



This article appeared in a journal published by Elsevier. The attached copy is furnished to the author for internal non-commercial research and education use, including for instruction at the authors institution and sharing with colleagues.

Other uses, including reproduction and distribution, or selling or licensing copies, or posting to personal, institutional or third party websites are prohibited.

In most cases authors are permitted to post their version of the article (e.g. in Word or Tex form) to their personal website or institutional repository. Authors requiring further information regarding Elsevier's archiving and manuscript policies are encouraged to visit:

<http://www.elsevier.com/copyright>



# Preserving intellectual property rights: Managerial insight into the escalating counterfeit market quandary

Peggy E. Chaudhry<sup>a,\*</sup>, Alan Zimmerman<sup>b</sup>, Jonathan R. Peters<sup>b</sup>,  
Victor V. Cordell<sup>c</sup>

<sup>a</sup> Villanova University, 800 Lancaster Avenue, Villanova, PA 19085, U.S.A.

<sup>b</sup> City University of New York, College of Staten Island, 2800 Victory Boulevard,  
Staten Island, NY 10314, U.S.A.

<sup>c</sup> Cordell Associates, 10 Vidal Drive, San Francisco, CA 94132, U.S.A.

## KEYWORDS

Counterfeit trade;  
Counterfeit goods;  
Anti-counterfeiting  
strategy;  
Intellectual property  
rights;  
Anti-counterfeiting  
tactics

**Abstract** The U.S. Customs and Border Protection reports that counterfeit goods seizures were up 83% in 2006. While a plethora of anti-counterfeiting strategies target distribution channels, international organizations, pirates, and company-based initiatives, few reports debate the effectiveness of these distinct anti-counterfeiting tactics to curb the problem. For this study we conducted in-depth interviews with United States managers to gauge the efficacy of various anti-counterfeiting tactics to preserve intellectual property rights. The results indicate that corporate managers find the practice of encouraging distributors to notify the manufacturer about counterfeits, as well as educating both employees and channel members about the counterfeit problem, to be some of the most effective ways to fight pirates. However, the managers report many other tactics are futile, including providing financial incentives for distributors to reject counterfeits and stressing the harmful effects of fake goods in advertising. We recommend a specific program that firms can employ to deter counterfeiting, including managing the registration of all trademarks and patents in key markets, establishing a company-based enforcement team, monitoring the growth of fakes through a central information repository, developing a multi-pronged action plan, and preparing to fight pirates through investigative work in conjunction with local law enforcement.

© 2008 Kelley School of Business, Indiana University. All rights reserved.

## 1. Counterfeit goods: An old, but growing, problem

Increased globalization has attracted more concern and attention for the problem of counterfeit goods.

\* Corresponding author.

E-mail addresses: [peggy.chaudhry@villanova.edu](mailto:peggy.chaudhry@villanova.edu)  
(P.E. Chaudhry), [azimmerman@mail.csi.cuny.edu](mailto:azimmerman@mail.csi.cuny.edu)  
(A. Zimmerman), [jpeters@mail.csi.cuny.edu](mailto:jpeters@mail.csi.cuny.edu) (J.R. Peters),  
[vcordell@sbcglobal.net](mailto:vcordell@sbcglobal.net) (V.V. Cordell).

Over the last 2 decades, innumerable articles and books have emerged addressing this topic (including Chaudhry, Cordell, & Zimmerman, 2005, and Phillips, 2007). Counterfeiting has been a problem for at least 300 years. In the 17th century Domingo Navarette, a Spanish priest, noted the Chinese ability to copy products. He complained that the Chinese had “imitated to perfection whatsoever they have seen brought out of Europe” (“*Imitating Property*,” 2003, p. 70). In fact, the problem came to the attention of the U.S. government more than 100 years ago. Reporting for the government, William Eleroy Curtis (1889) maintained that “the superiority of American [cotton] goods is so great that the Manchester [England] mills send few goods to South America that do not bear forged American trade-marks” (p. 288). From that time until now, manufacturers have found it necessary to take their own actions against counterfeiters. Curtis quotes a member of the New York law firm of Smith, Hogg, and Gardner as having recovered damages and costs in Manchester (UK), but acknowledges the fact that there existed “great difficulty in definitively locating the forgeries” (p. 289).

In 2006, the U.S. government estimated the global market value of the counterfeit industry at \$500 billion, with a growth rate of 1700% over the past 10 years (U.S. Department of State, 2006). The annual international trade in counterfeit tangible goods is estimated to be at least \$200 billion, an amount larger than the GDPs of 150 countries (Organisation for Economic Cooperation and Development, 2007). The ability of ever smaller firms to move manufacturing to low-cost locations, the growth of brand importance to consumers around the world, and the decreasing cost of the technology used to manufacture products are factors which contribute to making counterfeiting a very attractive and inexpensive way of getting into business.

