

Trick or Treat?

An Examination of Marketing Relationships in a Non-deceptive Counterfeit Market

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Abstract

Counterfeit goods consumption has predominantly been viewed as an economic, cultural, ethical/moral, legal and/or information-management issue. Strategies based on these perspectives have taken steps to curb counterfeiting (or “piracy”) worldwide. However, counterfeit purchasing continues to be increasingly rampant in some territories and at times is almost regarded as a “normal” act of consumption. This paper presents an exploratory behavioural analysis of counterfeit marketing firms in China, and the interdependent relationships between the legitimate marketing firms, counterfeit retailers and buyers who populate the competitive marketplaces within which consumers consume. The results indicate that counterfeit marketing firms, as “bad competitors”, approach marketing mix variables to promote their unique selling proposition and compete with other retailers much like any other form of organisation. At the same time, these counterfeit marketing firms act as though consumer behaviour were also environmentally controlled, just like their genuine counterparts. The study also reveals a complex bilateral contingency network of interdependent relationships operating within the counterfeiting marketplace – networks that appear amenable to explanation in operant terms. A generic model deduced from this complex bilateral contingency networks was also proposed. Based on this perspective, the author argued that counterfeit consumption is an artifact phenomenon of marketing relationships in a non-deceptive counterfeit market.

KEYWORDS: Counterfeit retailer; marketing relationships; bilateral contingency; business network; competitive environment; the marketing firm

Introduction

Counterfeit products consumption is a global problem that has grown significantly with the dilution of national boundaries and barriers resulting from common economic/trade agreements, the communicative reach of the Internet and modern copying technologies. Counterfeit consumption is estimated to account for US\$450 billion of retail revenue each year (AGMA, 2004; Miyazaki, 2004). Statistics from anti-counterfeiting organisations show that global piracy has no obvious product category limitations and that almost every industry has been affected. Counterfeit goods' consumption is almost regarded as normal in many territories.

To date, previous research in this area has largely emphasised the supply side issues from a genuine manufacturer's perspective only, focusing upon those product classes most vulnerable to illicit reproduction, together with associated anti-counterfeiting strategies and technological developments employed in combating IPR theft (i.e. Chow, 2003; McDonald & Roberts, 1994; Olsen & Granzin, 1992). Similarly, the existing literature on counterfeit consumption has mainly investigated the characteristics and motivations of consumers toward counterfeit goods, along with associated demographic variables, psychographic factors and their socioeconomic contexts (i.e. Prendergast, Chue, & Phau, 2002; Tom, Garibaldi, Zeng, & Pilcher, 1998; Wee, Ta, & Cheok, 1995).

Various anti-counterfeiting measures and strategies based on these perspectives have been proposed and implemented, including international treaties and enforcement of intellectual property rights to prosecute counterfeiters, use of multiple labelling and packaging techniques to make counterfeiting more difficult, consumer education via warnings and advertising campaigns, tight control of retail stores, and consultations with both government agencies and other industry stakeholders and manufacturers. Despite such efforts, however, these strategies designed to eradicate counterfeiting activities do not seem to have worked well as piracy continues to thrive around the world. It seems to leave too many questions unanswered.

Retailers are often blamed for the proliferation of counterfeits as evidenced by the literature. Strategies thus are targeted mainly on how law enforcement can help eradicate counterfeit practices. However, many perceive the selling of counterfeits as a price discrimination, risk-related and cost free activity, and such counterfeit retailers rarely go out of business (Chow, 2003; Papadopoulos, 2004). Research indicates that counterfeits keep selling at far beyond the product lifecycles of genuine merchandise. Counterfeit buyers and sellers, in fact, appear actively and consciously “working together” to construct an increasingly diverse array of physical and virtual marketplaces in which procurement activities may be undertaken, sale of counterfeit goods as a deceptive activity being very much in the minority in comparison to those circumstances in which consumers actively seek and select a “pirate” purchase option. So the questions remain: Who is most responsible for the proliferation of counterfeit goods – the counterfeit retailers or the counterfeit-prone consumers in a non-deceptive counterfeit market? Apart from obvious price benefits, how do counterfeit retailers approach marketing mix variables to promote their unique selling proposition and compete with other counterfeit retailers?

The willingness of legitimate originations in their motivation to combat counterfeits is also now being questioned. Olsen & Granzin (1992) and Chow (2000; 2003) found that retailers would accept the responsibility in fighting counterfeits only if government and manufacturers share the obligation. If they feel that it is a trivial problem, they will neither share the responsibilities nor support the manufacturers and the governmental authorities. Law enforcement targeted at counterfeit retailers may not solve the entire problem either. The root of the problem stems from the persistent willingness of consumers to purchase counterfeits, and the often robust relationship between buyer and seller, together with the conflicting interests between government authorities, counterfeit and authorised retailers in a competitive business market. This calls for an investigation of how retailers are responding to law enforcement strategies, as well as the functioning of the relationships between consumers, counterfeit retailers, and authorised retailers. Further, due to the fact that counterfeiting is basically an illegitimate business enterprise, an understanding of the marketing activities involving fake merchandise may also contribute to a better understanding of legitimate channels of marketing and communicative strategies.

Although the existing literature discusses how counterfeit marketing can arise, no theoretical framework has yet been proposed, nor used to analyse counterfeit marketing activities. Neither does the literature analyse the marketing activities of counterfeit retailers or the interactive relationships between counterfeit retailers and buyers, together with other key actors. It is thus important to obtain a descriptive understanding of the problem; there is also a need to better understand both the marketing function and the context of counterfeit marketplaces. For these reasons, the author here use the Marketing Firm theoretical framework and relationship marketing concepts to analyse the behaviours of key actors within the non-deceptive counterfeit marketplace.

The study detailed in this paper depicts the reality of complex bilaterally contingent phenomena and introduces its theoretical implications via the use of qualitative research methods. The paper is divided into four parts. In the first section, a conceptual model using operant learning concepts is proposed to aid marketers in understanding the activities of counterfeit retailers and the interactions amongst all key actors in counterfeit marketing. As counterfeit marketing involves multiple parties' economic exchange behaviours, the use of the Marketing Firm conceptual approach, derived from operant theory, is therefore deemed appropriate (Foxall, 1998). The author adapt and extend Foxall's model of the Marketing Firm to represent the situation as a managerial response to an external competitive environment in which the counterfeit retailer is bilaterally contingent upon consumer behaviours (such as consumer high demand and purchasing behaviours) and/or the orthodox stakeholders' marketing activities (such as advertising, promotional efforts, and anti-counterfeiting strategies). All parties in the counterfeit marketplace try to predict and control the behaviour of others. Each party enters this relationship only because it maximises their economic benefits, reduces transaction costs, and they remain in it for only as long as it reduces transaction costs. This conceptual model provides a formal framework with which marketers can precisely identify and examine the managerial and policy implications of counterfeit marketing.

Following the formulation of the theoretical framework, the second section of the paper explains the need to adopt embedded theory and a research design based on the comparison of multiple cases (Yin,

2003). Following the case approach, this study gathered various sources of qualitative data, and analysed them by comparing different reciprocally reinforcing relationships and networks using the embedded theory approach. Finally, the paper concludes by highlighting both the conceptual and practical implications of the data and outlining potential marketing implications.

Literature Review

The Marketing Firm (Foxall, 1998) is a model of the manner in which a business entity (individual entrepreneurs, SMEs, large multinationals) operates to influence consumer behaviour under particular economic-structural conditions, those which induce consumer-orientated management by the business as a whole. The effective Marketing Firm capitalises upon the instrumental nature of the consumer's behaviour to manipulate a variety of cues that are present during a buying episode, promoting acquisition of the goods on offer by maximising positive outcomes and minimising aversive consequences. More specifically, the marketing firm model locates the firm's behaviour at the situational interaction with consumer behaviours and their positive/aversive outcomes, the actions of the latter upon the former serving to identify those cues that may reliably signal the likely consequences of available marketing strategy options. Put another way, firms routinely shape their behaviours in the marketplace in response to the aggregate behaviour patterns of consumers themselves. If a particular marketing strategy is effective at the macro, monadic and/or tactical levels, the firm will repeat or enhance that marketing strategy. In operant terms, the behaviour of the customer thus constitutes a form of discriminative stimulus (S^D_s) within the firm's behaviour setting, performance metrics of purchase or non-purchase serving as sources of positive reinforcement and/or aversive consequences for the marketers; a mutually interdependent relationship as embodied within the concept of the bilateral contingency itself, as shown in **Figure 1**. It is a conceptual stance that directs attention firmly toward the interaction between consumers' and marketing firms' behaviours at the micro level, rather than the macro-level.

FIGURE 1 HERE

As Figure 1 shows, consumer purchasing behaviour is preceded by a discriminative stimulus, provided as a consequence of the marketing firm's behaviour. The behaviour of the consumer has consequences which are proximal causes of further action by the marketing firm. As previous research of consumer choice has suggested (e.g. Foxall, 1990; e.g. Foxall, 1993; Hackett & Foxall, 1997; Leek, Maddock, & Foxall, 1998; Oliveira-Castro, Ferreira, Foxall, & Schrezenmaier, 2005), discriminatory stimuli within the retail behaviour setting (S^D), subject to their interaction with an individual's unique leaning history of encounters with identical/similar behaviour settings in the past, serve as signals that shape the consumer's response to a product and/or service (R_c), and that response in turn duly delivers positively or aversively reinforcing consequences ($S^{R/A}$); an operant process that is concurrent with the classic Skinnerian three-term contingency (Skinner, 1969).

