

Effects of counterfeit products on sales of original beverage products: A case of Zambia's leading beverage producer

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Abstract

The study sought to establish the effects of counterfeit products on sales of original beverage products. A case study research design was employed in order to obtain deeper insights and better understanding on the subject under investigation. The targeted population included Management from a leading Beverage Company, Officers from the Zambia Police Intellectual Property Unit and consumers. Questionnaires and structured interviews were used to collect both qualitative and quantitative data. The data was analysed using themes and Microsoft excel for qualitative and quantitative data respectively. The findings of the study revealed that there is a regular flow of counterfeit beverage products on the Zambian market. The research further showed that due to consumers' fear of buying counterfeit beverage products, their purchasing power of the original products equally reduced. The study furthermore revealed that counterfeit products on the market, negatively affected the Beverage Company's sales of original products. Based on research findings, the following recommendations emerged: 1. Government through the Zambia Police should allocate more technical, financial and human resource in the fight against counterfeiting products. 2. Beverage Company should put in place a sensitisation campaign to educate the consumers on the unique features to distinguish the original products from the counterfeit. 3. Beverage Producing Company should re-design its security features on the packaging materials and ingredients used in the production of beverage products.

Keywords: counterfeit beverage products, original beverage products, sales

1. Introduction

Counterfeiting of products is a growing phenomena contributing to huge losses in revenue by many organisations. Wilcox et al (2008) ^[19] note that presently the markets are flooded with fake products; the presence of counterfeit goods in the world market has grown over 10,000 percent in the past two decades and by 1100 percent between 1984 and 1994. The estimated growth rate of counterfeits from 2005 to 2008 was 22% annually and this growth rate will be continuing at the same rate or at the level of 15% (OECD, 2008) ^[11]. Trainer (2004) ^[18] further revealed that the amount of counterfeiting is approximately 5–10% of the world trade reaching 30% in some industries. These counterfeit brands are noted to have effect on organisation sales as they hugely reduce the revenue of companies affected. Counterfeiting has been on the increase not only in the industries that deal with luxury products but also the beverage producing companies who have continued facing a lot of interference from the counterfeited products.

Byne (2007) ^[2] observes that, counterfeiting is not a new business phenomenon and has been affecting trade for at least 2,000 years. The counterfeiting of coinage was one of the earlier forms of counterfeited products as this was done by soldiers, Goldsmiths, Priests and convicts on the galleys. Philips (2005) ^[14] asserts that counterfeiting is a very old phenomenon, and dates back to 27 B.C. when for the first time a wine merchant in Gaul counterfeited trademarks on wine amphorae, selling cheap local wine and pretending it to be the expensive Roman wine. Hitt et al (2011:116) ^[7] define counterfeits as those products bearing a trademark that is identical to or indistinguishable from a trademark registered to

another party, thus infringing the rights of the holder of the trademark". It can therefore be argued that counterfeit products are the imitation of original products and are manufactured without the permission of the legal owners of the trademark. There has been thought that counterfeit products are always of lesser quality than the originals but this may not be the situation in all cases, as some are quite convincing replica of the original ones.

Counterfeiting has been fuelled in some instances by the customers' need to have access to otherwise expensive products which are provided at a low price through counterfeited products. Counterfeiting has led to losses in revenue by a number of companies in different industries as it provide cheap products which makes customers abandon original brands for the fake products. Notably, counterfeiting is not just limited to expensively priced products but also others like beverages.

1.1 Statement of the Problem

The originality of products is essential in maintaining the product image and its demand on the market. Original products offer high quality to the consumer. Counterfeit products on the other hand are said to alter the acceptance of original products and are in most cases of poor quality. Producers of beverage products have in the recent past and until now experiencing continuous influx of counterfeit products on the market. The Zambia Police Intellectual Property Unit (2015) ^[21] estimates to have seized about 2453 assorted Beverage products in the past 2 years. The effects therefore of counterfeit products on the sales of original

beverages products at one of Zambia's leading Beverage Company remains unknown, hence the study.

