

New Kid on Copycat Block: Why Do Consumers Choose Shanzhai vs. Counterfeit?

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Abstract. In addition to authentic brands and counterfeits, a new product category has surfaced, providing a wider spectrum of choices for consumers. Known as ‘Shanzhai,’ these products closely mimic authentic products/brands while copying key elements and adding innovative features. Given the added complexity in consumer choice, the present study attempts to understand the characteristics of consumers choosing counterfeit vs. Shanzhai products, based on their values, attitudes and demographics. Findings indicate substantial differences in consumer segments. Specifically, (i) Shanzhai buyers weigh functional values more than counterfeit buyers, while (ii) counterfeit buyers weigh status consumption, social conformity, and materialism values higher, implying they seek recognition from peers; yet they experience less clear self-identity than Shanzhai buyers. Our study sheds light on whether different values affect consumers’ choices of counterfeit vs. Shanzhai products and offer important implications for brand managers.

Keywords. Shanzhai products, counterfeits, consumer values, demand drivers

1. Introduction

For years, brand marketers have engaged in the fight against counterfeiting of their products. Despite these efforts, sales of fake products are thriving, even rising, as counterfeiters have increasingly shifted to online distribution to reach a worldwide audience [1]. Too tempting are the benefits of the fake versions: the prestige of owning a branded product without paying a high price is a major attraction [2].

In recent years, however, a phenomenon called Shanzhai has entered the copycat landscape, particularly in Asian countries such as China, Korea, India, etc. [3]. Shanzhai refers to a “bandit stronghold outside government control” [4, p.2]. Shanzhai products are products that imitate market leaders’ offerings, and may provide innovative functional improvements. Shanzhai products are different from counterfeit as to the degree of similarity to the authentic brand and the additional benefits they provide. Shanzhai sales grow as quickly as counterfeiting products. Among the most highlighted examples are Shanzhai versions of the Apple iPhone, such as HiPhone, the

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Mini iPhone, or the iPhone Air. Many of these phones are copies of the original, but with improvements that are extremely popular with local customers, such as a slimmer appearance, slots for two SIM cards to exploit mobile operators' pay scales, electro shock panic functions, etc. The Financial Times in 2010 estimated that Shanzhai phones accounted for about 20% of the global 2G mobile market. Shanzhai mobile phones accounted for 30% of the total mobile phone market in China [3]. Starting with Shanzhai cellphone manufacturing, Shanzhai products have appeared in other product categories, including luxury apparel, luxury fashion accessories, global fast food operations, fast moving consumer goods, and cultural events. Shanzhai manufacturers collaborate with a global network of distributors to sell their products not only in emerging markets (i.e., India, Russia, and African countries), but also in developed economies. For example, according to China's Xinhua News Agency, on June 19, 2015, the Italian police shut down 410 online shops selling fake and Shanzhai luxury products in 11 cities from Milan to Palermo, Sicily. In 2014, Italian police seized fake (i.e., counterfeits and Shanzhai) luxury products worth approximately \$3 billion, or 5% of the Italian luxury market.

While the demand for counterfeit products has been the focus of substantive research (for a literature review see Cesareo, [5]), Shanzhai has not attracted much scholarly attention, particularly in the area of consumer behavior, with some exceptions (e.g. [6]). While counterfeit products and Shanzhai products share some commonalities such as high similarity and inexpensive prices, they differ in the degree of similarity to the authentic brand and the unique set of additional benefits they offer. It is of interest to both scholars and marketers to understand how consumers differentiate Shanzhai from counterfeits as well as what motivates consumers to buy Shanzhai rather than counterfeits when both are priced the same. Consequently, understanding what consumer motivations drive demand (i.e. the order) for Shanzhai products is of interest.

The present study aims to offer the following contributions to extant knowledge. First, we introduce the phenomenon of Shanzhai products to the field of consumer choice behavior research, by defining and differentiating it from authentic brands and counterfeits. Second, we aim to shed light on the drivers of Shanzhai product purchase, and how this differs from factors leading to the purchase of counterfeits. In doing so, we develop a greater understanding of the difference between Shanzhai products and counterfeits. Finally, we define consumer segments based on their likelihood of choosing Shanzhai over counterfeit products. Our findings allow for a greater understanding of consumers' tendency to choose one product over the other (Shanzhai vs. counterfeit), therefore assisting brand managers who are attempting to avoid the threat of unauthentic variants.

