

## **CHAPTER 2**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

Counterfeits have growing rapidly in around the world and becoming a significant problem. Counterfeits have made many popular brands suffer huge loss because consumers see counterfeit products as an alternative in purchasing popular brands. Brands that become popular have to meet their fate to become the target of counterfeits. Therefore, this chapter will discuss about original product versus the types of imitations followed with consumer attitude toward counterfeits and the hypotheses that influence the attitude and behavior of consumer in purchasing counterfeits products.

#### **2.2 Original versus Imitation**

Original is defined as the first and genuine form of something, from which others are derived (<http://dictionary.reference.com>, access on February 19, 2011). On the other hand imitation is defined as “copy of something, especially something expensive” (Oxford Learner’s Pocket Dictionary Third Edition, p. 213). However, the scope of imitation is very broad and not all imitations are similar. There are at least four types of imitation products (Schnaars, 1994, cited in Tjiptono, 2005).

1. Counterfeits or Product Pirates are imitation products that copy the name of the symbol, logo, or the brand of the original product (usually from

famous brands) (Tjiptono, 2005, page 77). This type of imitation is illegal and against the copyright and patent law. The purpose of this kind of imitation is to deceive the consumers and steal the profit of the innovator's products. The quality of counterfeits also poor because the manufacturers are not the legitimate manufacturers and it is sold with low price. The example of counterfeit products can be found in clothes (Billabong, Spyderbilt, Quiksilver, Polo), accessories (Guess, LV, Chanel), shoes (Adidas, Nike), and many other things.

Figure 2.1

Examples of Counterfeits



2. Knockoffs or Clones are imitation products that very similar with the original products, but still using their own brands name (Tjiptono, 2005, page 77). Different with counterfeits, clones are legal products, this could happen because there is no longer a copyright or patent associated with the original product due to the end of the copyright or patent. The example of product knockoff can be found on the mobile phone industry. BlockBerry, BlueBerry, and BleckBerry are the examples of BlackBerry mobile phone knockoff.

Figure 2.2

## Examples of Knockoffs



3. Design Copies or Trade Dress, this type of imitation products copy and rely to the style, design, or model of the competitor products that popular in society (Tjiptono, 2005, page 78). Design copies are considered as a combination of the innovation and imitation aspects because even if the design has similar pattern with the original, the technology or the

innovation of the imitation product is different. As example, the similar packaging of probiotik drinks in Indonesia (VitaCharm and Yakult).

Figure 2.3

Examples of Design Copies



4. Creative Adaptations, this type of imitation are considered as the most innovative type than other types of imitation. In this type of imitation, the companies make some innovation on the existing products or adapt the existing products in the new market. There are two benefits that can be obtained from creative adaptations:

1. Technological leapfrogging, usually later entrant tend to analyze market more accurate than pioneer, thus they can develop new technology that more advanced and later overcome the pioneer's product with a more superior product.
2. The innovation that has been developed in an industry can be adapted in another industry.

The example of creative adaptation can be seen in the diet-coke. Coke and Pepsi may have copy Royal Crown innovative idea about diet coke products. Therefore, this research will focus on discussing counterfeits because counterfeits are the most harmful type of imitations and have cause many losses to the legitimate company.

Figure 2.4

Examples of Creative Adaptations



### 2.3 Consumers Attitude toward Counterfeits

As mention in the previous chapter, the targets of counterfeits are usually popular brands because these brands are familiar and famous in the eye of consumers. Consumers choose to buy counterfeit products that copy famous brands because these brands can higher their social standard and give prestige to the owner. In recent years, the product quality of counterfeit products has improved tremendously because of the growth of the technology. This condition has brought greater competitive advantage to counterfeit products because counterfeiters can easily copy the luxury brands with almost similar color, shape,

and symbol of the products. This condition is worsening because these counterfeit products are scattered in the market with large numbers of quantity. Furthermore, the consumers demand for luxury products at reduced prices have encouraged the growth of this illegal activity as consumers actively seek out prestigious clothing, accessories, and various types of product. As long as the basic functional requirements or the symbolic values of the brands are obtained, consumers will be satisfied. Thus, it is natural if the counterfeit products are very popular among consumers who want to have luxury products but are unwilling to pay the high price of the products.

