# CHAPTER 1

# INTRODUCTION

## 1.1 Research Background

Counterfeits have become a world problem in today's globalization. The word counterfeit usually describes the forgeries of currency, documents, clothing, software, pharmaceuticals, watches, electronics, company logos and brands. Counterfeits is "any unauthorized manufacturing of goods whose special characteristics are protected as intellectual property rights (trademarks, patents and copyrights) constitutes product counterfeiting" (Chaudhry 2005, cited in Matos *et al*., 2007, p. 36).

The objects of counterfeits are usually brands that already have good reputation in the eye of consumers. Counterfeit products are often produced with the intent to take advantage of the products that are already established in the market and have good images around the world. In the case of goods, it results in patent or trademark violation. This illegal activity copies the original products and sells the imitation products to the consumers. The victims of counterfeiting are often famous brands with famous brand images in the consumer mind. These famous brands have higher level of quality than other brands and often are sold with higher price than other brands. Because of this copied products, counterfeits have result many loss to company because many people conscious or unconsciously buy the copied products.

Some see that the raising of counterfeits is related to the globalization. Many company's goal are to increase their profits by using the third world countries where cheap labors and resources can be obtained easily. The countries in the third world also have weak labor law and piracy regulation that used as an advantage to the counterfeit companies. The majority of counterfeit products are manufactured in countries where legal sanctions are not very strong.

In Indonesia, the losses in various sectors of the economy is estimated at Rp 37 trillion ($4 billion) a year. According to a new study by the University of Indonesia and the Indonesian Anti-Counterfeiting Society, from 12 sectors of the economy, the study found that the counterfeiting was happen most in the cosmetics industry with 16 percent of cosmetics on the market believed to be fake or knockoffs. Followed by pesticides industry with around 15 percent of pesticides sold in Indonesia were counterfeits, while the automotive parts, office and electronic equipment, cigarettes, pharmaceuticals, non-alcoholic beverages, leather and footwear sectors were all around 10 percent. The true level of losses from counterfeiting is likely above Rp 37 trillion ($4 billion) a year, where sectors especially open to fakes, such as clothing and sunglasses, were not covered (http://www.thejakartaglobe.com, accessed on 22 February 2011).

To suppress the increase of counterfeits and piracy it requires the participations from both supply and demand side. This article will focus to discuss the demand side, from the demand side we will study the attitudes of consumer in Yogyakarta to understand the main predictors that influence the attitude toward counterfeits products and behavioral intentions. In this research, predictors like

price quality inference, risk averseness, perceived risk, integrity, personal gratification, and subjective norm will be discussed.

## 1.2 Research Questions

Based on the literature, some questions that related to the Yogyakarta consumer toward counterfeit products are:

1. How do price quality, risk averseness, perceived risk, integrity, personal gratification, and subjective norm affect to attitude toward counterfeits?

2. How does attitude toward counterfeits affect to behavioral intention?

## 1.3 Scopes of Research

The scopes are added to this study because the scope of this research is very wide and complex. Therefore the scopes of this study are:

1. This study did not replicate completely the original article, Matos *et al*. (2007). Two hypotheses related to the "previous experience" variable were not included in the study because the measurement items to operationalize the variable are not listed in the original article. Therefore, this study only analyzed seven hypotheses formulated in the original article.

2. The original article uses SEM (Structural Equation Modeling) as method to analyze hypothesis and this study using regression instead of SEM.

3. This study is took place in Yogyakarta, therefore the samplings used in this study are the people who live in Yogyakarta.

4. This study is analyzing counterfeit products in general, not a specific product category.

## 1.4 Objectives of Research

This study about the consumer attitude toward counterfeits has several objectives of research. Those objectives are:

1. To analyze whether price quality, risk averseness, perceived risk, integrity, personal gratification, and subjective norm have affect on attitude toward counterfeits.

2. To analyze whether behavioral intention has affect by attitude toward counterfeits regarding purchasing counterfeit products.

## 1.5 Benefits of Research

The researcher hopes that the result of this study will help:

1. Managerial Contribution

The company can use this research to understand what factors that significantly influencing the attitude of consumer toward counterfeit products, therefore the company can develop new marketing strategy to encounter and suppress counterfeiting.

2. Academic Contribution

This research will give the information about counterfeit products and understand the factors that influence the consumers' attitude toward

counterfeits and behavioral intentions in purchasing counterfeit products. This result of research also can be used as reference for the next research.

## 1.6 Research Report Outline

This study is divided into five chapters, each chapter will explain different part of this study.

Chapter 1:    This chapter consists of the research background of this study, research question, limitation of research, objective of research, benefit of research, and research report outline.

Chapter 2:    Original and imitation products, consumers' attitude toward counterfeits, and hypotheses development are discussed in this chapter.

Chapter 3:    In this chapter, the population sample of this study will be described. The method to analysis the hypotheses also explained in the end of this chapter.

Chapter 4:    This chapter will discuss about the result, data analyzing, comparison between previous and present study, and summary.

Chapter 5:    The last chapter of this study contain about the conclusion, managerial implications, limitations of the research, and suggestions for next research.