found for less expensive products (Wee et al., 1995). Consumers perceive the brand name, the label, and recognizable design characteristics such as logo, color, and pattern to be valuable. Such hedonistic or novelty reasons make consumers value a CLB for its own sake (Babin, Darden, & Griffin, 1994). When consumers pursue hedonistic rather than utilitarian or status needs, they will easily accept CLBs and not worry about probable low quality. Even when others notice that they consume CLBs, consumers who do so for pure hedonistic reasons will not feel socially embarrassed. They do not consider a consumer image built on CLBs to be an issue of lower self-esteem. Second, CLBs separate prestige from quality aspects of GLBs, while GLBs offer both (Grossman & Shapiro, 1988). One main goal that consumers pursue from CLBs is higher social status. Accordingly, the primary benefit of CLBs is symbolic rather than functional, although high-end CLBs provide satisfactory physical quality (Gentry et al., 2001). As long as observers have difficulty to distinguish CLBs from GLBs, symbolic shopping purposes will reinforce consumers' desire to continue purchasing CLBs (Grossman & Shapiro, 1988; Wilcox et al., 2009). Third, CLBs provide price advantage, which researchers consider to be the primary reason for buying CLBs (Albers-Miller, 1999; Dodge, Edwards, & Fullerton, 1996; Harvey & Wallas, 2003; Prendergast, Chuen, & Phau, 2002). A CLB is a lower-quality, lower-price choice, whereas a GLB is a higher-quality, higher-price choice (Gentry, Putrevu, & Shultz, 2006; Prendergast et al., 2002). However, interestingly enough, CLB consumers do not mind low quality and poor materials because they do not see CLBs as inferior choices when they see the economic benefits of such products, a decision

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