Price becomes one of many factors that contribute the success of counterfeits, the counterfeit products offer more advantage price than the genuine products. Consumers usually compensate the lower quality attribute with lower price. In general, counterfeits bear many risks like the product performance and safety. Counterfeit products are sold without warranties, unlike genuine products, which will add greater financial risk and safety to the buyer. When the products do not meet the expectation of the consumer, the buyer of these products cannot process the warranty because these products do not have warranty service. Family or friends who act as his or her reference group will also have important influence in determine their decision in purchasing counterfeits. If their family or friends support the decision or suggest them to buy counterfeits, the intention to buy the counterfeit products will become stronger because their family and friends sees that behavior as common behavior and encourage the buyer.

Consumer's participation in purchasing counterfeit products has become a significant reason why counterfeit products have increase in these recent years. According to McDonald and Roberts (1994), consumers who purchase counterfeit goods can be divided into two groups, those who are deceived to think that the product they buy is genuine and those who knowingly buy counterfeits. The first are the victim of counterfeits, when they unknowingly and unintentionally purchasing counterfeit goods because the products are so similar to the genuine one. However, the second are willing participants or consumers who consciously buy the counterfeit products, they seek out counterfeit products even if they know that the products are illegal and a copy of the genuine products.

This research will try to discussing the attitude of consumers in purchasing behavior of counterfeit products. Attitude has important role in intentions, which in turn become a reasonable predictor of behavior (Ajzen, 1991). According to Huang (2004) attitude is a tendency to respond a situation in a favorable or unfavorable way. By understanding the attitude of consumers, the author expect to understand the purchasing behavior of consumers in purchasing counterfeit products because according to Ajzen (1991) an attitude is consider to be highly related with one's intentions, which in the end turn out to be a reasonable predictor of behavior. This study will use theory of reasoned action (TRA) and theory of planned behavior (TPB) to understand the relation between attitude and behavior in purchasing decision.

### 2.3.1 Theory of Reasoned Action

The goal of Theory of Reasoned Action (TRA) is to predict and understand the individual's behavior (Ajzen and Fishbein, 1981). According to this theory, behavior is determined by intentions, which in turn determined by attitudes and subjective norm. Theory Reasoned Action (TRA) has three parts that construct the theory, first is behavioral intention (BI), attitude toward the behavior (A), and subjective norm (SN). The theory suggest that an individual behavioral intentions is the result from an individual's attitude about the behavior and subjective norm ( $BI = A + SN$ ). A behavioral intention is defined as the individual's strength of intention to perform a behavior (Ajzen, 1991). Intention are assume to indicate how hard people are willing to try and how much effort they are planning to spend in order to perform the behavior. Therefore, in general, the stronger the intention to engage in a behavior, the more likely it performed. Attitude toward behavior itself refers to "the degree to which a person has a favorable or unfavorable evaluation or appraisal of the behavior in question" (Ajzen, 1991, p. 188). The second predictor, subjective norm refers to an individual's perception of social normative pressures that he or she should or should not perform such behavior (Ajzen, 1991).

The individual's attitude, together with the subjective norm, will form the behavioral intention. Attitude consists from various beliefs about the outcomes of performing the behavior. Subjective norm consist of the