1.2 Research Objectives

1. To ascertain the prevalence of counterfeit beverage products on the market
2. To determine customer's perception of effects of counterfeit products on the original brand
3. To assess the effects of counterfeit products on the sales of original beverage products

1.3 Research Questions

1. How prevalent are counterfeit beverage products on the market?
2. What is the extent to which counterfeit beverage products affect customer's perception of original beverage products?
3. What effect do counterfeit beverage products have on the sales of original beverage products?

2. Literature Review

Relevant literature was reviewed according to themes generated from research objectives. Global, regional and local perspectives of literature were triangulated.

2.1 Prevalence of Counterfeit Products

There have been inconsistent figures on the prevalence rate of counterfeit products both locally and internationally. For instance the Organization for Economic Cooperation and Development (2006) ^[10] reports that 5-7 percent of world merchandise trade is in counterfeit goods. However, these estimates are neither based on substantiated data nor on a defined methodology, hence they are likely to be "on the high side". It therefore remains a big challenge to ascertain the exact extent which the problem has reached especially in Zambia.

The study by Putra (2014) ^[15] highlighted that, demand of counterfeit products from society is high and market supplies from the industry keeps following the demand, thus resulting in higher prevalence of counterfeit products. These findings were specific to Indonesia and do not give a clear picture or representation to countries like Zambia on the actual figures of counterfeit products on the market. Furthermore the research focused on the prevalence of luxury goods hence limited statistics of counterfeited beverage products in Zambia is available. Penz and Stöttinger (2005) ^[13] argue that while most of studies have emphasized on investigating the reasons why manufacturers committed counterfeiting, few studies have examined the factors causing consumers to buy pirated products at the expense of original brands. It is against this background that a study of this nature was necessitated.

2.2 Customer perception of original products due to counterfeits

Arguably, customers may sometimes purchase counterfeits because they cannot distinguish counterfeit from the original products. As a result customers may associate poor quality of products to the company's failure to uphold the standards and not that the products are counterfeited. Wilke and Zaichkowsky (1999) ^[20] are of the view that substandard imitation products that are difficult to distinguish from genuine goods can diminish the level of quality associated

with a product or company. However, whether this is true or not, the studies sought so far reveals only one dimension of the consumers that buy counterfeit. According to Nia and Zaichkowsky (2000), ^[9] the availability of counterfeit goods has increased making them more reachable and increasing their demand, and correspondingly diminishing the demand of the real brands. This could be the reason Tom et al (1998) ^[17] divided consumers into two categories. Firstly consumers who buy counterfeit beverage products because they are spending less money as compared to buying the original product/brand". This shows that consumers will perceive counterfeits to be cheaper alternatives to the original products. Cheng et al (2011) ^[4] argue that the perceived financial control, namely the perceived affordability of authentic products, negatively impacts intention to purchase counterfeits. Once customers believe that the price is reasonable and affordable they may become used to purchasing original products and develop brand loyalty. The study by Cheng and others did not establish the possibility that the price of counterfeit products may at times be the same as that of the original products. The study therefore did not address why consumers will still purchase counterfeit products even when the price is the same as the original.

Further not all products would be sold at different prices because sometimes counterfeit products can be sold at the same price as the original beverage products. This thus brings in the question as what influences the consumers' perception of the original products. The need to ascertain what really influences the customers' perception of the original products require attention, hence this study.