Both large and small firms are fighting against the production of counterfeit goods. An example on the smaller end is Heelys, Inc., a rapidly growing firm based in Carrollton, Texas. The company manufactures popular sneakers that incorporate wheels in the heel. The product has taken off, with sales increasing over 250% from the first quarter of 2006 to the first quarter of 2007. In response to that tremendous growth, total sales for fiscal 2006 reached about \$188 million. Heelys employs less than 50 people, and had arranged for manufacture of their products in an exclusive relationship with a firm in South Korea. Substantial growth required that they add suppliers, so the product is now made in China as well. As small as the company is, with limited sales of about \$17 million outside the United States, Heelys faces challenges to its patents and

intellectual property. One Korean firm was selling a one-wheel roller shoe called *Heatys* (Phillips, 2007; Heelys, Inc., 2007). Heelys has also been fighting counterfeits in China since 2002. Despite a ruling from the Chinese government that two factories were violating Heelys’ patents, a year passed before the government took action. Moreover, this delay was followed by minimal corrective action, involving confiscation of just a few cases of counterfeit shoes and a promise not to make any more copies (Yung, 2006).

At the other end of the scale lies the Starbucks Corporation, a firm with more than \$8.5 billion in sales and nearly 146,000 employees. Starbucks has been fighting to protect its trademark around the world. In Russia the firm regained the right to use its brand after a favorable ruling against a *trademark squatter*. Anyone visiting Shanghai will see not only a number of Starbucks locations, but also copycats of every kind. One Shanghai coffee house was using the name *Xingbake*, a clever knockoff of the Starbucks name. In Pinyin Chinese *xing* means star, and *bake*, pronounced bah-kuh, sounds like bucks. Thus, the coffee house name replicated the Starbucks brand name using a combination of Chinese characters and sounds. Starbucks sued in 2003, saying that its trademark had been registered in China since 1996. In early 2006, a Shanghai court ordered Xingbake Café to discontinue the use of their version of the Starbucks name, and required that it pay Starbucks 500,000 yuan, the equivalent of \$62,000, in damages. This was the first ruling of its kind under a 2001 Chinese law (Noon, 2006).

Few firms have been successful in legal proceedings in China. The Walt Disney Company was the first to receive damages when a Beijing Court ruled in 1999 against Chinese companies for their production of children’s books based on Disney’s animated films. Disney received a \$77,000 judgment (Faison, 1995). Nike, Inc., a \$30 billion firm, has also been fighting counterfeits for years. Last year, the German Customs Department seized what could have been the largest cache of counterfeit goods, 1 million pairs of phony Nike sneakers, in a total of 117 shipping containers worth nearly \$500 million (“*One Million Sneakers*,” 2006).

Software is particularly vulnerable to copying. In testimony given to a House of Representatives subcommittee, a Microsoft Corporation senior manager in charge of fighting counterfeits stated that 25% of software used in the United States and 40% used worldwide is pirated. In parts of Asia the piracy rates reach 90%. Such widespread copying amounts to \$13 billion in annual losses from counterfeiting for the software industry. Microsoft alone claims annual seizures of nearly \$2 billion in counterfeit products

(U.S. Congress, 2004). The FBI, in a joint effort with Chinese authorities, recently arrested 25 people and seized more than \$500 million worth of counterfeit Microsoft and Symantec software produced in China and distributed throughout the world (Barboza & Lohr, 2007).

A particularly brazen case of counterfeiting was discovered in early 2006. Managers at the Tokyo headquarters of NEC learned that pirated keyboards, CDs, and DVDs were on sale in Beijing and Hong Kong. All the products were branded NEC. After a 2-year investigation in cooperation with the governments of China, Taiwan, and Japan, the company discovered that pirates were attempting to set up a complete company bearing the NEC brand. This operation included the involvement of more than 50 electronics factories in China, Hong Kong, and Taiwan. Some of the factories even displayed phony NEC signs, and used official looking packaging, as well as warranty and service documents. The pirates manufactured a range of 50 products imitating the company's entire product portfolio. Some of the factories had official-looking documents which they insisted gave them a license to manufacture NEC goods (Lague, 2006).

## 2. The growth of counterfeit trade: Assessing lost sales, brand dilution, linkages to terrorism, and legal remedies

A distinction between knockoffs, gray goods, and counterfeit goods must be made. *Knockoff products* look the same as branded products, but they do not abuse the intellectual property, or patents and trademarks, of any manufacturer. In his book, *Knockoff: The Deadly Trade in Counterfeit Goods*, Tim Phillips (2007) describes, "If you have a market stall selling fake Gucci bags, that's OK - as long as you tell your customers that they are fakes" (p. 69). He also reports on the concept of *blanks* in the knockoff market, which are items such as a Gucci purse that contains everything except a logo that can be attached later. *Gray goods*, on the other hand, are products that are manufactured by the owner of the intellectual property. These products are genuine and legitimate, but have found their way into unintended markets. For example, there is currently a thriving gray market of Apple products in India. An authorized iPod dealer charges \$440 for a 30-GB video iPod, but a gray marketer is able to offer the same product for \$280 because it has been smuggled into the country from various locations, such as Singapore and Dubai. While gray goods are a

distribution channel problem for international managers, they are not the subject of this article.

Definitions of product counterfeiting vary. For the purpose of this study, the definition presented by Cordell, Wongtada, and Kieschnick (1996) is applied. Cordell posits that product counterfeiting involves any unauthorized manufacturing of goods whose special characteristics are protected as intellectual property rights, or trademarks, patents, and copyrights. Hopkins, Kontnik, and Turnage (2003), in their book, *Counterfeiting Exposed: Protecting Your Brand and Customers*, provide many current examples of traditional counterfeit goods such as Louis Vuitton handbags, Oakley sunglasses, and Nike shoes. However, in their work, they also alert business managers about the non-traditional counterfeit products that include pharmaceuticals and airplane and automotive parts.

