Family Businesses that produce counterfeits: What is stopping them from creating their own brand?

Tahsan Rahman Khan a, *

a University of Liberal Arts Bangladesh, House 56, Dhanmondi 4/a, Dhaka, Bangladesh

Abstract

Established brands are prone to attacks by counterfeits, especially in emerging economies where trademark protection laws are loosely enforced. Businesses, usually family owned SMEs, which are engaged in this unscrupulous manufacturing of counterfeits, are capable of creating and developing their own brands. But very few of these firms actually venture out into the legal form of branding. This study tries to understand why firms capable of producing quality products lack the willingness to create their own brands. Through two separate studies conducted in two phases among Bangladeshi producers of counterfeit leather goods and counterfeit car parts the study identifies six factors that contribute to the lack of interest on the counterfeit manufacturers’ part to produce original brands.

Keywords: Counterfeits; Brand dilution; Trademark infringement; Brand elements.

1. Introduction

Brands strategic assets of firms that that carry specific promises to target consumers. Brands are built upon network of associations that carry meaning, which are deliberately positioned in consumer mind. These brand associations, which are built over time by means of marketing communications and product experiences, can be weakened or destroyed as a result of actions by the company itself or some other external entity. This phenomenon of weakening of positive brand associations or strengthening/addition of negative brand
associations is commonly known as brand dilution. Brand dilution can occur from both external and internal sources.

Internal sources of dilution are defined as activities undertaken by parties inside the firm that are capable of diluting the brand. Internal sources of dilution include inappropriate marketing mix decisions and ill-advised brand extensions or brand alliances. External sources of dilution are defined as activities undertaken by parties outside the firm that weaken a brand's appeal to its consumers. These sources of dilution include negative media publicity, distribution channel problems, consumer boycotts, negative word-of-mouth communications, and the issue central to this paper - unauthorized uses of trademarks in the form of counterfeits.

1.1. Trademark Infringement and Counterfeits

The unauthorized use of a trademark occurs when a company uses part or all of another company’s brand name, logo, slogan, package design, or any other brand element to confuse people into buying the product. For example, there are companies marketing building block toys to children whose names deceptively mimic the brand Lego. It was found that Lego regularly receives consumer complaint letters about their building block toys from consumers who purchased toys with similar names like Ligo. In most of these cases the consumers were dissatisfied by the quality of the product that they thought was produced by Lego (Zaichowsky, 2006).

Trademark infringement like these can have long-term negative effects on the original brand in multiple dimensions. First, the inferior quality of the imitator brand can get associated with the original brand reducing the quality perception of the brand. Second, original brand can lose sales as consumers keep on buying the imitator brand believing that it is the original one. Research in this domain finds that consumers exposed to imitator brands confuse product origins as much as 25% of the time (e.g., Foxman et al., 1990; Howard et al., 2000; Loken et al., 1986).

Third, negative spillover may occur from the imitator to the original brand even in situations where two brands deal in different product categories. Research on trademark dilution has found that similarities in brand logos between Kodak film processing and Kodak pianos reduce consumers' ability to retrieve from memory the product category associated with Kodak film (Morrin et al., 2006).

Fourth, when two brands are visually similar, consumers are more likely to generalize attributes from one brand to the other (Warlop and Alba, 2004). For instance the Coca-cola trademark was diluted when Cocaine used the "Enjoy Cocaine" tagline in its campaign with font and colors identical to those of the Coca-cola company trademarks (Taillieu, 2007).

Research has found that dilution and consumer confusion due to trademark similarities is reduced when consumers have prior familiarity with the original brand. Morrin et al., 2006 found that high familiarity with a senior trademark (relative to familiarity with the imitator) protected the senior trademark from dilution. Foxman et al., 1990 found, too, that harm to the senior brand diminished when consumers were more familiar with the senior brand.