2. Theoretical framework

2.1. Description of Shanzhai

Literally, in Chinese the term Shanzhai describes "a mountain village controlled by a Robin Hood kind of figure, which implies a rebellion against officials and stands for the general public" [7, p.54]. "Shanzhai" originated from the Chinese characters "山寨" to imply the meaning of not an authentic version, but an inferior imitation. The focus of the present study is Shanzhai products -- imitations of well-known brands with

enhanced features that are desired by many consumers [8]. For example, Chubb [3, p.267] quotes a highly ranked businessperson who notes two meanings in defining Shanzhai “One is copying and the other is creativity.”

Among the first industry sectors to develop Shanzhai products was mobile phone. In the 2000s, many Chinese mobile phone producers -- often privately owned small and medium-sized enterprises (SMEs) -- started out as counterfeiters by copying the design and brand names of well-established global brands. Increasingly, they started to develop these counterfeits further and introduced innovative aspects into their products such as built-in TV receivers, UV lights, loudspeakers etc. Their previous experience in counterfeit production allowed for low production costs for Shanzhai products, thus offering customers attractive prices (compared to authentic global mobile phone brands) and interesting additional features. Shanzhai products are no longer poor-quality. For example, Shanzhai brands, once they are established, can even compete against the leading brands [9]. Xiaomi, a Chinese mobile phone brand that imitates the popular mobile phone brand Apple (and was thus called “Apple of the East”) was worth around \$4 billion in 2013. Its CEO, Mr. Jun Lei, was Forbes Asia’s 2014 Businessman of The Year [10].

While Shanzhai products are typically said to appeal to low income consumers for their attractive price/performance offering, they attract higher income buyers as well [3][7]. Currently, Shanzhai products appear in other product categories in addition to technological devices. For example, Adivon, a Chinese sports brand that imitates the leading global player Adidas, reached profit of \$15 million in 2012 [11].

In summary, unlike counterfeits, Shanzhai products imitate the authentic brand through obvious similarities. Additionally, consumers are often aware of the difference between Shanzhai and the authentic version. Lastly, Shanzhai products may offer additional product benefits.

2.2. Differentiating Shanzhai from Counterfeits

Cordell, Wongtada, and Kieschnick (1996) define counterfeiting as “any unauthorized manufacturing of goods whose special characteristics are protected as intellectual property rights (trademarks, patents and copyrights) [2, p. 41].” Counterfeits therefore exist, because owning branded products is desired by many consumers. To be profitable, counterfeits need to resemble the authentic product as much as possible. Traditionally, counterfeits did not completely live up to the quality promise of the authentic version; their price/performance ratio still was quite appealing to consumers [12]. However, the quality gap between authentic brands and their counterfeits has been narrowing in recent years due to advanced production technologies [13].

When comparing Shanzhai and counterfeit products, counterfeits try to resemble, at least visually, the authentic product as much as possible. Being nearly indistinguishable from the authentic brand allows the consumer to enjoy the prestige of a branded product without paying for it [2]. Unlike counterfeits, Shanzhai products try not to perfectly mimic, though still resemble, the authentic product through obvious similarities. Shanzhai products usually do not try to mask their origin, and consumers are typically aware of the difference between the Shanzhai and authentic products. Since their early days, similar to counterfeits, Shanzhai products have improved substantially in terms of quality and quite often offer an innovative edge compared to (global) authentic products [6][14].

In summary, unlike Shanzhai products, counterfeits are:

- A copy of the authentic version of a brand name product;
- Nearly visually similar to the authentic brand; and
- Function almost identically to the authentic version.

2.3. A Conceptual Model of the Determinants of Counterfeit and Shanzhai Choice

Given the differences between counterfeit and Shanzhai products, it is of interest to understand the drivers of purchase for the two categories of products. We draw from the model to capture consumers' value perception toward brands and counterfeits advanced by Wiedmann, Hennigs, and Klarmann [13]. We developed a variation of their conceptualization which is illustrated in Figure 1. The model suggests that functional, financial, social, and individual values drive purchase intention of authentic, counterfeit and (in our context) also Shanzhai products. Next, we describe the different value dimensions and formulate hypotheses regarding consumer purchase intention of counterfeit vs. Shanzhai products.