The whole concept of attempting to measure the effects of counterfeiting is controversial. By its very nature, counterfeiting is illegal. It makes discovering and measuring output quite difficult and ambiguous. In addition, there is no established framework used to calculate the various factors of counterfeiting and subsequent market influences. Green and Smith (2002) examine methods of measuring an abstract concept. Would a calculation of sales lost by specific brands, damage to brand equity, total sales of counterfeits, or some combination of these factors be the most appropriate measure of counterfeit calculation?

At a recent Eastern Economic Association Conference, one economist even questioned the idea that there were losses associated with counterfeiting. An interesting point is that consumers who buy counterfeit goods compose a market segment that purchases counterfeits due to their inability to afford the genuine product. Therefore, it can be assumed that sales contributing to the counterfeit market are not sales that would otherwise contribute to the real market. Accordingly, whether sales revenue is lost to the counterfeit market is debatable. Damages to the holders of patents or trademarks, versus damage to the market as a whole, are clearly controversial.

However, the existence of a large counterfeit market significantly affecting the marketplace cannot be ignored. The threat of physical harm to consumers presented by the use of counterfeit products is also notable. In addition, counterfeits pose a threat to the economy because the home countries of the firms providing the genuine products suffer a loss of exports, taxes and other revenues, as well as employment. Even host countries (here identified as the source of the counterfeit goods) may eventually suffer a reduction in foreign direct investment, despite a short-term gain in



consumer welfare. Firms considering investment may fear the likelihood of their products being copied once they are manufactured or introduced into a particular market.

The primary focus of this paper is the loss experienced by the owners of the intellectual property. These firms suffer losses in revenues and profits, as well as bear increased costs for policing and fighting pirates. An additional concern is the impact of declining customer loyalty through brand dilution and reduced growth. Some firms react to the threat of widespread copying by reducing investment in research and development (Globerman, 1988). There is also one additional global cost of utmost consideration. Counterfeiting is a major funding source for organized crime and terrorist organizations, like Hezbollah and those who perpetrated the Madrid train bombings in 2004 ("Counterfeit Goods," 2007; U.S. Congress, 2004). Dana Thomas (2007) further supports linkages to organized crime, stating, "Most people think that buying fake goods is harmless. But counterfeiting rackets are run by crime syndicates that also deal in narcotics, weapons, child prostitution, human trafficking, and terrorism" (p. 21).

Despite the uncertainty of measurement methods, it is evident that product counterfeiting is significant and growing. The U.S. Customs Service made record seizures of counterfeit products in 2006, confiscating nearly 15,000 different shipments valued at about \$155 million. This compares favorably with the 8,000 seizures made in 2005 valued at \$93 million. But even with this increase in seizures, customs services around the world are intercepting only a very small percentage of counterfeit goods. The products seized also vary from year to year. U.S. Customs and Border Protection

(2005) reported that wearing apparel, handbags, and wallets accounted for about a third of the seizures. In 2006, these products accounted for about 25% of seizures, while footwear accounted for 41% of confiscated products and climbed into first place. In previous years, media including motion pictures on video or DVD, computer software, music, cigarettes, and consumer electronics accounted for a much larger share of customs seizures. Although the statistics in products seized fluctuate, there is one consistency in the data. Since 1998, China has accounted for the largest percentage of counterfeit products seized by the U.S. Customs Service, ranging from 33% in fiscal year 2000 to 81% in fiscal year 2006 ([www.cbp.gov](http://www.cbp.gov)). Table 1 shows the most important sources for counterfeit product according to the U.S. Customs and Border Protection.

### 3. Government actions designed to curb the growth in fakes

Each year the U.S. Trade Representative is required by law to develop a report detailing the adequacy and effectiveness of intellectual property rights (IPR) protection in 87 countries. In 2006, the following countries have been placed on the Priority Watch List from the U.S. Trade Representative (USTR), Section 301 Report: China, Russia, Argentina, Belize, Brazil, Egypt, India, Indonesia, Israel, Lebanon, Turkey, Ukraine, and Venezuela. Such placement translates to warranting an increased focus on intellectual property problems. An additional 34 countries plus the European Union have been placed on a lower category list, called the Watch List, indicating less egregious product piracy problems (Office of the United States Trade Representative, 2007). The

**Table 1.** Top IPR commodities seized in 2006

Commodity	Domestic value	Percent of total <sup>*</sup>
Footwear	\$ 63,445,619	41%
Wearing apparel	\$ 24,320,976	16%
Handbags/wallets/backpacks	\$ 14,750,201	9%
Computers/hardware	\$ 14,287,989	9%
Consumer electronics	\$ 7,057,034	5%
Media	\$ 6,965,156	4%
Headwear	\$ 3,257,963	2%
Health care	\$ 3,092,919	2%
Watches/parts	\$2,832,364	2%
Pharmaceuticals	\$2,298,694	1%
All other commodities	\$13,060,321	8%
Total FY 06 Domestic Value	\$155,369,236	
Number of seizures	14,675	

Source: U.S. Customs and Border Protection (2006).

<sup>\*</sup> Original source totals equal 99%, rather than 100%. This is most likely due to a rounding error.

managerial responses compiled from the study outlined in this paper identified four countries where consumers are particularly willing to purchase counterfeit products: China, Taiwan, the United States, and Mexico.