At the same time, however, the marketing activities of the firm also constitute operant behaviours in themselves; behaviours which equally conform to the three-term contingency in a manner that is contingent upon the behavioural responses of the firms' customers, as described above. That is, the behaviour of consumers in the marketplace forms part of the competitive environment (i.e. the behaviour setting) within which the firm operates, and thus constitutes a form of discriminative stimulus (S^D). Depending upon those customer responses, the firm will engage in a series of marketing activities (R_m) that will in turn be either positively or aversively reinforced by subsequent consumer responses to those marketing activities ($S^{R/A}$). As illustrated by the two broken lines in Figure 1, the behaviours of marketer and consumer are thus interdependent, i.e. *bilaterally contingent upon one other*. Consumer behaviour is a component of the firm's behaviour setting, marketing activities being reciprocal behaviours that are directed towards influencing the behaviour setting of the consumer in order to seek to elicit the behavioural response that is the customer's purchase of that firm's goods/services. Put another way, *marketing is a behaviour the firm engages in as a way of both influencing and responding to the behaviour of its customers*. Conversely, buying is a response to, and trigger for, marketing actions from the firm.

The nature of the marketer-customer relationship thus becomes clear, together with the implications of that relationship for strategic marketing management. The goal of the retail organisation is to *predict and control* the behaviour of its consumers in such a manner that the firm maximises positive reinforcement (e.g. profit making) and/or minimises negative consequences (e.g. costs) of its market activities, as measured by the extent to which consumers acquire and use, consume and dispose of, the firms' market offering.

In fact, it is more than a simply an exchange between firms and consumers, as manifest in much of the relationship marketing literature. Other actors play prominent roles in the exchange networks also, either directly or indirectly, from the actions of governments seeking to regulate this exchange, through to the behaviours of competitors. A similar pattern of contingencies exists when two rival firms, or between a customer and a supplier, and both entities are therefore actively and deliberately involved in behaviour setting and reinforcer management.

The basis of the bilateral contingency is the mutual closure of the parties' behaviour setting scopes. To illustrate this, consider the problem of marketing firms' competition within orthodox purchasing contexts. Many other firms may well be vying for the patronage of the individual consumer in any buying situation, a number of actors possibly attempting to procure business through their own market behaviours; i.e. there are other firms seeking to "close" a consumer's behaviour setting at any given moment in time, each engaging in their own marketing behaviours. A supermarket such as Tesco, for instance, may engage in marketing activities emphasising price and value in an attempt to influence the grocery buyer. In response to this, or perhaps as an antecedent to Tesco's actions, a rival firm such as Sainsbury may develop a competing marketing strategy that emphasises quality and choice in respect of produce range. Ultimately, the two retailers are vying for the patronage of the individual consumer. At a strategic level, however, many of their marketing behaviours may in reality be stimulated by the behaviour of their rivals; i.e. Firm A takes this action in the marketplace, so Firm B responds in this particular way. One firm's behaviour is a component of the other firm's

competitive behaviour setting, and vice versa. In short, the two firms' marketing behaviours are also bilaterally contingent.

Of course, the competitive environment of the retail firm is rarely an entirely open one. Indeed, many of the marketing behaviours that retailers may engage in are in themselves enabled and constrained by both the dynamics of the market economy itself and, more importantly perhaps within the context of this paper, by the regulatory environment generated by legislators and other parties. Thus, the behaviour of the Government, for instance, may influence the behaviour of retailers or – particularly in instances where legislation is a direct consequence of retailer abuse of power – Government behaviour may be contingent upon the behaviour of the firm(s) within the marketplace.

The study which follows applies empirical approach to examine different types of bilaterally contingent relationships in a counterfeit marketplace, thereby relating the interactive behaviour patterns that may result in derived reinforcement of counterfeit consumption. The interactive behavioural network produced shows the necessary conditions which collectively have an impact on the competitive interactions between all parties involved. The result of such interactions has an impact on counterfeit goods consumption, either in the scope of the behaviour setting or the availability of anticipated exchange reinforcement.

Methodology

3.1 Context and phenomena

This study applies the case method and selects the counterfeit retailing industry in China as the research context to illustrate the marketing behaviours and bilaterally contingent relationships of key actors. The data used in this research were gathered from multiple sources. Besides interviewing counterfeit retailers, interviews were also conducted with counterfeit buyers, authorised retailers/manufacturers, and staff from legislatures and anti-counterfeiting agencies. Secondary data were also collected, including corporate reports of legitimate manufacturers/retailers and materials published by anti-counterfeiting agencies, as well as regulations, speeches/statements from

international governmental organisations. Furthermore, mainstream and business press coverage of counterfeiting issues, together with more unorthodox sources such as “chat room” and “Web blog” discussions by consumers and the counterfeiters themselves, were also examined. Data collected from multiple sources in this way help enhance the completion and validity of the qualitative data.

In order to investigate the counterfeit retailer’s marketing behaviour and the bilaterally contingent relationships at work in the marketplace, this study purposively chose the counterfeit retailers of the wholesale centres in China as a research focus because China remains one of the world’s largest producers of, and markets for, counterfeit goods since the early 1990s after the success of ‘market-orientated’ reforms (Wenhai, 2004). A study by the PRC State Council Research Development Centre reported in 2001 that the Chinese economy was flooded with between US\$19-\$24 billion worth of counterfeit goods. Brand owners in China estimate that 30 percent of all well-known brands in China are counterfeits - everything from *Tide* detergent and *Budweiser* beer, to *Marlboro* cigarettes (Gale-Group, 2000), and estimate their losses to be in the region of tens of billions of dollars per year. Counterfeiting is estimated to now account for approximately 8% of China’s GDP (China Business Review, 2000; Hsiung, 2003; US Senator, 2004).

Non-deceptive counterfeiting is now a common marketing phenomenon in retail areas where goods are purveyed in luxurious boutiques (SAIC, 2002; BBC, 2003; Porteous, 2001; Yao, 2005). It is possible to procure counterfeit copies of those goods in lesser stores, local wholesale markets and from street vendors, a co-existent relationship in which the marketing of the former almost serves to ‘feed’ the latter, and vice-versa. The counterfeit industry in China is an omnipresent economic phenomenon over products crossing the whole country (Chow, 2003). The non-deceptive counterfeit retailing industry in China consists of counterfeit producers, subcontracted manufacturers, counterfeit retailers, third parties such as local governments, private business-dominated wholesale centres, and counterfeit consumers, which is itself illustrative of the rich exchange features of a network market. Therefore, the theoretical dimensions of this study can be illustrated by investigating multiple bilateral exchange relationships within the counterfeit marketplaces of China.

Moreover, given China appears to be one of the most developed counterfeit marketplaces in the world, it holds a number of key advantages in terms of its suitability as a context for this research. Firstly, in terms of access to counterfeit retailers and consumers, the near ubiquity of counterfeit goods and their acceptance as a “normal” aspect of business and shopping renders this a location in which securing cooperation would be far easier than in, say, the UK where the counterfeiting problem retains more overtly illicit in character and consumers may, as a result, be less open about their buying habits. In particular, it is easier to obtain the data and information from the counterfeit retailers in China. Secondly, and related to this, the rapid rise in counterfeit purchasing in Europe in recent years means that this behaviour still has a degree of “novelty” value. As a consequence, consumer buying and firms’ selling patterns may be less stable and more erratic than in a more established market context such as China, making data analysis more problematic.

This work analysed key actors’ marketing behaviours, and the bilaterally contingent marketing relationships between counterfeit buyers, authorised retailers, counterfeit retailers and third parties such as local governments, who populate the competitive environment of this complex and multi-faceted commercial arena, illustrated in Figure 2. Ultimately, the objective was to understand the extent to which the dynamic inter-relationships between these key actors have a significant impact on the counterfeiting consumption which serve to shape consumer response to illegitimate products and services.

As Figure 2 shows, there were potentially four key bilaterally contingent relationships (R₁, R₂, R₃, and R₄) to examine; between counterfeit retailers, authorised marketing firms, and third parties to the consumer. Each key actor’s behaviour may influence the behaviour of the other three actors – the behaviour of each actor may be contingent upon the behaviour of the firm(s) within the marketplace, whether legitimate or illegitimate.

FIGURE 2 HERE

3.2 Method

The investigation conducted an in-depth inquiry of the market behaviours of counterfeit retailers, authorised retailers, third parties (local governments) and consumers, together with the relationships and networks between key actors in the counterfeit marketplace in China. It was necessary to clearly define separate bilateral interaction behaviours, each predicted and controlled by discriminative stimuli and the consequences of behaviours of key actors as units of analysis (or focal bilateral relationships). Based on the actual structure of counterfeit marketing as illustrated in Fig 2, four key actors' behaviours and four key hypothetical bilaterally contingent marketing relationships around consumers were selected as study samples.