2.3 Effects of counterfeits on Sales of original beverage products

There has been a growing debate as to whether counterfeit products negatively affect the sales of original products or they make the genuine products popular. Quan (2008) ^[16] states that, counterfeits are advertisements thereby increases the sales of the original products. It can be argued in this regard that counterfeits can play a substantial role in increasing sales of original especially when consumers learn of the differences. However, Byrne (2007) ^[2] insists that even when consumer safety is not threatened, fake or diverted products undermine revenues and reputations. Several reasons have been advanced why purchases of counterfeit products are on the increase, citing the following among others: being affordable substitutes of the original, failure to distinguish the counterfeit from genuine products and also unawareness of the products as being counterfeit. Montoro and Cuadrado (2006) ^[8] are of the view that companies are likely to face a loss of revenue owing to substitution effects by illicit goods and constraints on product pricing. OECD/EUIPO (2016) ^[12] equally attests that Trade in counterfeit and pirated goods is a major challenge in an innovation driven global economy. These practices have negative effects on the sales and profits of affected firms, while also having adverse revenue, economic, health, safety and security effects for governments, businesses and consumers.

Further arguments have been raised as to whether counterfeit product sales should actually be considered as a loss to a company or looked at a sale to individuals who buy only substandard products. Chaudhry and Zimmerman (2013) ^[3] submit that some economists even question the idea that there

are losses associated with counterfeiting. The implication of the aforesaid is that consumers who buy fakes are a market segment that purchases counterfeit because of their inability to afford the genuine product. Therefore, buyers in that segment do not really represent lost sales. This argument suggests that the customers would in actual fact not have purchased the original products in the first place hence not affecting the sales even when they purchase counterfeits. Logically, a conclusion cannot be made based on the fact that counterfeit products may not be negatively affecting sales of original products. It is clear that this uncertainty remains empirically not proved hence the need to carry out this inquiry. Additionally, almost all the studies reviewed above failed to confirm the extent to which counterfeit beverage products have on the sales of original beverage products. It was therefore imperative to conduct a study of this nature.

3. Research Methodology

The research used both qualitative and quantitative methods. A case study design was employed to establish the effects of counterfeit products on sales of original products. The target Population consisted of all managers of one of Zambia's leading Beverage producing company; Officers from Zambia police intellectual Property Unit and consumers conveniently selected. The sample size involved two (2) managers of the Beverage Limited Company, Seven (7) Officers from the Zambia Police Intellectual Property Unit and 100 Consumers. The Convenience and Purposive sampling procedures were used. The consumers were selected using convenience sampling due to the large numbers. The Managers and supervisors were selected using purposive sampling. Research Instruments used were; questionnaires, interview guide and document review. Non-quantifiable data was analysed manually so as to subject it to content analysis and interpretation. Microsoft excel was used to analyse quantitative data.

4. Presentation and Discussion of Research Findings

The study findings were presented and discussed according to the themes and subthemes derived from research objectives.

4.1 Responses from the Consumers

First to be presented were responses from consumers

4.1.1 Prevalence of Counterfeit Products on the Beverage market

When asked if they had purchased a Counterfeit Beverage product before 68% of the 100 consumers affirmatively agreed having had purchased counterfeit beverage products. The respondent's frequency of purchasing counterfeit Beverage products ranged from once to countless time. The prevalence of counterfeit Beverage products on the market is statistically high. It also came to light that counterfeit Beverage products purchased were notably cheaper (42% of the respondents agreed positively as compared to 26% of those who disagreed) than the original products. The research findings positively correlate with the outcome of the study by Haie-Fayle and Hübner (2007) ^[6] that showed that counterfeits were in most cases cheaper than the original. One possible justification for this outcome is that deceptive counterfeits are sold at a price slightly lower than the original product. Another explanation

is that consumers usually mistake counterfeits for a promotional offer or a discount.