United States laws such as the Tariff Act of 1930, the Lanham Act, the Trademark Counterfeiting Act of 1984, and the Stop Counterfeiting in Manufactured Goods Act of 2006 are all designed to provide some form of legal protection from counterfeiting in this country. In addition, the International Anti-Counterfeiting Coalition (IACC), NAFTA, The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and the Scrivener regulations of the European Union are international organizations and measures that attempt to provide protection for intellectual property. For a detailed trade discussion of these multilateral trade agreements, see [Chaudhry and Walsh \(1996\)](#). The Bush Administration instigated a new attack on counterfeiting called STOP! (Strategy Targeting Organized Piracy). This initiative attempts to organize the federal government with the private sector and trading partners to take action against piracy. The U.S. Department of Commerce has appointed a Coordinator for International Intellectual Property Enforcement, and the USTR has a special advisor in this area as well ([Office of the IP Coordinator, 2006](#)).

Attention to this problem is of significant concern for much of the developed world. However, even though there are a number of national laws and international agreements designed to protect intellectual property rights, legal remedies available to the victims of counterfeited or pirated goods are weak and inadequate. For example, the Deputy Attorney General leading Mexico's anti-counterfeiting program stated, "Although in Mexico laws protecting patent holders have been strengthened, piracy continues to cost foreign companies hundreds of millions of dollars annually" ([Friedland, 1998, p. D3](#)). Similar to many other countries, the profits of Mexican pirates are much larger than any fines they may pay. Moreover, an overwhelming majority of those arrested for patent infringements are never indicted. According to New York City Police Commissioner Raymond Kelly, counterfeiters have little fear of being caught and face minimal punishment if they are apprehended ([U.S. Congress, 2004](#)). One author's conversation with a Chinese customs official reveals the attitude which has been prevalent in China. The official restated the opposition of Chinese government toward fraudulent products, while acknowledging that many industries discourage stricter government enforcement. The official also noted that "it is unrealistic to expect the average citizen to think about the illegality of products" (Name

Withheld, Director, Law Department, Shenzhen Customs Department, personal communication, July 9, 2002).

Just this year, the U.S. Congress took the unusual initiative to write a public letter to China's Vice Chairman Wu Yi during her visit to the United States, saying in part:

We also are particularly frustrated with China's inability to enforce intellectual property rights in China. As you know, the piracy rates in China remain virtually the highest in the world, at 85% to 95% of sales. Not only has China failed to make meaningful progress in this area, China has been sharply critical of the decision by the United States to file a WTO case to address the issue, claiming that the case 'will adversely affect bilateral economic and trade ties.' ([U.S. House of Representatives Committee on Ways and Means, 2007](#))

It is clear that despite the various good intentions of Chinese government officials, the enforcement of existing national laws and international agreements is still a quagmire in China. In the next section, we discuss a survey that collected data from United States managers regarding their views on global protection of intellectual property rights and related implications.

#### 4. Combating counterfeiting: Advice from managers

According to the Journal of Commerce, intellectual property rights is a Western concept, and in China IPR infringement is not deemed a morally wrong practice. In India, counterfeit drug makers claim the government believes it is more important to save lives by providing counterfeit drugs at lower prices than to provide profits to the inventors of drugs ("[The Intricacies,](#)" 1999; [McNeil, 2000](#)). Consumers are willing to purchase counterfeit goods for a variety of reasons: perceiving the counterfeit to be as good as the authentic good, expressing an anti-big-business sentiment, or holding lax attitudes about the legal protection of intellectual property ([Tom, Garibaldi, & Pilcher, 1998](#); [McNeil, 2000](#); "[The Intricacies,](#)" 1999).

In this survey, managers rated the importance of specific product attributes, such as price (88%), point of purchase (88%), slight difference in brand name (75%), and packaging (56%) as important influences on consumer determination of the legitimacy of a product. According to the responses of managers surveyed, consumers are fairly sophisticated decision makers. They can tell whether a product is legitimate or counterfeit by price and

by where the product is purchased. Despite such awareness, consumers are quite willing to purchase counterfeits for a variety of reasons. Furthermore, we found managers who plan to make investments in countries where the intellectual property environment is less than ideal. This is especially true for China, where the strategic importance of the market outweighs any managerial trepidation regarding the lack of IPR protection.

This exploratory study attempts to define managerial perceptions of the intellectual property rights environment by assessing the implementation and effectiveness of anti-counterfeiting tactics in a given country of operation. Applying collected data on piracy issues, a survey was developed and administered to United States corporate managers. Specific details of the survey sample can be found in the Appendix. Inadequate government protection of IPR throughout the world forces many firms to act on their own. Overall, the problem is not a lack of existing legislation to protect a firm's intellectual property rights, but the lack of enforcement. For example, there are 151 member countries of the World Trade Organization (WTO) that governs its TRIPs (Trade-Related Aspects of Intellectual Property Rights) Council. Therefore, a number of government policymakers have agreed to acknowledge the concept of intellectual property rights. However, this multi-lateral trade agreement does not guarantee enforcement of intellectual property rights. *Financial Times* questions the fact that the WTO and its TRIPs are providing adequate protection of intellectual property rights. One of the paper's reporters wrote that:

U.S. pressure has achieved little because it is pushing on a string. China has reams of legislation protecting IPR. But as well as being plagued by corruption, it lacks a tradition of private property rights, effective rule of law, research-intensive industries and strong brands. It, therefore, has neither the means nor the incentives to enforce its rules rigorously. ("It is Patently Absurd," 2005, p. 19)

Existing literature provides a variety of suggestions for combating counterfeit goods, ranging from the development of better relations with the distribution channel to differentiating products based on quality and appearance. The latter may encourage consumer awareness of counterfeit products and trigger subsequent identification. Emphasizing the prestigious image portrayed by purchasing a genuine product is yet another strategy to deter counterfeit purchases. New and clever packaging, and the marking of products, is also being implemented, including special spouts which discourage refilling of bottles,

the use of holograms or covert chemical fingerprints and other hidden markers, and even the use of DNA to give unique identification to textiles. In reviewing all the recommendations, the range of actions taken could be categorized according to the sector targeted: consumers, distribution channels, international organizations, host/home country governments and pirates, as well as company-based activities.

Table 2 was developed to summarize all of the frequently used tactics reported in previous articles, such as Bush, Bloch, and Dawson's (1989) publication in *Business Horizons*. One of the major goals of this exploratory study was to determine what actions were most useful when implemented by managers who were combating the counterfeit problem in terms of both frequency of use and effectiveness of each tactic. Therefore, we developed a questionnaire designed to gauge the strategies listed in Table 2, and responses were elicited from international business managers in the United States regarding the value of various kinds of actions. For example, it was found that managers most frequently combat the problem by attempting to educate channel members, for instance, by warning distributors and retailers of possible damages from selling counterfeits. The second most frequently used tactic was lobbying international organizations for stronger protection against pirates. A third attempt focused on the pirates themselves, such as developing a company enforcement team. Lastly, company-based tactics, including educating employees about copycats, implementing acquisition and joint venture strategies to minimize counterfeiting, and establishing factories in lower cost countries, were expressed by managers as internal strategies to preserve IPR.

Generally, managers were not likely to target actions at consumers, nor did they frequently lobby home or host governments. Those who chose China as their number one problem area developed company enforcement teams and lobbied the United States government to fight counterfeit goods far more frequently. Insight provided by managers regarding which actions proved most effective was of critical importance. Here again, actions directed at consumers were generally seen as least effective, while those directed at governments, distribution, and the pirates themselves were deemed more successful.

Based on the sample of managers interviewed, a viable conclusion is that the most effective action is a basic one: register your trademarks and patents. In conjunction with that seemingly obvious, yet critical, suggestion, is the importance of focusing attention on the distribution channel. Such action involves monitoring and investigating both retailers

**Table 2.** Frequently used IPR actions to combat counterfeiting

Targeted at consumers	Targeted at host/home country governments
<ul style="list-style-type: none"> <li>● Use special packaging and/or labeling</li> <li>● Emphasize benefits of genuine product</li> <li>● Provide lists of legitimate channel members</li> <li>● Emphasize warranties and after-sale service</li> <li>● Offer site licenses</li> <li>● Offer reduced price, related product lines</li> </ul>	<ul style="list-style-type: none"> <li>● Register trademarks and patents</li> <li>● Educate local law enforcement</li> <li>● Injunctions against counterfeit goods</li> <li>● Lobby for more stringent laws/enforcement</li> <li>● Seek assistance from tax authorities</li> </ul>
Targeted at distribution channels	Targeted at international organizations
<ul style="list-style-type: none"> <li>● Educate channel members about counterfeits</li> <li>● Encourage distributors to notify manufacturer about counterfeit goods</li> <li>● Provide warnings to distributors/retailers</li> <li>● Give financial incentives to reject counterfeits</li> <li>● Solicit dealer suggestions to develop tactics</li> <li>● Use tracking devices, such as RFID tags</li> <li>● Monitor and investigate channel members</li> </ul>	<ul style="list-style-type: none"> <li>● Monitor policy of UN/ECE Advisory Group</li> <li>● Participate in IACC actions</li> <li>● Use the TRIPS of WTO</li> <li>● Monitor the actions of WIPO</li> <li>● Participate in multilateral organizations</li> <li>● Lobby for stronger global IPR protection</li> </ul>
Targeted at pirates	
<ul style="list-style-type: none"> <li>● Establish internal enforcement team</li> <li>● Use surveillance program in retail outlets</li> <li>● Warn counterfeiters of possible legal action</li> <li>● Develop supplier quality assurance program</li> <li>● Aggressively cut prices</li> <li>● Use covert actions</li> </ul>	
Targeted at the internal company	
<ul style="list-style-type: none"> <li>● Educate employees about copycats</li> <li>● Use acquisition and/or joint venture strategy</li> <li>● Establish factories in lower cost countries</li> </ul>	

Source: Adapted from Bush, Bloch, and Dawson (1989); Globerman (1988); Green and Smith (2002); Chaudhry and Walsh (1996); Cordell, Wongtada, and Kieschnick (1996); Harvey (1987); Olsen and Granzin (1993); and Wee, Tan, and Cheok (1995).

and distributors, having distributors notify the manufacturer upon identification of counterfeit goods in the marketplace, asking manufacturers to educate their channel members about counterfeit products, and warning distributors and retailers about possible penalties. Managers also use local police and the

legal system to fight against pirates, encouraging governments to enforce existing laws rather than lobbying for new ones. Information gathered from the managers polled highlights the importance of both educating within the company, and monitoring information sources outside the company, for anti-

