Why Luxury Brand Managers Should Pay Attention to Social Class: Not All Counterfeit Users Are Equal

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Abstract

Luxury products are among the most commonly seized counterfeit items by the U.S. Customs and Border Protection Agency, and the annual confiscation rate continues to increase. Globally, the total costs associated with these counterfeits are estimated to be in the range of billions of dollars, and effect consumers, governments, and producers of the luxury brand items. Despite the attention that this topic has received, the effects of counterfeit use on the sales of genuine luxury brands and consumers' perceptions are unclear. The authors uncover an interesting asymmetric relationship between the social classes of counterfeit users and those of observers of counterfeit use on perceptions of the original luxury brand. In other words, if a consumer from a high-class background sees a consumer from a lower-class background with a luxury item, the effect is different than when the lower-class consumer sees a consumer from a high-class background with the same luxury brand. The authors predict that counterfeit use can hurt luxury brand equity, although in some cases, it may have no effect. These predictions are based on social hierarchy theory and uncover that consumers' levels of uncertainty about counterfeit luxury products causes them to rely more on social cues when evaluating luxury products after being exposed to counterfeit use. The managerial implications of three key findings are provided in order to help luxury brand managers determine what action can be taken in markets where there is significant counterfeit activity.

The dramatic increase in the availability of counterfeit luxury goods on the global level has been motivated by returns on investment that are often greater than drug trafficking, yet they present significantly lower levels of risk for the parties involved.[1,2] For consumers, these counterfeit products are also very attractive because they provide the high signaling value of the luxury brand at lower prices and through more accessible distribution channels. As a result, manufacturers are increasingly policing global counterfeiting efforts to protect their brands' equities. Luxury brand manufacturers are concerned not only by lost sales, but also for the losses in their luxury brands' most valuable assets, including changes in consumer perceptions of status and prestige of the brand and the brand symbols themselves.[3] Researchers have also increased their efforts to understand the consequences of counterfeit use on perceptions about the luxury brands, but at best, the studies have provided a mixed set of results.[4]

The attraction of counterfeit luxury goods stems from the need to use brands to differentiate themselves from others and to make inferences about the identities and social roles of others.[5] For example, consumers often choose products that communicate to others, and even to themselves, which social groups they belong to or aspire to belong to.[6,7] They use a combination of logos, brand names, patterns, and other visibly identifying features that reflect a certain lifestyle or personality.[8,9]

Since the counterfeit versions of these products fulfill many of the same symbolic needs as the more expensive and harder to access luxury versions, it is even becoming common for consumers to combine authentic and counterfeit luxury goods and to be open with people in their own social group about this behavior. As a result, people may perceive the use of counterfeits by others as a symbol of the importance of the brand to that person's social group and, in turn, may influence their perceptions of the genuine luxury brand. Specifically, people who are similar to, or aspire to be similar to a consumer who is displaying a counterfeit luxury good are likely to have a more favorable perception of the brand. However, counterfeit use by consumers from a different social class may lead to a weakened affinity to the genuine brand.[10] In both cases, these associations, or dissociations from the luxury brand being displayed may impact product choices.[11]

A particularly important element in understanding this relationship between luxury brand displays and social identity is that of social class. Social class is used not only to communicate social identity, consumers also use it to communicate social hierarchy or rank. Theories of social hierarchy confirm that there is a general attraction toward tastes of in-groups and an aversion toward tastes of out-groups, as described above, but that interesting asymmetries may also occur.

For example, because these social hierarchies provide stability and familiarity in important aspects of our daily lives, people have a desire to preserve their society's social hierarchy, regardless of whether they are a member of a higher or lower class.[12,13] But, the strength of this desire to keep things as they are in society varies depending on where you are on the social ladder. It should be no surprise that the consumers with higher status are more invested in preserving the social hierarchy. Higher-ranked consumers are more likely to denigrate and sanction lower-ranked consumers when they try to change their rank through, for example, the display of a luxury brand. Consumers with lower statuses, however, are more likely to submit to the wishes of those with higher statuses, inhibiting their responses to the display of luxury brands. This asymmetric relationship led us to make an interesting prediction about the consequences of counterfeit use on consumers' perceptions of the copied luxury brands. Our research is consistent with the theory that higher-class consumers are more invested and more likely to preserve their status by denigrating brands consumed by lower classes, whereas lower-class consumers would be more willing to accept symbols and brands that are used by higher classes. This means that the impact of counterfeit use on luxury brand equity depends not only on the social class of the consumer using the counterfeit, but also the social class of the person observing its use. Importantly, the influence of counterfeit use was not limited to perceptions of the luxury brands but also influenced consumers' intentions to buy the original version of the product and the amount they were willing to pay for it. Finally, we also discovered that when consumers were uncertain about what the counterfeit conveyed in terms of its quality, price, and status, they were more susceptible to effects of both social identity and social ranking.