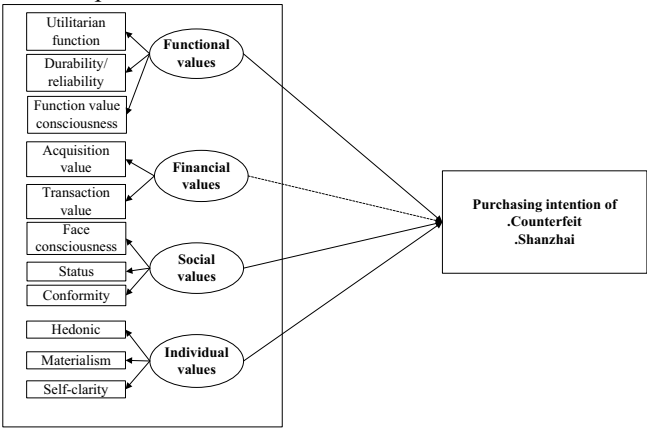


Figure 1. The conceptual model.

2.3.1. Functional Values

Functional values refer to a product's basic utilities and benefits such as product quality, usability, reliability and durability [13]. Both counterfeit and Shanzhai products can provide such functional values to satisfy consumers' utility needs. However, the motivation for purchase of the two types of products may differ. To capture the product's functional values, we consider utilitarian benefits, product quality/durability/reliability, and functional value consciousness represents the influence of the products' functional values on the purchase motivations for either counterfeit or Shanzhai products. We hypothesize:

H_{1a}: The more consumers' attitudes are utilitarian function value-oriented, the more likely they will be to choose Shanzhai over counterfeit products.

H_{1b}: The more consumers value product quality, durability and reliability, the more likely they will be to choose Shanzhai over counterfeit products.

H_{1c}: The more consumers are functional value conscious, the more likely they will be to choose Shanzhai over counterfeit products.

2.3.2. *Social Values*

Apart from functional values, products also possess social values such as conveying social status and acceptance within a social group [15]. Counterfeits may appear to be the authentic product, leading others to believe the consumer possesses the desired, highly-valued brand. Shanzhai products, however, are typically distinguishable from the authentic version. We consider face consciousness, status seeking, and social conformity to capture the impact of social values on purchase motivation of counterfeit and Shanzhai products. We hypothesize:

H_{2a}: The more consumers are face-conscious, the more likely they will be to choose counterfeit over Shanzhai products.

H_{2b}: The more consumers value status, the more likely they will be to choose counterfeit over Shanzhai products.

H_{2c}: The greater the consumers concern for social conformity, the more likely they will be to choose counterfeit over Shanzhai products.

2.3.3. *Individual Values*

Products are also associated with ego-focused, individual values, such as conveying personal information, obtaining pleasure, and portraying one's self-identities [13]. In this paper, we use hedonic value, materialism, and self-clarity to capture the impact of individual values on purchase motivation of counterfeit and Shanzhai products. We hypothesize:

H_{3a}: The more consumers seek hedonic value in a product, the more likely they will be to choose counterfeit over Shanzhai products.

H_{3b}: The more consumers are materialistic, the more likely they will be to choose counterfeit over Shanzhai products.

H_{3c}: The weaker the consumers' self-concept, the more likely they will be to choose counterfeit over Shanzhai products.

2.3.4. *Financial Values*

Financial value reflects the cost of the product to the consumer [16]. Acceptable product quality for a reasonable price is the key factor that drives consumers to purchase both counterfeit and Shanzhai products. In the present study, we use product acquisition value and transaction value to capture the impact of product financial values on the purchase motivations for counterfeit and Shanzhai products. Acquisition value is defined as "the perceived net gains associated with the products or services acquired" [17, p.48]. Transaction value is defined as "the perception of psychological satisfaction or pleasure obtained from taking advantage of the financial terms of the price deal" [17, p.48]. In our framework, we propose that the price advantage of both counterfeit and Shanzhai products can provide consumers value (an acceptable alternative to the authentic product at a fair price). We control for financial values equally across counterfeit and Shanzhai products.

3. Methodology

3.1. Research design and procedure

We conducted an experiment in which we manipulated a Shanzhai product's functional benefits (low vs. high) as a between-participants factor in China. A total of 374 Chinese university students participated in the experiment. Demographic characteristics of the respondents were as follows: (a) 52% were male and 48% were female, (b) the median age was 23-26 years old, and (c) the median monthly family income was above \$2250 USD.

We asked the respondents to choose between counterfeit vs. Shanzhai sunglasses. Although cell phones, athletic shoes, smart watches, and the other fashion accessories were also considered, we chose to use sunglasses as the target product in our experiment because it embodies functional, individual, social and financial values. We ultimately selected Dior brand sunglasses as the stimuli since it is a gender neutral and moderate value product. Additionally, it provides all four types of values and is well-known in the local market.