**Table 3.** Most effective anti-counterfeiting actions

IPR Action	Directed At	Rating
Register trademarks/patents	Governments	4.40
Encourage distributors to notify manufacturer	Distribution channel	4.07
Educate employees about counterfeit goods	Internal company	4.07
Educate channel members	Distribution channel	3.93
Warn distributors and retailers about possible penalties	Distribution channel	3.93
Obtain local police support	Pirates	3.87
Encourage enforcement of existing laws	Governments	3.80
Pursue injunctions against counterfeiters	Pirates	3.73
Monitor information sources for anti-counterfeiting developments	Internal company	3.40
Monitor and investigate retailers and distributors	Distribution channel	3.33

Scale: 5 = very effective; 4 = somewhat effective; 3 = neither effective nor ineffective; 2 = somewhat ineffective; 1 = very ineffective; 0 = did not use.



**Table 4.** Least effective anti-counterfeiting actions

IPR action	Directed at	Rating
Acquisition/joint venture with counterfeiter	Internal company	0.36
Aggressively cut prices	Pirates	0.93
Provide financial incentives for distributors/retailers to reject counterfeits	Distribution channel	1.00
Offer site licenses (software)	Consumers	1.69
Stress the harmful effects of counterfeiting in advertisements	Consumers	2.13
Establish factories in lower-cost countries	Internal company	2.27
Participate in multilateral negotiations	International organizations	2.27
Solicit retailer/distributor suggestions for anti-counterfeiting tactics	Distribution channel	2.33
Monitor the actions of the World Intellectual Property Organization (WIPO)	International organizations	2.40
Implement surveillance program to check products in stores	Distribution channel	2.47

Scale: 5 = very effective; 4 = somewhat effective; 3 = neither effective nor ineffective; 2 = somewhat ineffective; 1 = very ineffective; 0 = did not use.

counterfeiting developments. Other strategies rated somewhat effective include: participating in activities sponsored by the International Anti-Counterfeiting Coalition (IACC), heightening the awareness of local law enforcement officers, developing a company enforcement team, and lobbying for stronger global intellectual property protection.

Some actions were reported to be quite ineffective; they are listed in Table 4. The results of this survey clearly indicate that the managerial opinions polled do not align with many of the suggestions put forth by previous publications on frequent anti-counterfeiting tactics used by global managers [refer back to Table 2]. The managers believe that forming joint ventures, making acquisitions of pirates, and aggressively cutting prices are all highly ineffective methods. Soliciting suggestions, rewarding members of the distribution channel for rejecting counterfeits, and checking products in stores are also reportedly unsuccessful measures. In addition, stressing the harmful effects in advertising is regarded as ineffective by the sampled manager pool. Some international activities, such as monitoring the WIPO, also ranked poorly for effectiveness.

## 5. Managerial implications: Taking responsibility

First, it is clear that the problem of counterfeiting will pervade global markets for some time. While governments and international organizations are focusing some additional attention on IPR, the owners of intellectual property must take responsibility to act on their own. Success comes from taking this problem seriously, regardless of whether you are CEO of a \$50 billion corporation or president of a small startup. Based on our exploratory analysis of managerial perceptions of this global problem, and information extracted from previous publications on

this topic (Chaudhry, 2006; Chaudhry & Stumpf, 2007; Chaudhry et al., 2005), we would strongly recommend the steps outlined below be undertaken.

### 5.1. Manage the registration of all trademarks and patents in key markets

This recommendation is a little more complicated than it seems. Although 171 countries have signed the Paris Convention for the Protection of Industrial Property (World Intellectual Property Organization, n.d.), and all of them recognize patent claims made in a firm's home country, it is necessary to register patents in various jurisdictions. It is possible to obtain patent protection in all 27 member countries of the EU by filing one application. In addition, a firm can file a single application with the World Intellectual Property Organization (WIPO) and obtain trademark rights in each of the 72 countries that are members of the Madrid Protocol (Fenwick & West LLP, n.d.). The company must set up a system to monitor where the firm must register its patents, and when the registrations need to be renewed. The company must also establish a budget for this activity, for both the required human resources as well as the registration fees.

### 5.2. Establish a formal or informal enforcement team

Some firms have large sophisticated antipiracy organizations. Microsoft has a 75-member team that had been tracking a Chinese counterfeiting syndicate for more than 6 years before the large seizure described in the opening of this article (Barboza & Lohr, 2007). On the other hand, in July 2007, Heelys had just appointed a Vice President of International. Both the CEO and the new vice president must be involved in protecting Heelys' intellectual property rights.

Stopfakes.gov, a new website developed by the United States Patent & Trademark Office, is intended to help small businesses protect their rights (U.S. Department of Commerce, n.d.).

### **5.3. Create a monitoring program to quickly funnel any information about counterfeits to a central information repository**

This program should review anti-counterfeiting developments in home and host markets, as well as those implemented by relevant international organizations, such as the International Anticounterfeiting Coalition (IACC). As was noted in the study, the IACC was perceived as the most effective international organization to monitor future anti-counterfeiting measures, not the TRIPs in the WTO. This information should be reviewed on a regular basis by top management to successfully monitor conditions, and to appropriately and effectively combat pirates.