The most blatant form of trademark infringement occurs when the imitator creates counterfeits or copies the original brand without any tweaking of the brand elements. Counterfeiting is a significant and growing problem worldwide, occurring both in less and well developed countries. In the USA economy, the cost of counterfeiting is estimated to be up to $200 billion per year (Chaudhry et al., 2005). A number of definitions have been used for product counterfeiting. For this paper the definition given by Cordell et al., 1996 and also used by Chaudhry et al., 2005 is appropriate: any unauthorized manufacturing of goods whose special characteristics are protected as intellectual property rights (trademarks, patents and copyrights) constitutes product counterfeiting.

Research related to counterfeiting shows that consumers have lower preferences for luxury brands after users are exposed to counterfeits (Wilcox et al., 2009). Gentry et al., 2001 found that people buy counterfeits because they liked the genuine brand but could not afford it. Albers-Miller, 1999 found a significant role of the
risk factor on the purchasing of counterfeits. Those consumers who have lower ethical standards are expected to feel less guilty when buying a counterfeit (Ang et al., 2001). These consumers rationalize their behavior in a way that it reduces cognitive dissonance of an unethical behavior.

1.2. Prevalence of Trademark infringement and Counterfeits in Bangladesh

Bangladesh is a South Asian country of 160 million people. Bangladesh is chosen for the purpose of this research because trademark and copyright laws are loosely enforced, making Bangladesh one of the Asian hubs for counterfeit manufacturing. Bangladesh is an emerging economy that has been growing steadily during the last decade. The increased buying power of the mass has led to increased interest in branded goods and services. But absence of global brands in most of the sectors in the country has led to a burgeoning growth of products that pry on established global brands. But most importantly, examples of infringement found in Bangladesh cover a broad spectrum, ranging from outright counterfeiting to confusing consumers with subtle resemblances with original brands. Furthermore, examples of trademark infringement are found in service-oriented firms along with traditional manufactured goods.

One of the most successful companies in the fast food sector of Bangladesh is Dominous Pizza. With 4 outlets across Dhaka, the capital of Bangladesh and with a decade of growth, the company has established itself as a strong brand within Bangladesh. The fact that the company built its brand around the global brand Domino’s Pizza by adding an extra alphabet in the original brand name was not common knowledge among consumers in Bangladesh. At the time of its launch a decade ago, there was no other pizza chain in Bangladesh. Thus consumers started to associate pizza with Dominous, and as a result the imitator started to enjoy all the benefits of being a brand.

But a few years later when the original brand entered India, most of the Bangladeshi households that subscribed to Indian television channels became exposed to the original brand through the TVC of Domino’s brand. Thus, Dominous, which was initially positioned as a brand in Bangladeshi consumer’s mind turned into an imitator and lost its position in the market as a leading pizza chain in Bangladesh. The family run business, Dominous had successfully built a brand. But since it did not create an original brand, the success was short lived.

A similar case exists in the fashion-retailing sector where a brand named Crocodile enjoys the status of a brand. But the brand clearly imitates Lacoste with a logo that is a mirror image of the original brand. With 4 outlets in Dhaka, the imitator has established itself as a strong player in the market. The brand has made successful attempts at making itself credible to Bangladeshi consumers by using chic advertising using western models and a price point that is well above the average local fashion brands price point. Like the initial success of Dominous, the success of Crocodile is attributable to the fact that Bangladeshi consumers are not aware of the global brand Lacoste. If Lacoste enters the south asian market and Bangladeshi consumers are exposed to the marketing communication of the original brand, Lacoste, then Crocodile is sure to experience a fall from its brand status like Dominous.

Both Dominous and Crocodile are family run businesses that have the capability to create quality products. But they chose not to create original brands, but to create brands that mimic successful global brands that are not available in Bangladesh. These family-run businesses risk loosing what they have built by their brazen use of trademarks not owned by them. This study identifies the underlying reasons as to why family-run SMEs find producing products that infringe upon global trademarks, especially counterfeits, more attractive than creating their own brands.
2. Methodology

The study was conducted in two phases. In the first phase a qualitative study was conducted among 10 producers of counterfeits using in-depth survey technique. The goal of this phase was to identify relevant variables that possibly explain the reason behind family businesses not producing their own brands. A total of 8 variables were identified in this initial research. The variables are lack of confidence, additional marketing spending, lack of knowledge, weak demand for domestic brands, risk of branding, threat of competing brands, additional profitability, and mobility barriers.