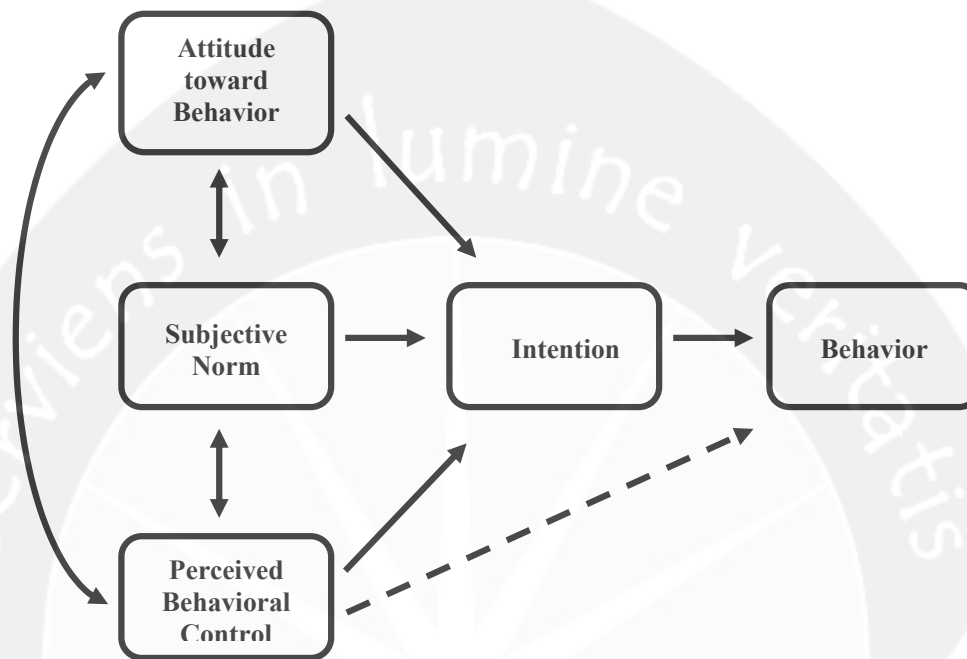
perceived expectations and the intentions of the individuals to fulfill the expectations. Therefore, according to this theory if people assess the suggested behavior as attitude and if they think others wanted them to perform the behavior (subjective norm), this will result a higher intention and they will likely to do the behavior.

### **2.3.2 Theory of Planned Behavior**

This theory was developed by Ajzen, the theory is an extension from the theory of reasoned action. Ajzen extend the theory of reasoned action to cover the desire behaviors for predicting behavioral intention and actual behavior, therefore in this theory there is perceived behavioral control as additional variable for predicting the intentions. Perceived behavioral control is defined by Ajzen (1991) as the people's perception of the difficulty in performing a behavior of interest (the confidence in their ability to perform). Two rationales can be obtained from this hypothesis. First, the effort issued for performing a behavior to obtain successful outcome will likely increase with perceived behavioral control. For example, two individuals who have same intentions to learn soccer, both of them are practicing diligently, but the individual who have more confident that he can master this activity is likely to success than the other individual who has less confident. The second reason for expecting a direct link between perceived behavioral control and behavioral achievement is that perceived behavioral control can often be used as a substitute for a measure of actual control.

Figure 2.5

## Theory of Planned Behavior



Source: Ajzen (1991)

In short, the more favorable the attitude and subjective norm to a behavior with greater of perceived behavioral control will produce stronger individual's intention to perform the behavior.

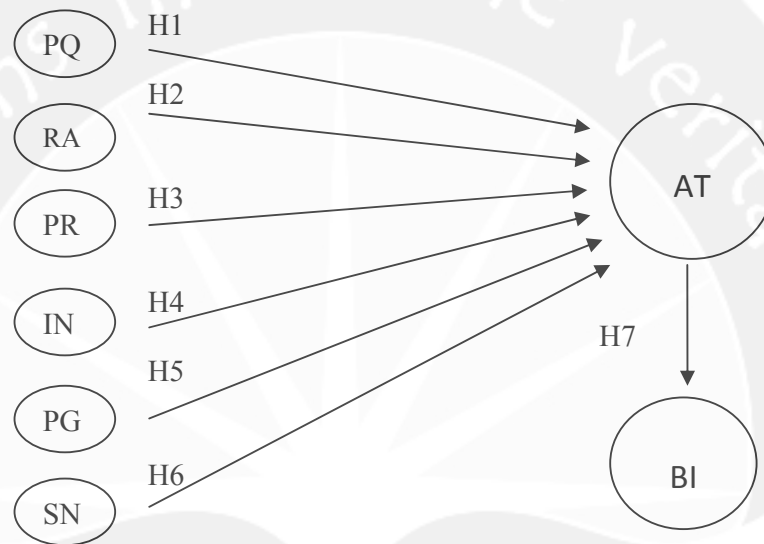
Therefore, perceived behavioral control that has positive attitudes toward purchasing a product and having social reasons to do so should be able to predict the intentions of knowingly purchasing counterfeit products based on the difficulty perception associated with this behavior.