### **5.4. Develop a multi-pronged action plan, with programs directed at employees, your distribution channel, local law enforcement, and international organizations**

To reiterate, educating employees and channel members, as well as local law enforcement, is crucial. A presentation should be developed so local management, marketing, and sales people can inform various audiences of the threats that the counterfeit market presents. It should be emphasized to distributors and retailers that you will take action to protect your intellectual property. Moreover, any actions taken should be widely publicized within the channel. The Motion Picture Association of America (MPAA) has this type of multi-pronged action plan, and its anti-counterfeiting tactics range from the publication of the *Top 25 University Piracy Schools* disclosing a "dishonor roll" of the number of students that have illegally used copyrighted materials (Fisher, 2007), to commercials featuring Jackie Chan and Arnold Schwarzenegger riding motorcycles in their "Mission to Stop Piracy" (Schmitz, 2005).

### **5.5. Prepare to fight pirates by investigating retailers and distributors as well as manufacturing sources, pursuing injunctions, and working with local law enforcement**

Educating the local police while building good relations will help pave the way for effective action when necessary. International Spirits Distributors

(ISD), a marketer of premium imported Scotch whiskey, faced a major problem in Thailand after several deaths were attributed to the consumption of counterfeit whiskey marketed under their brand. The company employed multiple actions including identifying and punishing retail outlets, destroying the pirates' production facilities, lobbying for stricter penalties in the Thai legal system, and obtaining local police support for sting operations. ISD even hired a dream team of former Scotland Yard and British military commandos to lead their operations (Green & Smith, 2002).

The problem of counterfeit goods has received an inordinate amount of attention. Governments and international organizations are mounting anti-piracy actions with regularity. Nevertheless, it is incumbent upon a firm's management to recognize the seriousness of this problem. Firms must take an active stance to prevail over the effects of an increasingly threatening intellectual property environment. They must channel efforts to reduce the cost of piracy and to fight its influence on the market. A firm of any size can mount an effective anti-counterfeiting program. The most effective actions are outlined here, and should be incorporated into corporate strategy to maximize IPR protection.

## **Appendix**

More than 1,000 firms in industries where seizures of counterfeit products were identified were contacted for participation in this study. An initial sample of 120 firms agreed to participate in the survey. Despite this pre-screening process, 16 in-depth interviews for this study were completed. Since managers were asked to name more than one country where counterfeiting posed a serious threat, some questions yielded as many as 27 data points. The majority of interview respondents had worked for more than 10 years in international business. A total of 13 of the managers had worked for a company that had sold its product outside of the United States for more than 12 years, and the average percent of sales outside of the United States was 30%. The 16 managers represented a cross-section of various industries that included the manufacture of batteries, apparel, contact lens solution, computers, sunglasses, videos, and CDs.

## **References**

- Barboza, D., & Lohr, S. (2007, July 25). FBI and Chinese seize \$500 million of counterfeit software. *The New York Times*, p. C1.