To study interdependently reinforcing behaviour dynamics in the counterfeit marketing, this investigation adopted the case study method of Yin (1994) as a basic research approach. Additionally, the work applied multiple case comparisons using the embedded theory framework, also proposed by Yin (1994), as its main research strategy.

4. Research analysis and findings

The study chose four key actors' marketing behaviours and four key relationships as research populations. Each focal bilaterally contingent relationship and its associated effects will be discussed individually later. Table 1 illustrates the analytical results of four key actors' behaviours in an operant terms, including interdependent actors, discriminative stimuli, marketing responses and activities, and reinforcement of the marketing behaviours. The analytical results include focal bilaterally contingency relationships and related reciprocally reinforcing effects, the scope of behaviour settings, and the impact of the reinforcement of relational exchanges on proceeding interactions, listed in Table 2. Moreover, Table 3 illustrates the analytical mechanism for the construction of a generic bilateral contingency network model.

4.1 The Behavioural analysis of counterfeit retailers, authorised retailers, third parties, and consumers (Table 1)

Regarding the Stimuli-Response-Reinforcement paradigm and the Marketing Firm theory, some research findings are illustrated below:

(1) Buyer behaviour patterns appear to function as an operant process in the counterfeit marketplace.

Consumer acquisition of counterfeit products is significantly associated with particular behaviour setting variables, direct/indirect experiences of counterfeit goods, the positive reinforcement retailers provide, and consumer expectations. That is, the exchange benefits offered by a counterfeit retailer (stimulus) influence the positive outcomes expected by the purchaser (reinforcement), which in turn influence those customers' loyalty toward the counterfeit retailer (response). The findings show that features of the physical environment and temporal setting exert a powerful effect upon consumer choice, including factors such as store location, availability and organisation of non-deceptive wholesale markets, availability of a comprehensive range of products (branded counterfeits and/or unbranded fashion goods), price differentials, retail format, bargain-seeking experiences, the warranty services policies and fashion information opportunities offered by counterfeit retailers, directing the individual towards those retail facilities likely to be of interest. Within this continuous open-closed behaviour setting, consumers are repetitive in their purchasing and like to regularly browse in this market.

(2) Counterfeit retailers' behaviour patterns also lie in the $S^d-R-S^{r/a}$ paradigm. Like orthodox marketing firms, most counterfeit retailers do their business in legitimate and private wholesale centres, administrated by the local Administration of Industry and Commerce (AIC). In those centres, counterfeit retailers are actually legitimate firms. The products that the counterfeit retailers sell not only include well-known branded "A", "B" grade and "grey market" counterfeits, but also include genuine unknown branded and local branded goods. Under such market conditions, counterfeit retailers do appear to have the same "marketing mix" strategies functioning as any other legitimate marketing firm, but normally at a lower cost. Most sellers of counterfeit products have complete policies for exchange, replacement or refund, for instance, to ensure they follow the regulations of the wholesale centres and provide consumer satisfaction. It

is also worth noting that counterfeit retailers do have their own “pseudo-brands” within this industry, the know-how technology to produce them, the promotional means to advertise effectively (word of mouth, direct salespeople to promote goods outside and inside the market), and their own distributors delivering goods to different customer segments, and with different segment-specific levels of pricing.

These market entry conditions, such as no or few market barriers and high demand for known branded products (stimuli), may influence counterfeit retailers’ expected maximisation of rewards (reinforcement), which influences those counterfeit retailers’ continuous selling behaviours and their stay in the market (response) with other actors.

Adoption of the counterfeit products selling option is undoubtedly determined by the buoyant demand that satisfies one level of consumer needs at a premium price, offering positive reinforcement to the buyer (delivering value). Consumer behaviour in the marketplace (R_c) therefore is a setting-level variable (S^D) for counterfeit retailers, guiding their marketing behaviours.

FIGURE 3 HERE

In addition, the counterfeit retailers’ marketing behaviour and production capacity relies heavily upon genuine brand owners and/or manufacturers because counterfeit products are unauthorised copies of goods whose manufacturers/retailers bear the bulk of the marketing costs. The authorised retailers’ marketing behaviour (R_L) is thus another setting-level variable (S^D) for counterfeiters’, as shown in Figure 3. The consumer’s consumption behaviour and the authorised retailer’s marketing behaviour also determine reinforcement $S^{R/A}$ (profit or loss) for the counterfeit retailers. Counterfeit retailers therefore are actively and deliberately involved in the manipulation of the settings of consumers and authorised retailers alike in self-interested pursuit of maximisation of positive reinforcement and minimisation of aversive consequences. Consumers and authorised retailers also collectively control the behaviour of counterfeit retailers and the

degree of reinforcement/punishment they receive, including their profit or loss, through future market offerings and engagement.

- (3) Authorised retailers, by virtue of their distributorship status with the manufacturer, are responsible for market-creating activities, which include advertising, promotions and other marketing actions. They have control over the range of products, the authorised availability of products, the level of advertising, and the layout of the store, etc. However, they cannot prevent the consumer from buying counterfeit goods because of relatively open market settings. For example, genuine manufacturers and/or authorised retailers first decide to advertise their products to build up market demand, an action that is observed by counterfeit retailers. Then both retailers choose products simultaneously, but counterfeit retailers have a very low cost base and can sell the product earlier and cheaper than authorised retailers. Consumers therefore face a relatively open marketplace to apply their decision rules to respond to this situation, buying counterfeits or non-counterfeits depending upon situational factors.

However, aspects of the environmental setting also exert a powerful effect upon the authorised retailers' responses to counterfeit products sales. The local market size, the capacity of 'know-how' technology, the low cost of labour, and consumer demand for Western goods, all serve as influential factors guiding the authorised retailers' and firms' actions in that marketplace. Such an observation is perhaps unsurprising given that developing countries like China are likely to be the most stimuli-rich of all behaviour settings, and a constant stream of references to various aspects of the setting directing orthodox stakeholders' marketing responses. On the other hand, the findings reveals lax regulation and the true potency of the ambiguous attitudes of legal authorities, together with the different definitions and standards of counterfeiting held, creating a confusing and contradictory environment within which orthodox stakeholders must formulate a response either tolerant, ignore or anti-counterfeiting strategies.

Under such market conditions – counterfeit retailers' marketing activities, third parties' policies and consumer demand (stimuli) may influence authorised retailers' positive and aversive

outcomes (reinforcement), which influence marketing strategies (responses) toward counterfeit goods – anti-counterfeiting, utilising or ignoring counterfeiting.

As examined above, the authorised retailers' marketing strategies (R_L) towards counterfeiting are but one component of behaviour settings of the counterfeit retailers (Sc^D). The authorised retailers also constitute components of the behaviour setting of consumers. A number of studies of marketing relationships have manifest that the mutuality relationships between legitimate entities and their customers are achieved by manipulating the discriminative stimuli present when consumer is in a shopping environment in order to increase the probability that a consummatory response will be emitted (e.g. Gronroos, 1994; Hunt, 1983; Johnson & Selnes, 2004; Morgan & Hunt, 1994; Payne, 1995). Manipulation of the cues present during a buying episode by a marketing firm will alter the likelihood of a purchase response, those cues setting the occasion for such responses. That is, an authorised company's marketing behaviour (R_{LM}) is therefore a setting-level variable (S^D) for both counterfeit retailers and consumers' marketing behaviours, as shown in Figure 4 below. The counterfeiter's behaviour (R_{CM}) is a setting-level variables (S^D) for authorised retailers' activities. Given the context of the counterfeiting trade and its often illegal characteristics, third parties' behaviour towards counterfeiting (R_L) directly forms part of the counterfeit behaviour setting (S^D) within which illicit selling occurs, whilst the marketing behaviour of the counterfeit retailers concurrently represents a component of the behaviour setting of third parties.

FIGURE 4 HERE

- (4) Third parties include AIC and other local authorities. Third parties in this market regulate the market order, administer markets, develop the local economy, implement laws, and build up public image. The wild spread of counterfeiting has occurred in part because unemployment became a growing problem in late 1980s in China. Counterfeit retailers or manufactures can create jobs, whether lawful or not, in a country with an unemployment problem and there can thus be tolerant of counterfeiting activities; it is acceptable and welcomed by most of the governments. For example, some studies have estimated that counterfeiting in China accounts for as many as 3

to 5 million jobs, and revenues of US\$40 to \$80 billion, at a time when unemployment is a growing problem (Asian Times, Chow, 2000; Asian Times, 2004). The financial, physical, social and economic structural setting (stimulus) offered by the counterfeit retailers influence the third parties' anticipated rewarding such as solving unemployment problem, profit or tax making (reinforcement), which influence third parties' supporting and protection(response) to counterfeit retailers.