By using social hierarchy to investigate the effects of counterfeit use on perceptions and intentions to purchase the genuine versions of luxury brands, our findings provide three important insights:

First Insight: Counterfeit Use Can Reduce Luxury Brand Equity

Our findings demonstrated that viewing counterfeit products can damage or dilute the consumers' perceptions of the genuine brand. Importantly, however, this was particularly true when higher-class consumers viewed lower-class consumers using a counterfeit version of the brand. These findings seem to be at odds with the idea that counterfeit use by lower-class consumers can increase the prestige of the genuine brand.

This also confirms that the protection of brands is important and should alert brand managers to note that a significant reduction in sales is not the only cause for concern. This point is particularly important given the

increased prominence in the use of counterfeits globally among both higher and lower social classes.[14,15] The recent strategic decision by many luxury products to provide more subtle and inconspicuous brand signals or to "un-brand" their products and deter lower-class individuals from stealing the brand symbols through their consumption of counterfeits may also help to protect the luxury brand from dilution.[16]

Finally, our results suggest that out-group denigration is a key driver of luxury brand dilution from counterfeit use. The increasingly divisive social climate spreading around the world suggests that these out-group effects may exacerbate the threat of counterfeit use on luxury brand equity as consumers draw clearer distinctions between important social groups.

Second Insight: Counterfeits Do Not Always Dilute Luxury Brand Equity

Perhaps more surprisingly, our results provided preliminary evidence that counterfeit use on luxury brand equity does not occur uniformly. Specifically, we found that lower-class individuals were less likely to dilute the genuine luxury brand when a higher-class individual used a counterfeit. In one out of four studies, we even found that these individuals reported significantly improved overall perceptions of the luxury brand when they saw a similar lower social class individual using a counterfeit version of the product.

This latter finding is tentative, but may provide a possible explanation for why luxury brand sales sometimes seem to increase as counterfeit use in the marketplace increases.[17] This may also help managers understand the popularity and acceptance of displaying both counterfeit and genuine versions of luxury brands simultaneously in emerging markets. In these markets, where luxury products are relatively more exorbitantly priced, luxury brands might remind consumers of their relatively lower global social status. This effect would be consistent with our own research wherein hierarchical relations were experimentally manipulated to vary as a function of comparison to others in the U.S. population. Meaning, social hierarchies are, to some extent, malleable, they can vary significantly depending on the setting or context.

Third Insight: Consumer Certainty Plays an Important Role

An important element of our initial predictions was based on previous work on social hierarchy which found that external cues, like group membership, become more important under conditions of uncertainty.[18] Because consumers are less certain about the benefits and risks associated with counterfeit goods, we expected the consumer's social class to show our predicted effects for counterfeits but not for genuine luxury goods. What was more interesting, however, was that the role of certainty was found to be

important even within participants who only viewed counterfeit usage. Specifically, when we measured consumers' levels of uncertainty in terms of quality, price, and status we found that consumers with higher levels of uncertainty about the counterfeit product were significantly more susceptible to effects of both social identity and social ranking. Relatedly, we also found that consumers with strong beliefs about the luxury brands we studied (e.g. high levels of personal experience of familiarity with the products or brands) were less susceptible to social hierarchy biases.

These results suggest that luxury brand managers should educate consumers about the product risks associated with using counterfeits and the benefits associated with genuine luxury product use. For example, campaigns should educate consumers about the level of expertise and craftsmanship involved in producing each luxury product. Luxury brand managers could also increase levels of certainty about the unethical nature of counterfeit consumption by drawing attention to the harms (e.g. ties to organized crime and terrorist organizations) and costs (e.g. lost tax revenues and American jobs) of counterfeit consumption. Similar efforts in the music industry[19] and the motion pictures industry have proven effective in curbing the illegal downloading of music and movies over the last two decades.[20]

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Endnotes

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