4.1.2 Consumer Perception of Original Beverage Products over Counterfeit Beverage Products

The consumers when asked for their view on counterfeit beverage products; 43% of the felt discouraged to purchase the original products again, 41% felt they were fake and harmful to the body, 9% said it was good for those that cannot afford the original product and 7% gave no comments. This indicated that consumers felt discouraged to purchase the original products because they failed to distinguish between counterfeits and original products. The respondents further perceived counterfeit beverage products as fake and harmful to the body. However, a fraction of the respondents felt it was good for those that cannot afford to buy the original products. The majority of consumers that had consumed counterfeit Beverage products before said that the taste of the counterfeit was not the same as that of the original products. And only a small number of them stated the taste was the same. Therefore, it can be concluded that counterfeit products do not in most cases taste or working the same way as the original products. This can be further supported by the responses given by 67 of the consumers out of 68 who had bought the counterfeit beverage products before that they were able to identify that the products purchased were counterfeit by the taste and one stated the counterfeit product was thicker as compared to the originals.

Asked if the experience of purchasing counterfeit Beverage products had changed their perception of the original products, the majority of the consumers that had purchased counterfeit products noted to have a negative perception about the original product. These findings are an indication that beverage products unlike luxury goods when counterfeited do yield a negative response from the consumers. Interestingly, the study also brought to light that due to the nature of the products being counterfeited; there is a possibility that consumers may change their perception to purchase either the original product or the counterfeit because of the after effects associated with consumption of such products.

4.1.3 Effect of Counterfeit products on Sales of original Products

Fifty nine (59) consumers out of the 68 representing 86.7% who had purchased counterfeit Beverage products changed the number of products they now purchase from original Beverage producers. The reduction was due to fear of purchasing counterfeits again. On the other hand, 9 (13.3%) respondents had instead increased their purchases of original Beverage products as the purchase of counterfeit had been a once off purchase. These findings show that consumers do get discouraged to purchase original products that have counterfeits, signifying that there is usually a reduction seen in products sold when a counterfeit hits the market. This therefore justifies several studies that revealed that counterfeit products have an effect on the sales of the original products (Montoro and Quadrodo, 2006; Byne, 2006; OCED/EUIPO, 2016) ^[8, 2, 12]. Further debate in this regard can be made on the type of product but the beverage products will usually show a negative effect from consumers.

4.2 Responses from Management of one of Zambia's leading Beverage Producer

The research findings gathered from the Management of Beverage Producer are presented and discussed below.

4.2.1 Prevalence of Counterfeit Products on the Beverage market

The findings from the Beverage company management did indicate that their products are counterfeited. The company like others experienced incidences of counterfeit of their products since inception. The Marketing Manager had this to say:

...Our consumers have lodged in many complaints to the company, citing the presence of counterfeit Beverage products...To be specific the counterfeit beverage products were most common in the first 6 years after inception...This is the period when our beverage products were gaining ground on the market...

These findings indicate that Beverage producer had been receiving reports of counterfeit beverage products from inception .When asked if there has been an increase or decrease in the number counterfeit beverage products, the Beverage Company Management explains:

...we have noted a decrease in the number of counterfeit beverage products recorded on the market of late... The decrease can be attributed to some prosecutions of offenders in the past and also the special marks that our company have put on our beverage products...

These findings dismiss the research findings by Putra (2014)^[15] that claimed the number of counterfeit products keep growing due to consumer demand and positive response from the industry as a result of this demand. The outcome is an indication that counterfeiters work not on the demand for counterfeit beverage products but on the raising demand for the original product.

4.2.2 Influence of Counterfeit Products on Consumer Perception of Original Beverage Products over Counterfeit Beverage Products

When asked if they had noticed any change in the consumers' attitude towards the original products, the Marketing Manager affirmatively agreed and explains:

...indeed, our company has noticed some change in the consumers' attitude towards our beverage products especially those which were once counterfeited...for instance certain consumers had stopped purchasing our products because of this problem.... the change in attitude is because of previous purchases of counterfeit products which had led to some of our clients stop buying our original beverage products...

This result supports the view that consumers will in most cases not know the difference between the original and the counterfeit beverage product but will tend to withdraw their purchases once they notice the difference (Chaudhry and Zimmerman, 2013; OCED/EUIPO, 2016)^[3, 12].