## 2.4 Hypotheses Development

Hypotheses are developed to investigate this study. The model for hypotheses is shown below:

Figure 2.6

Conceptual Model



Source: Matos *et al.*(2007)

Note: PQ – price quality; RA – risk averseness; PR – perceived risk; IN – integrity; PG – personal gratification; SN – subjective norm; AT – attitude; BI – behavioral intentions.

### 2.4.1 Price Quality Inference

Price and quality are information that important to the buyer. Before buying a product, consumers will try to seek the price and quality information of the product as a matter of consideration whether to buy or not to buy the product. When consumer cannot decide and confuse with the product's quality, they will see the products' price as benchmark in

deciding which product that has better quality than other products. Because of that, consumers tend to judge the quality of a product by its price. Some consumers may use price as a general indicator of quality across situations and products (Lichtenstein, 1993).

Consumers are usually seeking high-quality products at reasonable price and look for information about the quality. Consumers will tend to think that higher price has higher quality than the lower price. This is reflected in wisdom like “you get what you pay for” or “high price, high quality” and “low price, low quality”. Consumers view higher price is better because the perception of additional expense means higher product’s quality (Lichtenstein, 1993; Bloch, 1993).

From the statement above, consumers will be expecting to have negative perception of quality toward counterfeit products because imitation products have lower price than the genuine one. From this statement, it is expected that:

H1: A consumer who more strongly believes in the price-quality inference has a more negative attitude toward counterfeits.

## **2.4.2 Risk Averseness and Perceived Risk in Purchasing Counterfeits**

### **2.4.2.1 Risk Averseness**

Generally, risk always related to the uncertainty and possibility of taking some losses. Risk averseness is defined as the tendency to avoid taking risk and is generally considered a personal variable (Bonoma and Johnston, 1979; Zinkhan and

Karande, 1990). When consumer decides to buy a product, they will receive the risk involving performance, financial, safety, social, psychological, and time/opportunity dimensions (Havlena and DeSarbo, 1991). Consumers who buy counterfeits will experience loss of warranty and service from the legitimate distributor. This could occur because counterfeit products do not have warranty service when it sold to the consumers. For example, when someone decide to buy a fake Blackberry cellular phone and after some periodic of time the phone does not work as it should be (because usually the imitate product does not last long like the genuine), the owner of the phone cannot use the warranty service because the legitimate Blackberry distributors do not sell this cellular phone.

Therefore, risk averseness will influence the behavior of an individual when he or she will purchasing counterfeit products considering if there are many risks that follow the decision in purchasing the products. From this point of view, it expects:

H2: Consumers who are more (less) risk averse will have unfavorable (favorable) attitude toward counterfeits.

#### **2.4.2.2 Perceived Risk**

Perceived risk is defines as consumer's perceptions of uncertainty and unfavorable consequences of buying a product or service (Dowling and Staelin, 1994). From H2 the consumers

know that counterfeit products have poorer guarantees and service than the genuine one. Therefore, when consumers purchase counterfeit products, they have to prepare to face the negative consequences that may occur from the fake products. The perception about the bad or poor performance of the counterfeit products will influence the decision of the consumer whether they will purchase counterfeit products or not. Albert-Miller (1999) found that risk had significant role regarding the purchasing of counterfeits. In this risk context consumer may consider that:

1. The counterfeit products performances will not be the same as the genuine product moreover there will be no guarantee and service provided from the legitimate distributors.
2. Choosing a counterfeit will not bring the best financial advantage.
3. In terms of safety, the counterfeit products may not be as safe as the genuine one.
4. By selecting counterfeit products, others might have negative perception toward buyer.
5. Choosing counterfeit products might become a waste of time and the buyers also lose the product's advantages. Buyers will also waste their effort if the buyers have to repurchase the product because of the product's disability.

From the argument above, it expect that consumer will choose to not taking the risk from buying the counterfeit products because the uncertainty and the consequences from buying the product. The author make hypothesis:

H3: Consumers who perceive more (less) risk in counterfeits will have unfavorable (favorable) attitude toward counterfeits.