In the second phase of the study a quantitative research was conducted using a questionnaire to test 8 hypotheses among 30 producers of counterfeits. The hypotheses that were developed as a result of the first phase and tested in the second phase are as follows:

- H1: Family businesses lack confidence in their own abilities to create own brands
- H2: Marketing spending to build brands discourages family businesses to create brands
- H3: Family businesses lack the necessary knowledge to build brands
- H4: Family businesses believe that the demand for domestic brands is weak
- H5: Family businesses believe that creating brands is risky
- H6: Family businesses think the competition from existing global brands is very strong
- H7: Family businesses are happy with current level of profitability
- H8: Branding creates mobility barriers that limit the shift from one business to another for family businesses

In each of these cases, the null hypothesis was that the factor was not significant. These hypotheses were then tested to identify the variables that are significant at the p<.05 level.

3. Results

The eight variables identified in the initial in-depth interviews were tested in the second phase of the research by using binomial test. In each of the questions 1 was coded as the factor having influence and 0 was coded as the factor having no influence. The expected value supporting the null hypothesis was assigned 0.5.

3.1. Lack of confidence:

The in-depth interviews revealed that the owners of family businesses who wanted to create their own brands but decided not to do so attributed their decision to a factor that they cannot fully explain. But a serious probing led some of the owners to reveal that they lack the confidence needed to create their own brands. Some of the owners admitted that they are “just not up for it”. To test whether confidence plays a part, owners were asked whether they lack the confidence to build their own brands in the second phase study. The results show that it is not significant (p value = 0.99).

Table 1. Statistical output for lack of confidence as a factor:

| Category       | N  | Observed Prop. | Test Prop. | Asymp. Sig. (2 tailed) |
|----------------|----|----------------|------------|------------------------|
| Group 1 (Code 0) | 20 | .67            | .50        | .099                   |
| Group 2 (Code 1) | 10 | .33            |            |                        |
| Total          | 30 | 1.00           |            |                        |
3.2. Additional marketing spending:

Firms that are producing counterfeits do not need to incur any advertising spending since the original brand is promoting the brand and creating demand for the counterfeits as well. Producing own brands would mean that the family businesses would have to invest a hefty sum in advertising and promotion. In the initial study the counterfeit manufacturers boasted that they have demand for their products without having to spend any money for advertising. Thus, the additional marketing spending was also identified as a variable that explains the apparent nonchalance on the counterfeit producers part not to produce own brands. The quantitative study in the second part showed that it is actually significant with a p value of 0.005.

Table 2. Statistical output for additional marketing spending as a factor:

| Category          | N  | Observed Prop | Test Prop | Asymp. Sig. (2 tailed) |
|-------------------|----|---------------|-----------|------------------------|
| Group 1 (Code 1)  | 23 | .77           | .50       | .005                   |
| Group 2 (Code 0)  | 7  | .23           |           |                        |
| Total             | 30 | 1.00          |           |                        |

3.3. Lack of knowledge:

Branding requires sophisticated knowledge and experience. Mere advertising spending cannot ensure a brand being created, unless supported by a strategic branding initiative. Segmenting the market with appropriate variables to target the ideal audience and then to position the desired product associations is a craft that is not innate but acquired by education and experience. Many of the owners admitted that they had limited knowledge on how to create a brand. Thus this limited knowledge was also identified as a variable that explains the phenomenon central to this study. The test in the second phase of the study shows that lack of knowledge is a factor (p value = 0.043) explaining the lack of interest of the family businesses to produce own brands.