4.2.3 Effect of counterfeit on Purchases of Original Products

The general trend from research findings is that Beverage producer has been affected by the presence of counterfeit products although the prevalence is slowly reducing. Despite the reduction, the problem of counterfeits however still possesses a huge challenge on the sales of original beverage

products. The Marketing Manager is at it again giving more insight as follows:

...we noticed that the units sold per month in the second year after inception to five years later grew at a very slow rate as compared to the later years...the reason partly being the huge number of cases of counterfeit products that flooded the market during that period...generally, as a beverage producing company, since inception we experienced highest figures of counterfeits in their early days of operation due to consumers' lack of knowledge on how to differentiate the counterfeit products from the original products...

The findings further indicated that Beverage Producing Company worked closely with the Law enforcement units such the Zambia Police Intellectual Property Unit. The findings from the unit are presented and discussion in the section below.

4.3 Responses from Zambia Police Intellectual Property Unit

When asked how often they receive reports of counterfeit beverage products, the Detective Inspector at the Zambia Police Intellectual Property Unit reports:

...we must state from the onset of our interview that as a unit, we receive reports of counterfeit products very often...such cases are mainly reported by the consumers and Brand owners...based on the reports we receive, we can confirm that the problem of counterfeit products is big and real...just to illustrate the magnitude of the problem, the Zambia Police Intellectual Property Unit has seized about 2 453 cases of counterfeits in the last two years...what this means is that the problem of counterfeit beverage products is on the increase...as regards to effects of counterfeits on sales of original products, I can confirm that there are negative effects based on the cases being reported to us by both consumers and brand owners....

The aforesaid findings indicate that counterfeit beverage products were posing a huge challenge on the sale of original products as they reduced the number of original products being purchased. The outcome support many other authors that indicated the negative effects of counterfeit products on original products (Dalli, 2010; Albarg, 2015)^[5, 1]. However, the Zambia Police Intellectual Property Unit felt it has not been receiving adequate support from the Brand owners thereby making their task of fighting counterfeiting very difficult as they are mandated by the law only to arrest but cannot take these offenders to court. In this regard only the Brand owners under the Zambian law have the power to do so. The findings further revealed the Unit faced administrative challenges which made it difficult to carry out the seizures.

A further lapse in the fight against counterfeiting in Zambia is perpetuated by the Law itself in that it does not have adequate provisions for prosecuting offenders for the crime of counterfeiting. The law enforcers are subjected to use laws with lesser penalty. Additionally, the failure by the Brand owners to sensitise the consumers on the features that would help consumers distinguish counterfeits and original beverage products has worsened the fight against counterfeiting.

5. Conclusions and Recommendations

The study has established based on the responses from consumers, Zambian Beverage Producing Company and the Zambia Police intellectual Property Unit that counterfeit

Beverage products are on the increase on the Zambian market. Though the study revealed that counterfeit products were cheaper than the original, consumers' attitude towards original beverage products has been negative after consuming counterfeit products, thereby prompting clients to stop buying original products. The main reasons being that; the products were fake and harmful to their health and, generally consumers felt discouraged to buy the product anymore. The study therefore concluded that counterfeit products affected the sales of original beverage products. Though Beverage Producing Company noted a reduction in the number of counterfeit beverages on the market the study nevertheless showed an increasing of counterfeits on the market. The research furthermore brought to light that the fight against counterfeit beverage products was hindered by lapses in the law, failure by brand owners to take perpetrators to court for prosecution. The following are the recommendations arose from the study: 1. Beverage Producing Company should embark on the sensitisation campaign to educate consumers on the unique features to distinguish the original products from the counterfeit. 2. The Beverage Company should re-design its security system to safeguard the packaging materials and ingredients used in the production of their products 3. Government through the Zambia Police should allocate more financial and human resources in the fighting against counterfeiting. 4. Brand owners should take a leading role in taking cases of counterfeits to court for prosecution.

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