### **2.4.3 Integrity**

When used as a virtue term, “integrity” refers to a quality of a person's character, when it applied to objects “integrity” refers to the wholeness, intactness or purity of a thing. So integrity could be related with the law-abiding in term of attitude and behavior. By purchasing counterfeit products, the consumers are participating in support the counterfeiting. Those who have less ethical standard will likely feel less guilty when knowingly buying counterfeits, instead, they rationalize their actions and do not perceive their behavior as unethical (Ang *et al.*, 2001). From this statement, it expects that people who have high integrity will perceive buying the counterfeit products as less ethical and try to avoid it. These people are prefer to buy genuine product because buying the genuine products do not harm any party and abide the law. Therefore, people who abide the law will have less interest in purchasing counterfeit. From this point of view, the researcher makes a hypothesis:

H4: Consumers who attribute more (less) integrity to themselves will have unfavorable (favorable) attitude toward counterfeits.

#### 2.4.4 Personal Gratification

Personal gratification is link to the need for a sense of accomplishment, social recognition and the desire to enjoy the finer things in life (Ang *et al*, 2001). These characteristics are often associated with individuals who seek accomplishment, social recognition and higher standard of living. When Bloch (1993) compares buyers of counterfeits with non-buyers, he notices that the buyers of counterfeits tend to be less confident and less successful, and have lower perceived status. According to Ang *et al.* (2001) people that have high sense of accomplishment will perceive quality as important factor when buying a product. These people like enjoy finer things in life, therefore they see genuine products are better than imitation products in terms of quality, while counterfeits buyers are consumers who willing to sacrifice the quality of genuine products, they do not value the pleasure of having better quality products nor have the same sense of accomplishment from having genuine items. However, in the result that Ang *et al.* (2001) conduct, it shows that personal gratification has no significant influence on consumer attitudes toward counterfeits because counterfeits are not perceive as a means to achieve a comfortable life. Therefore, in Ang *et al.* (2001) it says that counterfeits are not perceive as a means to achieve a comfortable or pleasurable life.



Because of that researcher will not to analyze the direction of the relationship, but only whether:

H5: Consumer's sense of accomplishment will affect their attitude toward counterfeits.

#### **2.4.5 Subjective Norm**

Subjective norm is an individual's perception of social normative pressures that he or she should or should not perform such behavior (Ajzen, 1991). In society, friends and relatives play an important role in influencing people attitude and behavior. According to Bearden *et al.* (1989, p. 473) consumer susceptibility is “the need to identify with or enhance one's image in the opinion of significant others through the acquisitions of others regarding purchase decisions, and the tendency to learn about the products by observing others or seeking information from others”. Bearden *et al* (1989) proposed that there are two forms of susceptibility.

1. Consumer may be informationally susceptible, where consumer decides to buy a product based on the others opinion. In this case, others opinion are important regarding the quality of the product and is it fine to purchase the product. This could happen if the consumer is lack of information about the product they want to buy.
2. Consumer may normative susceptible. Normative susceptible happen when consumer decides to purchase a product because he or she want

to impress others not because the information he or she get from others.

In short, when consumer will buy a product (original or imitation), he or she will ask the opinion of their relatives and friends, and their opinion will have influence in his or her decisions in buying the product. This kind of thing can change the decision and perception of consumer for a product they will buy. Therefore, understand the role of friends and relatives are important to know how influential their opinion will affect the consumers' decision for consuming a product.

H6: Consumer perceiving that their friends or relatives approve (do not approve) their behavior of buying a counterfeit will have favorable (unfavorable) attitude toward counterfeits.

#### **2.4.6 Behavioral Intentions**

From the Theory of Reasoned Action (TRA) and Theory of Planned Behavior (TPB) the attitude is related with behavioral intentions and will actually become the real behavior. The more favorable consumer attitudes are towards counterfeits, the higher the chance they will purchase counterfeit brands. On the contrary, the more unfavorable consumer attitudes are towards counterfeits of luxury brands the less likely are the chances of purchasing counterfeits products. Therefore, the hypothesis is:

H7: Consumers with more favorable (unfavorable) attitudes toward counterfeits will have more favorable (unfavorable) behavioral intentions toward these products.