On the other hand, third parties also control the authorised retailers' marketplace. The department stores and luxury boutiques are administrated by third parties. They have an obligation to protect the legitimate company's benefits, providing a sounder investable environment for well-known branded marketing firms in order to increase the investment for developing local economies. Therefore, the financial, physical, social and economic structural setting (stimulus) offered by authorised retailers influences third parties' anticipated rewards such as development of local economies, a particular public image(reinforcement), which influences third parties must protect authorised retailers' benefit (response) as well. As with consumers, the capability to engage in consumption, as well as stable economic and social settings offered by the consumers (stimuli), influences third parties' positive outcomes (reinforcement), which in turn influences the third parties' protection of consumers (response).

Given the nature of counterfeiting, a behaviour infringing intellectual properties in general, third parties such as local government are a key actor in this level of marketing relationship, directly or indirectly mediating all other actors' behaviour setting variables and they are mutually reinforced by other actors'. That is, the legislature is a mechanism for closing the behaviour settings of all parties in mutually acceptable ways, which it does not only by economising transaction costs but by increasing the surplus of revenues over all costs including those of open market transactions. In this case, the third parties' regulation of counterfeiting (R_L) is an S^D for both authorised and counterfeit retailers. R_L also determines $S^{R/A}$ of the third parties of local government which means that legislatures are actively and deliberately involved in the manipulation of counterfeit and

authorised retailers' setting scopes and in reinforcement manipulation, as shown in the Figure 5 below.

FIGURE 5 HERE

As indicated above, the cycle of bilaterally contingent relationships between third parties and counterfeit and authorised retailers mutually and reciprocally rely upon one another. The behaviour of third parties may influence the behaviour of counterfeit and authorised retailers or, particularly in cases where legislation is a direct consequence of retailer (either legitimate or counterfeiters) abuse of power, the behaviour of legislatures may be contingent upon the behaviour of the firm(s) within the marketplace.

4.2. Bilateral contingency relationships between counterfeit retailers and consumers (See Table 2)

In order to understand how the interaction of all key actors occurs, what content of literal exchange reinforcement they obtain and what the scope of the behaviour setting each actor is in, it is necessary to further consider the bilaterally contingent relationship between all key actors in some detail. As analysed above, counterfeit retailers sell both counterfeits and un-known branded goods in the market. They are regulated by third parties (such as AIC) as a legitimate firm in a wholesale centre. Regarding the bilateral contingency exchange relationships between counterfeit retailers and consumers, some research findings are illustrated below:

- (1) Exchange reinforcers (value) between counterfeit retailers and consumers lie in acquiring high-fashion and pre-release goods (big range of well-known branded clothes, shoes, accessories; un-known branded fashion goods, DVDs and software), fashion knowledge and trends, bargain experiences, after-sales service, lower prices, organised markets and profits, credits, customer loyalty etc. These reinforcers between other parties could positively or negatively affect the success of the exchanges. Firstly, the positive effects of consumer purchases for counterfeit retailers are that third parties (e.g. AIC) assure the quality and service of both counterfeits and non-counterfeits, while the negative effects are that third parties limit the size and style of the

outlets in the marketplace, and determine the kind of marketing firm (self-employed entrepreneurs) that can enter in this marketplace. This negatively reinforces the decreasing of selling of counterfeit products because of the high rents in the wholesale market. Secondly, due to the fact that counterfeit goods are copies of genuine articles, the negative consequences also include those anti-counterfeiting strategies aimed at limiting counterfeit goods in the longer term and offering stability to consumers. Thirdly, the legitimate entities' premium price system and latest product information ensure that counterfeit retailers' price advantage and fashion trends always attract many consumers into the market. Finally, the negative effect to the counterfeit retailers is that authorised retailers always control consumer and counterfeit retailer's products resources because of the nature of counterfeits as copies.

- (2) The fact that counterfeit retailers directly or indirectly manage the consumer behaviour setting from relatively open to relatively close can be observed in all of the reciprocal reinforcements as shown in Tables 1&2.
- (3) The reciprocally reinforcing relationship between consumers and counterfeit retailers is influenced by the interactions between authorised retailers and consumers, and between counterfeit retailers and third parties (such as local government). Additionally, the focal relationship is influenced by the effects derived from either or both inter-actors and creates a bilateral circuit-type of network. Both parties involved in the focal exchange are influenced by the overspreading relationships, and besides the interaction between the related actors, there is an extensive level of spreading influence of reciprocally reinforcing behaviour.

The focal relationship forms a bilaterally overspreading relationship system, comprising a loop-like circuit network.

4.3. Bilateral contingency relationships between authorised retailers and consumers (See Table 2)

Before authorised retailers enter the wholesale market, they must register what branded goods will be provided in that market with the AIC. To ensure the quality of the products provided to consumers,

third parties such as the AIC regularly assess goods sold, auditing the content of the products (such as DVD film) and services provided by the authorised retailers. Regarding the reciprocally reinforcing relationships derived between authorised retailers and consumers, some research findings are illustrated below:

- (1) The interactive relationship between authorised retailers and consumers originates from professional customer-oriented marketing services and products provided by the authorised retailers and orthodox distributors to consumers, relatively ensured quality product, social status value and customer loyalty, credits for services, and the high economic value of income provided by consumers to the authorised retailers.
- (2) The third parties' evaluation for quality of the product, licensing of products, brand registrations, etc positively influences the exchange reinforcements of authorised retailers with consumers. At the same time, consumers transfer some knowledge of the counterfeit products offered by the counterfeit retailers, positively influencing the relationship of consumers and authorised retailers because of the quality assurance and real social status value.
- (3) Overseeing the separate relationship between third parties with authorised retailers, and counterfeit retailers with consumers, the additional relationship formed by the exchange of third parties with the counterfeit retailers may influence the exchange reinforcers between third parties and authorised retailers. Following this, relationships change the exchange reinforcer of the focal bilateral relationship.
- (4) The fact that authorised retailers directly or indirectly manage the consumer' behaviour setting from relatively open to relatively close was observed in all the exchange values as shown in Tables 1&2.

The exchange relationships between third parties and counterfeit retailers, which are external to the focal bilateral relationship (authorised retailers vs consumers), the additional separate influences of third parties with authorised retailers, and of counterfeit retailers with consumers, eventually

influence the exchange reinforcers of authorised retailers with consumers. This focal relationship, with its compound overspreading relationships, forms a bilateral circuit-type network.

4.4. Bilateral contingency relationships between the third parties and consumers (See Table 2)

As mentioned above, third parties include the local AIC, tax department, and other regulatory bodies. Third parties represent the governmental authorities and have an obligation to protect consumers' benefits and welfare while developing the local economy. However, conflicts occur when consumers and marketing firms fight over access to limited product resources. Findings regarding the derived reciprocally-reinforcing relationships between consumers and third parties are illustrated below:

- (1) Reinforcing activities of consumers with third parties include offering the increasing capability of consumption and credits for protection to third parties, while third parties provide an organised and regulated marketplace to ensure the consumers' welfare by virtue of their authority over counterfeit and authorised retailers.
- (2) The fact that third parties directly or indirectly manage consumers' behaviour settings from relatively open to relatively closed were observed in all the exchange values shown in Tables 1&2.
- (3) The interaction between consumers and the legitimate entities is positively and negatively influenced by competition among counterfeit and authorised retailers in terms of after-sales service, range of products, taxes, administration fees, etc.
- (4) The interactions between consumer and authorised retailers positively influence the interactions between third parties and consumers. Similarly, the interactions between counterfeit retailers and consumers also positively and negatively affect the interactions of third parties and consumers.

The reciprocally reinforcing relationship between consumers and third parties is influenced by the other reciprocally reinforcing relationships between counterfeit and authorised retailers and between retailers and third parties. This focal relationship creates a bilateral overspreading relationship system comprising a triangular circuit network.

4.5 Bilateral contingency relationships between counterfeit retailers and authorised retailers (Table 2)

As mentioned before, third parties directly control or administer both counterfeit and authorised retailers. Compared to authorised retailers, counterfeit retailers enjoy more tax discounts and lower R&D costs (or even no R&D) and direct advertising cost, because the authorised retailers must follow all the market regulations and audit systems. Counterfeit retailers in this market are small entrepreneurs who benefit from the governmental preference policy aimed at easing unemployment problems and facilitating local protectionism. Moreover, unlike authorised retailers, counterfeit retailers' purchase procedures are more flexible because of the size of the companies involved. In particular, counterfeit retailers' competitive advantage lies in the authorised retailer's products in terms of advertising and R&D costs, which gives them a unique competitive market position. Regarding the derived interactive relationships between the counterfeit retailers and the authorised retailers, the research findings were as follows:

- (1) The interactively reinforcing relationship between counterfeit retailers and authorised retailers lies in the customers' product knowledge transfer, and the patronage of consumers switching from one to another, the user-based market share, and the economic value of mutual support.
- (2) The fact that third parties directly or indirectly manage the consumer' behaviour setting from relatively open to relatively closed was observed in all the exchange reinforcers, as shown in Tables 1&2.
- (3) The reinforcers exchanged between the counterfeit retailers and authorised retailers are influenced by third parties. The third parties influence this relationship through separate relationships with either/both of them.
- (4) The reinforcers exchanged between counterfeit and authorised retailers are also influenced by consumer purchase patterns and by the user-based knowledge transfer achieved via its separate relationships with either/both of them.