Table 3. Statistical output for lack of knowledge as a factor:

| Category          | N  | Observed Prop | Test Prop | Asymp. Sig. (2 tailed) |
|-------------------|----|---------------|-----------|------------------------|
| Group 1 (Code 1)  | 21 | .7            | .50       | .043                   |
| Group 2 (Code 0)  | 9  | .3            |           |                        |
| Total             | 30 | 1.00          |           |                        |

3.4. Weak demand for domestic brands:

The producers of counterfeit car parts said in the first phase of the study that demand for Japanese car parts is very high due to higher quality perceptions. Demand for Chinese car parts is also high due to low price. They fear that if they produce their own brands they cannot price it below Chinese manufacturers’ products. And according to some of the producers, since Bangladeshi brands will not be perceived as better quality products than Chinese products they assume that the demand for Bangladeshi car parts will be low. Thus fear of weak demand keeps the family businesses engaged in producing counterfeits instead of original brand production. This variable was found to be a significant factor in the second phase of the study with a p value of 0.005.
3.5. Risk of branding:

Businesses need to deal with numerous facets of risk as they operate on a daily basis. Businesses are in a constant pursuit to minimize risk. In the depth interviews it was apparent that counterfeit producers perceived branding as risky venture. Their logic was that not all brands become successful, but all counterfeits are successful as they ride the demand of successful brands only. Thus the risk of branding was also identified as a key variable. In the second phase it was found that the risk of branding is also a significant factor (p value = 0.016) that keeps the family businesses in the counterfeit manufacturing industry.

3.6. Threat of competing brands:

The counterfeit manufacturers are not highly concerned about the competition in the industry. They can always switch to producing the counterfeits of brands that have the most demand. But many of the producers believe that if they produced their own brand they would have to consider competition with more caution. Threat of competition in many of the producers mind is one critical reason that keeps them away form the thought of producing own brands. The study in second part among the 30 respondents also show that the threat of competition is a significant factor (p value = 0.005) stopping counterfeit producer from producing original brands.
3.7. Additional profitability:

The first phase of the study revealed that some of the producers of counterfeits are satisfied with their current level of profitability and they are weary of changing the status quo by creating their own brands. The only incentive might be long-term profitability increase as a result of having own brands. But since they are content with current level of profitability they are less interested in creating their own brands. To test this hypothesis, the questionnaire in the second phase asked the counterfeit manufacturers if they are happy with the current level of profitability. The result shows that it is a significant factor (p value = 0.043) as identified in the initial depth interview.

Table 7. Statistical output for additional profitability as a factor:

| Category          | N  | Observed Prop. | Test Prop. | Asymp. Sig. (2 tailed) |
|-------------------|----|----------------|------------|------------------------|
| Group 1 (Code 1)  | 21 | .70            | .50        | .043                   |
| Group 2 (Code 0)  | 9  | .30            |            |                        |
| Total             | 30 | 1.00           |            |                        |

3.8. Mobility barriers:

The barriers a firm face when trying to migrate to other product categories is called mobility barriers (Caves and Porter, 1977). In the initial in-depth interviews a couple of business owners mentioned this as a factor that hinders them in trying out original brand production. They believe that having no specific brand gives them the freedom to move from producing any type of product with any type of brand. But the quantitative test in the second phase of the study does not corroborate this belief. Since brands can leverage through extensions this is not a significant factor (p value = 0.200) that explains the phenomenon of counterfeit producers not creating their own brands.

Table 8. Statistical output for mobility barriers as a factor:

| Category          | N  | Observed Prop. | Test Prop. | Asymp. Sig. (2 tailed) |
|-------------------|----|----------------|------------|------------------------|
| Group 1 (Code 1)  | 11 | .37            | .50        | .200                   |
| Group 2 (Code 0)  | 19 | .63            |            |                        |
| Total             | 30 | 1.00           |            |                        |

4. Discussion

The study, thus, identifies six key variables that are significant in explaining why family-based SMEs that produce counterfeits do not venture out into producing their own brands. The factors are additional marketing spending associated with branding, lack of knowledge on how to create brands, perception of weak demand for domestic brands, perceived risk of branding, fear of competition as a brand and absence of incentive of additional profitability.

Research in this field within the emerging economies is very limited. Thus there is much scope for work in future. One follow-up research that is warranted is the study of family owned SMEs that tried creating original brands after years of producing counterfeits. Whether these firms succeeded or failed in their brand developing
endeavors can highlight if the factors identified in this paper are actually credible or not. Also, whether these factors played significant part in the decision making of the family businesses that created Dominous or Crocodile is a query that can be investigated in a future study.

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