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Fakes can be better than the real thing? Don't buy it!

By Gao Yini, Lim Wei Shi and Christopher Tang

IN 2013, the World Customs Organisation reported that over 84 per cent of counterfeits seized originated from China. These counterfeits did not come only from the category of fashion products but also included such categories as pharmaceuticals that many would deem as potentially harmful to users. International AntiCounterfeiting Coalition (IACC), the watchdog for retail industry with over 250 members including Apple, Cisco Systems and Chanel, reported that the estimated value of cross-border trade on counterfeits is over US$1.7 trillion.

For several years, Alibaba's online marketplace Taobao – the largest Chinese online platform – has tolerated the selling of counterfeits. Under pressure from many luxury brands, Alibaba vowed to fight counterfeits by joining IACC in April. In doing so, Taobao was poised to become the first Chinese Internet retailer to join this new membership category designed for intermediaries.

However, the admission of Alibaba's membership prompted such brands as Michael Kors and Gucci to quit their IACC membership in May. Michael Kors protested with raw emotion that Alibaba is "our most dangerous and damaging adversary". At the same time, Gucci, along with other sister brands such as Balenciaga under the Kering Group, walked out because the group is suing Alibaba in the New York federal court. In its lawsuit, Kering Group accuses Alibaba of knowingly encouraging and profiting from the sale of counterfeits on Taobao. Under such intense protests, IACC suspended the membership of Alibaba Group barely a month later.

While the dust has not quite settled over the IACC episode, it was stunning to learn that last week, Alibaba's founder, Jack Ma, remarked during a speech at its Hangzhou headquarters that "many counterfeit goods are now of better quality than the genuine articles". He argued that fake goods manufacturers are the same factories making the genuine brands using the same raw materials to produce the same goods except they do not use the same brand names. His remark stunned many in the luxury retail industry whose products have been parlayed by imitators.

On the surface, Mr Ma's claim sounds reasonable. Or is it?

Putting the illegal practice and unethical act aside, Mr Ma's argument is actually flawed. He fails to realise that when it comes to product quality, studies have shown there are eight dimensions – performance, features, reliability, conformance, durability, serviceability, aesthetics and perceived quality. Counterfeits do not measure up on all counts.

Consider the case when the same factory uses the same materials and the same workers to produce the same goods. Yes, these fakes may resemble the genuine products perfectly in all form and function except for the brand name – and in all likelihood, using a name that sounds and a logo that looks close enough to the real McCoy. As such, these fakes can mimic many dimensions of quality, but they fall short on two important dimensions – serviceability and perceived quality.

Imagine buying a fake iPhone that uses the same genuine components and may be even assembled by Apple's contractor, Foxconn. Owning the fake iPhone does not allow one to enjoy many of the benefits offered by genuine brand including iTunes and after-sales support service such as returns, repairs and exchanges.

In addition, without the genuine brand name upon which much resources have been invested over the years to build its equity and image, the perceived quality of these counterfeits is low – the owners of these copycats can enjoy the low price, but they do not enjoy the same social status that comes with genuine brands.

How so?

In our study on counterfeits, we observed that some consumers are eager to knowingly buy them at low prices. If these owners of such fake products can trick others into believing that they can well afford to own genuine luxury branded products, they can gain a higher "social status" that they so desire. However, in the event that their trickery is uncovered, they can be shamed or potentially ostracised by their peers in some instances. Ultimately, fakes cannot offer the same perceived quality with the certainty that luxury brands offer.

We do not wish to speculate on why Mr Ma made such a remark when only two months ago, he was championing to stamp out counterfeits sold on Taobao. But in suggesting that fake goods are of better quality than the real ones, he is simply off the mark.

If Mr Ma were right, why would Chinese customers travel overseas to buy genuine luxury branded products at higher prices?

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