- (5) The interactions between third parties and counterfeit retailers are more complex and in paradox; on the negative side, they restrict the free market mechanism because of the complexity of policy regulation and anti-counterfeiting requirements from outside, but on the other hand, they also guarantee the market competition advantage of counterfeit retailers over authorised retailers, in case the authorised retailers of well-known branded enter into the market due to protection of local and national branded products. This has an influence on the authorised retailers' exchange reinforcers with counterfeit retailers. There is evidence to show that authorised retailers use or merge the distribution channels of counterfeit retailers as a strategy to enlarge market share in the new market or as a market entry strategy.
- (6) The interaction between third parties and authorised retailers can negatively influence counterfeit selling activities because of regulations, IPR laws and international agreements with counterfeit and authorised retailers, which ensure the market economic order is consistent with the international marketplace.

The focal relationship between counterfeit and authorised retailers result in a bilateral circuit-type network.

5. Propositions and Conclusions

Based on the preceding analysis of the complex reinforcing relationships between key actors involved in the counterfeit consumption process as it operates in the wholesale centres of China, four actors and four types of exchange network of bilateral relationships have been found. According to the discovery from field data, the author offers the following propositions and insights, which can represent theoretical and empirical implications as follows:

Proposition 1. The behaviour of marketing firms in the counterfeit marketplace involves the management of the reinforcement and scope of behaviour settings of the other parties. Reinforcement includes positive economic utilitarian reinforcement, social benefits, knowledge benefits, technical benefits, as well as negative reinforcement effects also (transaction costs, risk, etc).

According to Foxall (1999), all mutual social or economic interactions involve reciprocal reinforcement. Much of what marketing firms do, whether authorised or unauthorised, is thus directed towards changing the reinforcing and/or aversive properties of attributes of their products and brands so as to make them more attractive to consumers. They attempt to accomplish this by creating, modifying and/or promoting brands and products in the marketplace. Such manipulations of the cues present during a buying episode will alter the likelihood of a purchase response due to those cues setting the occasion for such responses. Within a counterfeiting context, the counterfeit retailer as a “bad competitor” has the same marketing functions in the competitive environment, which include managing reinforcers and closing the behaviour settings of consumers in a semi-legitimate format. For example, the economic values and the available counterfeit market offered by a counterfeit retailer (stimulus) influence customers’ expected positive reinforcers, such as social benefits, economic benefits, etc (reinforcement), which in turn significantly influence customer loyalty toward the counterfeit retailers (response).

On the other hand, the counterfeit retailer’s behaviour is also managed and affected by other actors. For example, market entry conditions, such as no or few market barriers and high demand for known branded products (stimuli), influence counterfeit retailers’ anticipated maximisation of rewards (reinforcement), which also influences their continued selling behaviours and market presence (response) for consumers and third parties. The preceding analysis demonstrates that to combat counterfeit selling activities from retailers who possess a cost advantage, authorised retailers and/or third parties should strategically identify what events can function as reinforcers (as aversive stimuli), to what extent, for what counterfeit retailers, and under what circumstances rather than actual reinforcing events (anti-counterfeiting).

Proposition 2. The relationship between counterfeit retailer and consumer, like that between orthodox retailer and consumer, can involve both monetary and literal exchanges.

Foxall (1999) believes that a reciprocally reinforcing relationship exists between marketing firms and consumers, achieved through swapping or trading entities that could include economical, technical,

knowledge, consulting and social benefits recognised by both parties (Kathandarama & Wilson, 2001). This reciprocally reinforcing relationship should involve matters that are perceived as important reinforcement input by the other party and can be obtained for, and measured by, monetary or literal exchanges. In the counterfeit market, the content of exchange is particular in this case, which includes economic utilitarian reinforcement; for example, the counterfeit retailer provides various well-known branded products at a fractional price in an organised wholesale market in order to obtain high profits and marketing performance through a high-volume low-cost strategy. The consumer also obtains economic utilitarian benefit from counterfeit retailers. The exchange content here includes social benefits such as mutual reinforcement (protection and high rent and/or tax) between third parties and counterfeit retailers as a means of resolving unemployment issues. Whilst between counterfeit and authorized retailers, the exchange content include fashion and technical knowledge transfer from each other through consumer switch behaviour. The analysis in this study demonstrates that some reciprocally reinforcing behaviour exist in an interaction network in the counterfeit industry in China.

Proposition 3. Previous reciprocally reinforcing behaviours can affect either or both focal bilateral exchangers. Therefore, the derived effect can have a bilateral impact.

Bagozzi (1975) and Webster (1992) perceive a highly developed exchange relationship as a linkage of dyadic exchanges. Along with the extensive linkage of the related reinforcing behaviour of one or both interactors, a network exchange system is established by all of the related behaviours. Marketing theory traditionally views dyadic exchange as a core activity of marketing behaviours (Kotler, 2000) which should be explored using the marketing firm theory and the network perspective. Accordingly, the network of exchange behaviours interact with one another, thus forming an internally-dynamic exchange system based on the bilateral contingency approach.

Proposition 4. Transfer relationships of focal exchange reinforcers may affect one another. Hence, the relationships of derived reinforcement effects can be of a bilateral-circuit type.

In a network exchange system, any dyadic exchange reinforcer influences, or is influenced by, the inbound related exchange reinforcement and the scope of the behaviour setting. That is, the exchange reinforcement shifts with network linkages. This network may be a circuit system when the shift reinforcement forms a closed loop, otherwise it is an open system. The reinforcement shift in circuit systems stimulates the original exchange relationship because of the reinforcement linkage cycle. Conversely, an open system can only create discrete reinforcement outcomes. The exchange reinforcement of a shopping episode is thus created based on former exchange experience with mutual reinforcement (Foxall, 1998; Grönroos, 1990). Within the counterfeit industry in China, the bilateral circuit-type exchange network was generated as show in the Figure 6.

FIGURE 6 HERE

This type of network is based on the bilateral contingency approach, which faces two independent sources of derived reinforcement effects from both interactors in a focal relationship. This bilateral contingency network is highly associated with those marketing systems regulated by social rules, regulations and laws. In other words, the bilateral contingency network of the counterfeit market forms a complex, closed and derived bilateral contingent effects mechanism. The dynamics of this closed system require lengthy adaptation to approach a firm and consumer state. Focal interaction must be analysed from the bilateral contingency approach and the network perspective. Their mutual exchange reinforcement must be assessed on the basis of the scope of broader exchange reinforcement effects and the behaviour setting. Practitioners should grasp the mutual exchange reinforcement events and the scope of the behaviour setting more precisely, irrespective of whether the market is regulated or unregulated.

Proposition 6. This bilaterally contingent circuit-type network is one factor that results in the co-existence of counterfeit retailers and authorised retailers.

The various marketing relationships, plus accompanying mutuality, are essential components of this bilaterally contingent circuit-type network in the counterfeit marketplace. That is, when authorised

retailers choose to target only one level of market segment (e.g. a risk-averse segment), their optimal response is to accommodate counterfeit marketers as long as the latter does not threaten their target markets and in particular, only when both parties have reciprocal behaviour settings and reciprocal reinforcement. This is illustrated by existing research showing that counterfeit retailers' selling behaviour actually increases market awareness of well-known branded products. In fact, consumers draw upon both environmental cues and their own unique learning history in order to procure goods in that market place, a variety of vendors vying for the customer's business. Some of these vendors are legitimate manufacturers and retailers, others are nefarious purveyors of counterfeit copies. This analysis has revealed a relatively free-market competitive environment in operation; a competitive environment which can be summarised according to normative business criteria and strategic analytical tools.

6. Theoretical and Marketing Implications

6.1 Further Research

This paper has sought to study contribute to our understanding of how counterfeit marketing firms approach marketing mix strategies and marketing activities, and what interactive relationships are built between key actors in the counterfeit marketplace. The results of the case analysis suggest that the driver of the consumption process is the construction of reciprocal reinforcement and the scope of the behaviour setting, from manipulating the effective reinforcers (e.g. utilitarian, social benefits) that others can be stimulated to respond to, the scope of the behaviour settings that interactors provide one another with, and the expected reinforcing outcomes encouraging them to repetitively engage in the behaviour in similar shopping situations. This focus can complement what we know about cognitive psychology of consumer choice and the role of buyer-seller marketing relationships toward counterfeits by emphasising the role of reciprocally reinforcing relationships. The model of the bilateral circuit-type network generated provides propositions about the nature of marketing firms and the bilateral contingencies that operate between marketing firms, consumers and third parties in continuous open-closed behaviour settings.

Based on this perspective, future research focus should be on the measurement of the extent to which the reciprocal reinforcement can stimulate consumers and other actors' responses to counterfeit goods consumption. In other words, measurement issues should be concerned with the degree and content of reciprocal reinforcement and the scope of the behaviour settings, manipulation/management of which may reduce counterfeit products' consumption.

Under the paradigm of the buyer-seller relationship, marketing management subjects such as resources strategy, product manufacture and supply flow, and buyer-seller interaction and benefit assignment with the marketplace, all involve a systematic understanding of the interactional relationships within a reciprocally reinforcing network. This investigation identifies a derived bilaterally contingent pattern network in the counterfeit marketplace.