- Bush, R., Bloch, P., & Dawson, S. (1989). Remedies for product counterfeiting. *Business Horizons*, 32(1), 59–65.
- Chaudhry, P. (2006). Changing levels of intellectual property rights protection for global firms: A synopsis of recent U.S. and EU trade enforcement strategies. *Business Horizons*, 49(6), 463–472.
- Chaudhry, P., & Stumpf, S. (2007). *Product counterfeiting in China: Managerial perceptions of supplier and buyer interest in counterfeit goods and the probable effectiveness of corporate anti-counterfeiting actions*. Berlin: Springer.
- Chaudhry, P., & Walsh, M. (1996). An assessment of the impact of counterfeiting in international markets: The piracy paradox persists. *Columbia Journal of World Business*, 31(3), 34–49.
- Chaudhry, P. E., Cordell, V. V., & Zimmerman, A. (2005). Modeling anti-counterfeiting strategies in response to protecting intellectual property rights in a global environment. *Marketing Review*, 5(1), 59–72.
- Cordell, V., Wongtada, N., & Kieschnick, R. (1996). Counterfeit purchase intentions: Role of lawfulness attitudes and product traits as determinants. *Journal of Business Research*, 35(1), 41–53.
- Counterfeit goods are linked to terror groups. (2007, February 12). *International Herald Tribune*. Retrieved July 16, 2007, from [www.ihf.com](http://www.ihf.com)
- Curtis, W. E. (1889). *Trade and transportation between the United States and Spanish America*. Washington, DC: U.S. Government Printing Office.
- Faison, S. (1995, May 17). Fighting piracy and frustration in China: Counterfeit goods flourish in a legal system that is often outwitted. *The New York Times*, p. D1.
- Fenwick & West LLP. (n.d.). *Trademark protection*. Retrieved August 1, 2007, from <http://www.softwareprotection.com/trademark.htm>
- Fisher, K. (2007). *MPIAA names its top 25 piracy schools*. Retrieved August 3, 2007, from <http://arstechnica.com/news.ars>
- Friedland, J. (1998, December 3). Fighting fake merchandise in Mexico is a difficult task. *Arizona Republic*, p. D3.
- Globerman, S. (1988). Addressing international product piracy. *Journal of International Business Studies*, 19(3), 497–504.
- Green, R. T., & Smith, T. (2002). Executive insights: Countering brand counterfeiters. *Journal of International Marketing*, 10(4), 89–106.
- Harvey, M. G. (1987). Industrial product counterfeiting: Problems and proposed solutions. *The Journal of Business and Industrial Marketing*, 2(4), 5–13.
- Heelys, Inc. (2007). *Heelys, Inc. reports fiscal 2007 first quarter financial results*. Retrieved July 17, 2007, from <http://investors.heelys.com>
- Hopkins, D., Kontnik, L., & Turnage, M. (2003). *Counterfeiting exposed: Protecting your brand and customers*. Hoboken, NJ: John Wiley & Sons.
- Imitating property is theft. (2003). *The Economist*, 367(8324), 70.
- The intricacies of protecting your intellectual property rights in China. (1999, May 3). *Journal of Commerce*, p. 3A.
- It is patently absurd to try to lock up the Chinese copycats. (2005, July 19). *Financial Times*, p. 19.
- Lague, D. (2006, May 1). Next step for counterfeiters: Faking the whole company. *The New York Times*, p. C1.
- McNeil, D. G., Jr. (2000, December 1). Selling cheap generic drugs, India's copycats irk industry. *The New York Times*, p. 1.
- Noon, C. (2006, January 2). Schultz' Starbucks wins China copy-right case. *Forbes.com*. Retrieved July 17, 2007, from [http://www.forbes.com/2006/01/02/schultz-starbucks-china-cx\\_cn\\_0102autofacescan01.html](http://www.forbes.com/2006/01/02/schultz-starbucks-china-cx_cn_0102autofacescan01.html)
- Office of the IP Coordinator. (2006, April 6). *Bush administration: Strategy for targeting organized piracy: Accomplishments and initiatives*. Retrieved July 25, 2007, from [www.commerce.gov](http://www.commerce.gov)
- Office of the United States Trade Representative. (2007). *2007 special 301 report*. Retrieved July 22, 2007, from <http://www.ustr.gov>
- Olsen, J. E., & Granzin, K. L. (1993). Using channel constructs to explain dealers' willingness to help manufacturers combat counterfeiting. *Journal of Business Research*, 27(2), 147–170.
- One million sneakers seized in counterfeit bust. (2006, November 15). *CBC News*. Retrieved from [http://www.cbc.ca/consumer/comm-oddities/2006/11/one\\_million\\_sneakers\\_seized\\_in.html](http://www.cbc.ca/consumer/comm-oddities/2006/11/one_million_sneakers_seized_in.html)
- Organisation for Economic Cooperation and Development. (2007, June 4). *The economic impact of counterfeiting and piracy: Part IV: Executive summary*. Retrieved June 18, 2007, from [www.oecd.org](http://www.oecd.org)
- Phillips, D. J. (2007, January 2). Will Heelys stock price skate higher in 2007? *Seeking Alpha*. Retrieved July 17, 2007, from <http://retail.seekingalpha.com>
- Phillips, T. (2007b). *Knockoff: The deadly trade in counterfeit goods*. London: Kogan Page Limited.
- Schmitz, R. (Speaker). (2005). *U.S. studios fight rampant movie piracy in China* (radio broadcast). Washington, DC: National Public Radio.
- Thomas, D. (2007, October 1). The real cost of fake goods. *The New York Times Upfront*. Retrieved from <http://www.mywire.com/pubs/NewYorkTimesUpfront/2007/10/01/4904448>
- Tom, G., Garibaldi, B., & Pilcher, J. (1998). Consumer demand for counterfeit goods. *Psychology and Marketing*, 15(5), 405–421.
- U.S. Congress. (2004). *Anti-counterfeiting amendments of 2003 (H.R. 3632)*. Retrieved July 27, 2007, from <http://commdocs.house.gov/committees/>
- U.S. Customs and Border Protection. (2005). *FY 2005 Top IPR Commodities Seized*. Retrieved July 17, 2007, from [http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/seizure/trading/fy05\\_midyear\\_stats.ctt/fy05\\_ipr\\_midyear.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/seizure/trading/fy05_midyear_stats.ctt/fy05_ipr_midyear.pdf)
- U.S. Customs and Border Protection. (2006, November 7). *L.A. strategic trade center*. Retrieved July 16, 2007, from [www.cbp.gov](http://www.cbp.gov)
- U.S. House of Representatives Committee on Ways and Means. (2007, May 23). *Ways and means members raise concerns over China policies*. Retrieved May 25, 2007, from <http://republicans.waysandmeans.house.gov/showarticle.asp?ID=60>
- U.S. Department of Commerce. (n.d.). *Why protect intellectual property?* Retrieved May 16, 2007, from [http://www.stopfakes.gov/sf\\_why.asp](http://www.stopfakes.gov/sf_why.asp)
- U.S. Department of State. (2006). *Focus on intellectual property rights: A message from Jackie Chan: Fakes cost more*. Retrieved July 5, 2006, from <http://usinfo.state.gov/products/pubs/intelprp/chan.htm>
- Wee, C., Tan, S., & Cheok, K. (1995). Non-price determinants of intention to purchase counterfeit goods. *International Marketing Review*, 12(6), 19–46.
- World Intellectual Property Organization. (n.d.). *Contracting parties*. Retrieved July 31, 2007, from [www.wipo.int](http://www.wipo.int)
- Yung, K. (2006, July 17). In slow pursuit of counterfeiters: Heelys maker finds China is spinning its wheels. *Dallas Morning News*. Retrieved July 17, 2007, from <http://www.dallasnews.com/>