The study first asked the participants to read: (1) an explanation of the purpose of the study, and (2) the definition of counterfeit and Shanzhai products, and (3) a request that the participant carefully read the hypothetical situation and imagine that this situation actually happened to them. Next, participants read scenarios showing the pictures of two pairs of sunglasses: 1) counterfeit Dior sunglasses were described as "This pair of sunglasses look like the original Dior in all respects, yet the price is only one tenth of the authentic Dior sunglasses", and 2) Shanzhai Dior sunglasses (i.e., Tior Brand) which look similar, but not identical, to the Dior sunglasses; Shanzhai Tior sunglasses are also one-tenth the price of the authentic Dior sunglasses.

Manipulation. We manipulated Shanzhai Dior sunglasses functional benefits at two levels: low functional benefits versus high functional benefits. The low function group's description of Shanzhai sunglasses states "Tior sunglasses come with a cleaning kit, including a piece of cleaning tissue and a small bottle of eyeglass cleaning detergent that can clean sunglasses quickly and they stay clean for longer." The high function group's description states "Tior lenses filter out the light rays which are harmful to eyes, thus protecting eyes effectively." We controlled the price across counterfeit and Shanzhai sunglasses being equal. After reading the scenarios, the participants were asked to choose one pair of sunglasses, as well as assess product functional, financial, social, and individual values.

Control variables. The *control variables* include (i) gender, (ii) attitude toward the Dior brand (i.e., Please indicate your general evaluation toward Dior brand; 1= very negative and 7 = very positive), (iii) importance of Dior sunglasses (i.e., Please indicate to what extent the authentic Dior sunglasses are important to your daily life 1= very unimportant and 7 = very important), (iv) the purchase likelihood of the authentic brand (i.e., Please indicate to what extent you would buy the authentic Dior sunglasses 1= very unlikely, 7= very likely), (v) attitude toward Shanzhai (i.e., Shanzhai products offer good value for money), (vi) attitude towards counterfeit products, and lastly (vii) financial acquisition value and transaction value.

3.2. Measures

Multiple item scales were created to measure each construct. The items were adopted from past counterfeit and consumer values research and were adapted to fit the context of this study. All items were measured using a seven-point Likert-type scale. Items were anchored with “strongly agree/strongly disagree”

4. Conclusions and implications

Product imitation is a cross-cultural, cross-industry phenomenon which can be found in many countries, including China, Brazil, India and Korea. It is particularly common in emerging economies as imitation (i.e. Shanzhai) is often an efficient and effective strategy that late movers in less developed economies adopt to catch up with competitors in developed economies. Shanzhai imitators in less developed economies pursued a late mover advantage, imitating original technology developed in the United States, Germany, and the Scandinavian countries. Shanzhai imitators are often skillful in improving features of the authentic product while adapting to local needs. As Shanzhai imitators raised capital and gained recognition from their early Shanzhai products, some later built their own global brands (i.e., Xiaomi Phone). Therefore, Shanzhai products can be seen as an alternative source of innovation and local adaptation. Consumers in emerging markets enthusiastically embrace Shanzhai innovation. Original brand manufacturers can learn from Shanzhai manufacturer’s innovation and local adaptation to improve their product functions.

In this paper, we attempt to understand how consumers’ value drivers differ between buyers of counterfeit vs. Shanzhai products. Recognizing the emergence of Shanzhai products in international markets, our contributions address the three research questions initially raised. These are (1) introducing the phenomenon of Shanzhai to the consumer behavior literature, by defining it and comparing it to well-known concepts such as brands and counterfeit products; (2) to shed light on the drivers of Shanzhai purchase and how they differ from factors inducing the purchase of counterfeits, and (3) to describe consumer segments based on their likelihood to choose Shanzhai over counterfeit products.

The present study makes several contributions to consumer research. First, we highlight an emerging phenomenon, Shanzhai, and contrast it to counterfeit buying behavior. While both originate from the demand for popular brands, they represent two different product concepts with different appeals. Therefore, it is vital to acknowledge that a “new kid has appeared on the copycat block”, which demands attention. This contribution is not trivial as Shanzhai providers can grow quickly to become global brands while “under the radar” since original brand manufacturers often ignore the competitive threats from these Shanzhai imitators.

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