Using this bilateral-contingent network paradigm, research can be further undertaken as follows: firstly, more research can be conducted to clarify the reinforcement content of interactive relationships, the mechanisms of reinforcement transmission among the actors (or exchangers), the ways in which marketing firms transform their non-economic reinforcement into economic reinforcement via interaction and eventually achieve their goals; secondly, using models with identifiable reinforcing effects, researchers can vividly capture actual reciprocal interactions in a complex marketplace using a bilaterally contingent network approach; and thirdly, to illustrate the interactional reality more clearly and assess the reciprocal reinforcing relationships accurately, more studies must be performed to understand possible attrition and limitation among reciprocal interactors within a network.

6.2 Marketing implications

The preceding sections have highlighted the different roles that the consumer, the retailer and third parties (such as local government) play in contributing to counterfeiting activities. The findings show that all parties are co-responsible as each lie at one end of the balance in a bilateral circuit market network. The non-deceptive nature of counterfeit marketing is an artefact of the bilaterally contingent marketing relationships at work in the marketplace. The real question is the extent of illegitimacy. In a

non-deceptive counterfeit market, counterfeit products' consumption is not necessarily bad for the authorised retailers/ distributors, third parties and consumers.

Because market competition is intensifying, it is difficult for firms to create diverse and innovative products and/or services to fulfil all levels of consumer needs based solely on their own resources and abilities. Through commercial transactions or trade negotiations, marketing firms can unify useful external resources, predict and control the operations of interactors, and can finally deliver the promised value to the market. When the authorised and counterfeit retailers are targeting different marketing segments, a large market demand and external network effects are generated. The authorised distributors have no incentive whatsoever to terminate the opportunistic counterfeit marketers because of the mutual exchange reinforcement. This is in direct contrast to the usual advice given to the authorised distributors by proponents of the price differential issues explanation to prohibit sales of counterfeit goods in a non-deceptive marketplace. There are circumstances when the firm's sustainable competitive advantage can be improved because non-deceptive counterfeit products have a positive impact on the legal version of the product. For example, the authorised distributors may want to promote regional or global brands and channel diversion as one way to achieve this.

Rather than "defend at all cost" or "develop the mass market" strategies, non-deceptive products piracy and intellectual property misappropriation should be *managed* by the marketing firm depending on the nature of the market and the competition. By carefully managing the mutual reinforcement events (e.g. enforcement, fines) and the scope of the behaviour setting (e.g. legal action, anti-counterfeiting technologies), marketing firms should be able to extract some of the benefits of network externalities and derive other effects of the interactive relationship, while keeping within reasonable parameters lost sales and brand erosion. In order to determine the optimal approach at managing anti-counterfeiting efforts, the marketing firms should adjust both side derived effects of bilateral contingency relationship.

The network compositions constructed represent numerous market realities, consequently the findings of this investigation are suitable for application to diverse market firms involved in exchange and interactive activities. The marketing firms approach may be a valuable tool for exploring the complex market mechanism through which mutually beneficial cooperation can be achieved, exchanging the business resources of members and the integrating ways of a whole products value, an approach that should eventually be able to realise the common vision of the network. That is, instead of anti-counterfeiting, the authorised retailers and third parties may perhaps appropriately utilise non-deceptive counterfeit consumption as a strategy through management of behaviour setting and reinforcement events. In other words, practitioners should not ignore the derived reciprocal reinforcement and its influence; they should deploy control over behaviour settings and create reciprocal reinforcement events systematically.

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Figures

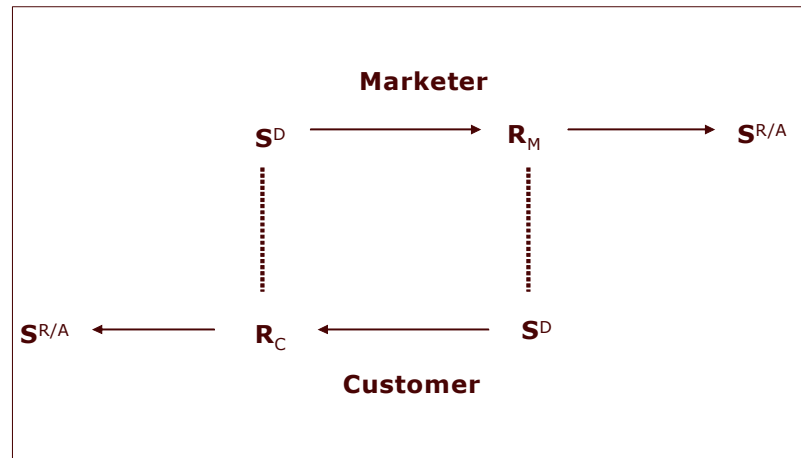


Figure 1: Bilateral Contingency (Foxall, 1998)

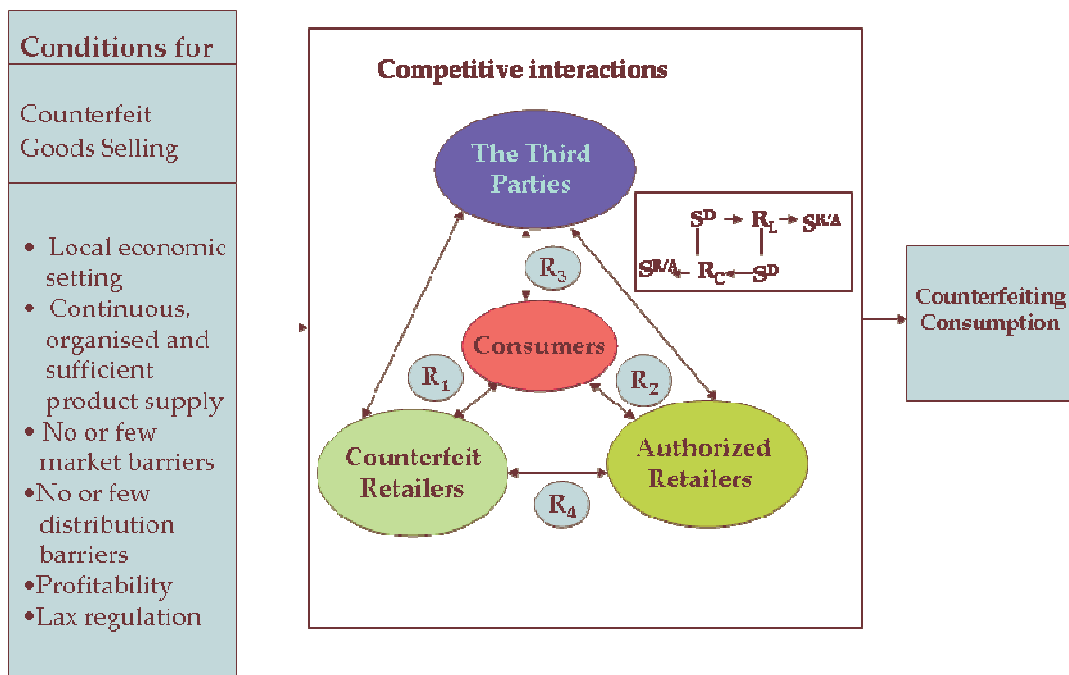


Figure 2: A schematic representation of the bilateral interaction between key actors in counterfeit market

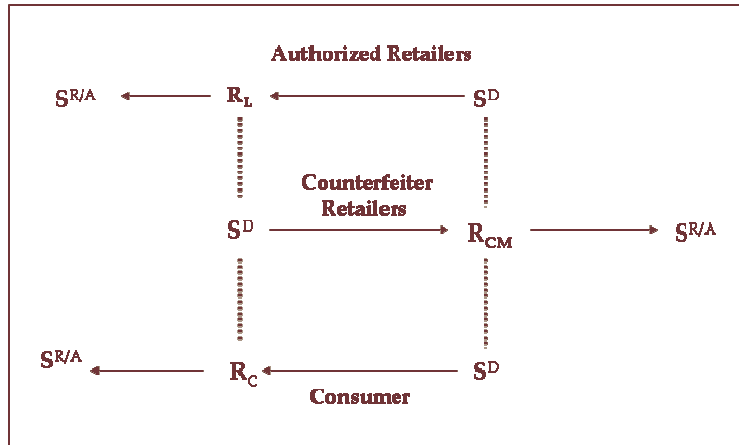


Figure 3: Annotated Bilateral Contingency 1 (After Foxall, 1999)

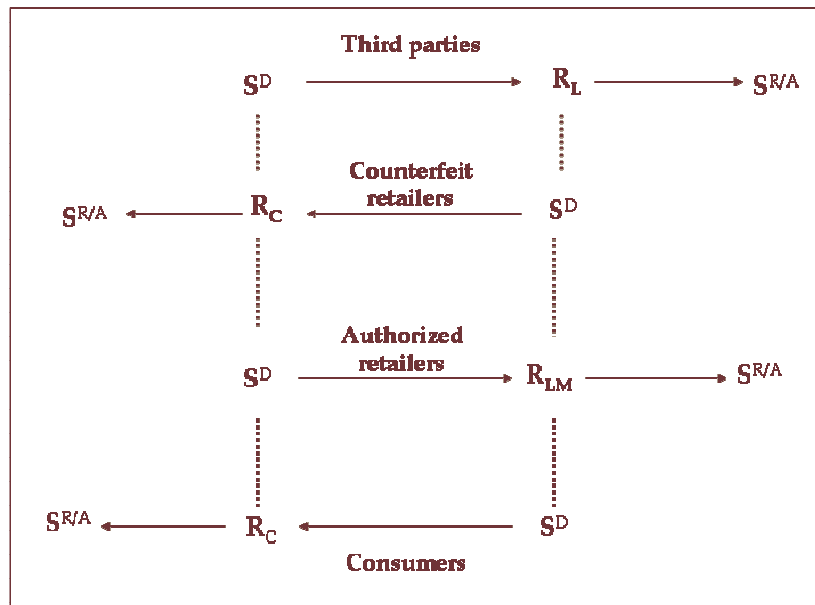


Figure 4: Annotated Bilateral Contingency 2 (After Foxall, 1999)

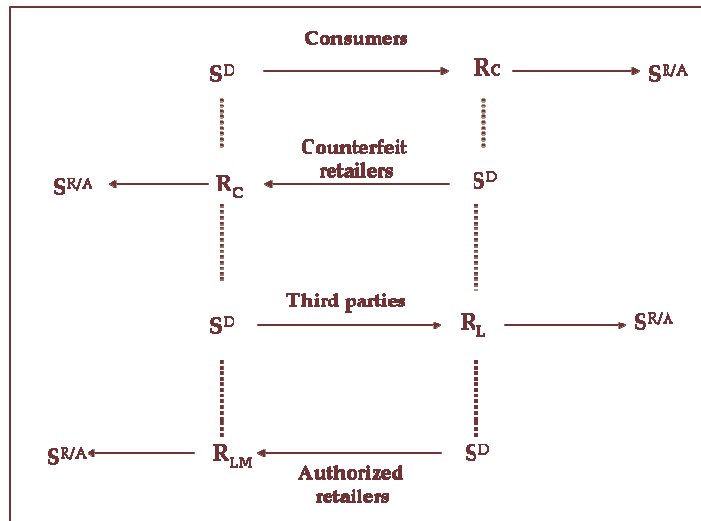


Figure 5: Annotated Bilateral Contingency 3 (After Foxall, 1999)

Bilateral circuit type network

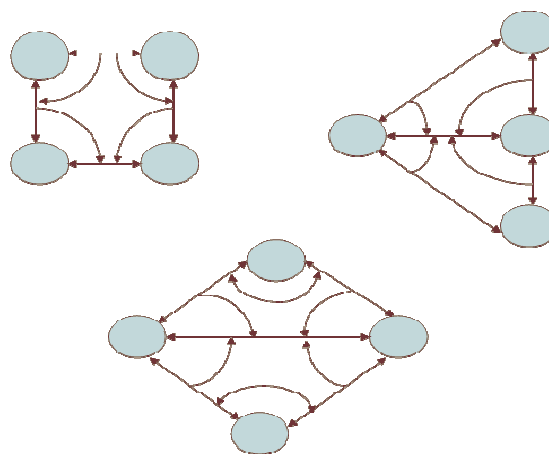


Figure 6: Generic bilateral contingency network model of counterfeit marketing

Table 1: Actors, stimuli, behaviours and outcome in the bilateral contingency network

	Discriminative Stimuli (Behaviour Setting) <i>S^D</i>	Responses <i>R</i>	Reinforcement <i>S^{R/A}</i>
Consumers	Physical 1. Available market 2. High availability of product 3. Organised market Temporal 1. Cheap price system 2. A fast-fashion goods offer 3. short life cycle of goods 4. Fashion season Social 1. Social status 2. Sharing community 3. Legal market 4. Interaction with salespeople Regulatory 1. Occasional punishment, lax law 3. Legal market Direct and word-of-mouth experiences	1. Counterfeit products buying 2. Legitimate products buying 3. Browsing 4. Introduce other people to the market 5. Share shopping experience	Positive: 1. HI +LU 2. HU+LI 3. HU+HI 4. LU+LI Aversive Occasional risk and bought wrong thing
Counterfeit Retailers	Physical: 1. The organised marketplace, distribution and supply chain 2. The geographical location of the market 3. Customers' segmentation 4. Outlet, outlet size 5. Retail format 6. The 'know-how' technology available 7. Product popularity 8. Opportunities for low-cost selling. 9. Local economic setting 10. Highly flourishing market . Regulatory: 1. The law and regulatory mechanisms 2. Lax penalty 3. Weak regulations 4. Local protection 5. graduated tighten IPR regulation Social: 1. Sales performance 2. Self-employee (Boss) 3. Social-status Temporal: 1. Short life cycle of selling same products 2. Temporal supply chain 3. Season change 4. initial start-up business Direct enterprise Learning History and to observe other firms' profit	1. Selling counterfeit goods 2. Selling legitimate goods 2. Marketing Mix strategies (4Ps, 4Cs) 3. Provide after-sales service warranty 4. Chat with potential consumers 5. Build up Business connection 6. Promote un-known and known brand	Positive 1. HU+LI (Self-satisfaction and profit making) 2. HU+HI 3. HI +LU 4. LU+LI Aversive Occasional tightened punishment, and the markets were closed down
Legitimate Business Entities	Physical: 1. Counterfeit goods flourish in the market 2. Irregular market 3. The organised marketplace, distribution and supply chain 4. Retail format 5. Customer segmentation 6. Local economic setting 6. Retail format Regulatory: 1. The law and regulatory mechanisms 2. Lax penalty 3. Weak regulations 4. Local protection 5. Local law system 6. weak anti-counterfeit policy Social: 1. Market performance 2. Public image 3. Brand reputation Temporal: (Asset, Capital and Time, Season cues) Organisation and enterprise direct negative experiences and anti-counterfeiting agencies' suggestions	1. Selling legitimate goods 2. Marketing Mix strategies (4Ps, 4Cs) 3. Provide after-sales service warranty 4. Chat with potential consumers 5. Build up Business connection 6. Promoting the well-known brand 7. anti-counterfeiting activities	Positive: 1. HU+LI (e.g. Self-satisfaction and profit making) 2. HU+HI 3. HI +LU 4. LU+LI Aversive Risk, production cost and anti-counterfeiting cost
Legislatures	Regulatory: 1. International law, WTO, international IPR regulations 2. Local law system 3. local protection 4. weak enforcement system Physical: 1. International pressure 2. Flourish market 3. Incomplete regulation system 4. The developing economic system 5. Retail format 6. Local economic setting Social: 1. Public image 2. International image 3. other social environment cues Temporal: (Asset, Capital and Time, Season cues, International events) Direct experience, international agreement/pressure and anti-counterfeit agencies lobby	1. Tighten law 2. Administrate markets 3. Local protection 4. Building up public image 5. developing local economic 6. knowledge transfer	Positive: 1. HU+LI (e.g. Self-satisfaction and profit making) 2. HU+HI 3. HI +LU 4. LU+LI Aversive Risk, production cost and anti-counterfeiting cost

Table 2: Bilateral relational exchange value effects of various dyadic exchange

Actors	Reciprocal Reinforcing activities	Impact of the reinforcement of relational exchanges				Network
		Positive	Negative	Open	Close	
1. Consumer and Counterfeit retailers						
Counterfeit Retailers	1. Provide large range well-known branded counterfeits, un-known branded fashion products, fast changing rate of outlet;	1. AIC enforces fairness and richness in both counterfeit and non-counterfeit products purchases in the market	1. Legislature limits the size and style of the outlets in the marketplace, products attribute and what kind of marketing firm can enter in this marketplace.	1. Counterfeit retailers provide a relatively open market with big rang and popular choice choices with affordable price	1. Counterfeit retailer control the product attribute for consumers.	Figure "A" in Table 3
	2. The organised market and distribution, convenient for consumers; good location in town centre	2. AIC have to ensures the quality of products supplier by counterfeit retailers	2. The legitimate entities sell the same goods in the next door, which ensure counterfeits is copies	2. Another consumption choice for consumer to shop when they in the town centre	2. AIC control the market is a legal market, within which consumers in an unescape physical setting	
↓	3. Exchange and refund policy, completed discount system like other retailers do	3. The legitimate retailer's after-sales policy competed with counterfeit retailers		3. Counterfeit retailer relatively open the consumer's social settings by proving after-sales services	3. Consumer's setting is controlled by counterfeit retailers through the after-sales service (depend on the individual firms police)	
Customers	4. Fraction price of well-known branded goods		4. Legitimate entities enforce anti-counterfeiting strategies to control the price and the counterfeits appeared in the market	4. Because counterfeit retailers sell the similar goods with low price, which relatively open the setting within which consumer face to more choice for consume similar goods	4. Counterfeit retailers control the price system in the market which relative close the setting within which consumer purchase	
	5. Provided lots fashion information for consumers by sales-person	5. Legitimate entities' products information ensure the products are always in fashion	5. Legitimate entities controlled the product's available in the market which limited counterfeit retailers' own products range	5. Counterfeit retailers relatively open the setting by provide the more fashion and advance information and knowledge	5. In the market, consumer' setting was relatively closed by the information counterfeit retailer give	
	6. Provided more prince space for bargain experience	6. Legitimate entities' premium price ensure counterfeit retailers have more price differential advantage		6. Counterfeit retailers relatively open the settings which consumer has big space for bargain	6. Counterfeit retailers relatively close setting that consumer can bargain	

Customers	<p>1. High profit from selling counterfeit goods or other fashion goods; high turn-over rate</p> <p>2. Consumer Loyalty: Obtain high frequency consumers and easy retain consumers</p>	<p>No significant effect</p> <p>2. AIC ensure the wholesale market in a good or convenient location</p>	<p>1. Tier 1 effect AIC regulates the counterfeit retailers sell less fakes because of the anti-counterfeiting policy</p>	<p>1. Various consumer segmentation relatively open the counterfeit retailers products rang and profit</p> <p>2. Consumers shop in the town centre relatively open the counterfeit retailers location and time</p>	<p>1. Consumer's shopping preference control the counterfeit retailer's products provided in the market.</p> <p>2. Consumer use the rate of patronage shops in town centre to control the counterfeit retailers' physical setting</p>	Figure "A" in Table 3
<p>↓</p> <p>Counterfeit Retailers</p>	<p>3. Credits for services provided, and obtain more old consumers</p> <p>4. Reputation for low-price; Credit for well-known branded goods</p> <p>5. Credits for knowledge provided and obtain more consumer back</p> <p>6. High rate of later-returning consumers</p>	<p>3. AIC ensure the consumers' benefit</p> <p>4. The legitimate entities sales systems ensure consumers have this advantage</p> <p>5. Legitimate entities' products information ensure consumers fashion knowledge as same as other areas</p>		<p>3. Due to the different quality of after service, consumers relatively open the counterfeit retailers' social setting</p> <p>4. Consumer's utilitarian incentive relatively open the counterfeit retailers' setting for providing cheap price to compete with the authorised retailers and got more opportunity to enter the market</p> <p>5. Consumer's fashion knowledge needs or searching information behaviour relatively open the counterfeit retailer's opportunities to attract consumer</p> <p>6. Consumer's bargain behaviour relatively open the counterfeit retailer's setting for profit</p>	<p>3. Consumer use the needs of good after services to close counterfeit retailers' social setting</p> <p>4. Consumer's utilitarian incentive closes the counterfeit retailers' setting for providing cheaper price to compete with others competitors.</p> <p>5. Consumer's fashion knowledge needs and search information needs behaviour relatively close the counterfeit retailers' setting for providing high fashion and advance products</p> <p>6. Consumer bargain behaviour relatively close the counterfeit retailers' setting for always give price space for bargaining</p>	

2. Consumer and Authorised Retailers

Authorised Retailers	1. Provide authorised well-known branded products	1. Legislature's anti-counterfeiting ensure that counterfeit retailers' goods have fake characteristics	1. Counterfeit retailers sell the same well-branded product with low price, which limit certain branded goods reputation.	1. Authorised retailers give consumer relatively open setting to purchase well-known branded goods	1. Authorised retailers relatively close the physical setting because of well-known branded products are not adequate in the market	Figure "B" in Table 3
	2. The authorised department stores and boutiques	2. Legislatures assure high social status and quality of goods sold by authorised retailers in the department store	No significant difference	2. Authorised retailers give more opportunities to consumer for choosing and browsing well-known branded goods and high tech goods	2. Because of the cost of licences and characteristics of boutiques or department store, authorised retailers also limited consumers choice for more other products	
↓ Consumers	3. Provide high price for quality insurance products	3. Legislature enforces the authorised retailers provided good quality products.	3. Same or more range products appear in the counterfeit retailers store has limited reputation of authorised retailers	3. Authorised retailers provide high quality goods which relatively open the consumer setting for purchasing good without worrying	3. Authorise retailers limited the consumers' utilitarian choice	
	4. Provide products information through advertisement on TV		No significant difference	4. Authorised retailers give more information, relatively provide more opportunities for consumers	4. Authorised retailers relatively closed the behaviour setting for popular goods and entertainments choice	
	5. Provide after-service like other retailers do	3. The counterfeit retailer's policy competes with authorised retailer which forces them to do better or same	No significant difference	5. Authorised retailers relatively open the consumer's social settings by proving after-sales services	5. Consumer's setting is controlled by authorised retailers through the after-sales service (depend on the individual firms police)	
Consumers	1. High profit from selling well-known branded products	No significant effect	1. Counterfeit retailer's sale the same quality with a little difference which result some consumer switch to counterfeits. This has limited authorised retailers' market share	1. Various consumer segmentation relatively open the authorised retailers' products rang and profit	1. Consumer's shopping preference and the utilitarian incentive control the authorised retailers' products provided in the market.	Figure "B" in Table 3
	2. Credit for well-known brand products and quality		2. counterfeit retailers' selling behaviour has influenced credit of authorised retailers	2. Consumer's pursuit high social status and popular goods give authorised retailers more selling opportunities	2. Consumers' unlimited desire for social status and well-known branded goods control the authorised retailers' reputation	
	↓					

	3. Credits for services provided	3. Legislature ensure the consumers' benefit		3. Due to the different attitude and quality of after service, consumers relatively open the authorised retailers' social setting	3. Consumer use the needs of good after services to close authorised retailers' social setting
Authorised Retailers	4. Social status value of customer loyalty	4. Consumers buy the authorised goods which ensure the quality of the products.	4. Counterfeit retailers in a legal and organised market and similar goods which also offer social status value without pay premium price.	4. Consumer's informational maximization needs give more authorised retailers opportunities for offering special social status value	4. Consumer's informational and utilitarian maximization needs limited authorised retailers' marketing segmentation
3. Consumer and the third parties of local government					
The third Parties	1. Protection of consumption		No significant difference	1. Under legislature protection, consumer face more choice	1. Legislature use the policy to control consumer behaviour setting for choose right products
	2. Regulation of consumption and market	2. Authorised retailers' anti-counterfeiting policy enforce legislatures regulate market order	2. Counterfeit retailers sale the non-deceptive counterfeit goods affect the efficiency of policy	2. Because of lax regulation to consumer, which related open consumers' self-rule setting	2. Regulated market relatively close consumers choice
↓ Consumers	3. The organised and regulated marketplace			3. Under legislature protection, consumer face more choice	3. Legislature use the policy to control consumer behaviour setting for choose right products
	4. Provide consumer a price and social benefit	4. Counterfeit retailers ensure consumers have price's benefit and affordable social benefit		4. Legislatures open the market to more retailers, provide different market and department store, which relatively open consumer's setting for consumption	4. Legislatures control what products can be sold, which directly control the consumer's setting
↓ Consumers	1. Credits for protection			1. Consumer's knowledge for products relatively open the legislatures social setting	1. The degree of consumer's knowledge limited legislatures capability to protect
↓ the third parties	2. The increasing the capability of consumption	2. Both counterfeit retailers and authorised retailers complement consumer's capability of consumption		2. The consumer's capability to consumption give legislature more space to open new markets	2. Consumers' capability of consumption stimuli legislature in an unescaped setting for open more resources
4. Counterfeit Retailers and Authorised Retailers					

Counterfeit Retailers	1. Consumer user-base, and channel	1. The third parties ensure the market location and ambiguous attitudes to counterfeits which influence more consumers purchase		1. Counterfeit retailers relatively open authorised retailers' setting through extend the market	2. Counterfeit retailers relatively close the authorised retailers' setting by controlling more consumers (no significant different)	Figure "D" in Table 3
	2. Awareness of branded goods in the market	2. The high rate of consumer patronage to the market ensure the products knowledge's flow		2. Counterfeit retailer relatively increase awareness of the authorised retailers' product	2. Counterfeit retailers relatively close authorised retailer's seeing through promoting brand goods by themselves only in the counterfeit market	
↓ Authorised Retailers	3. Negative sales increasing		3. The third parties regulate the market because of the protection of IPR	3. By selling counterfeits, counterfeit retailers are relatively open the authoriser's strategies choice	3. Counterfeit retailers use the fraction price to relatively control the authorised retailers' market	
Authorised Retailers	1. The market demand in which well-known branded products worth copying and selling	1. Consumers benefit from non-deceptive counterfeits with big rang products choice		1. Authorised retailers relatively open counterfeit retailers' setting by promoting products and develop the market share	1. Authorised retailers relatively close the counterfeit retailers setting through product and brand	
	2. Knowledge of products and fashion	2. Consumer demand and income ensure the Authorised retailers develop the product	2. Consumer's demand for counterfeit goods negative influence authorised retailers' promote the knowledge of the products	2. Authorised retailers relatively open counterfeit retailers' setting by providing the products knowledge and product promotion	2. Authorised retailers relatively close the counterfeit retailers setting through product and brand	
↓ Counterfeit Retailers	3. Anti-counterfeiting policy	3. The third parties regulate the market to ensure the policy				

Table 3 Bilateral Contingency Pattern of Relational Reinforcing System

