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Chapter 5

ANTI-COUNTERFEITING LUXURY MANAGEMENT

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Abstract

Counterfeiting of luxury products is an illegal practice that can cause significant and reputational damage to companies, as well as erode consumer trust. Managing the fight against counterfeit luxury products is a major concern for luxury brands. The aim of this chapter is to identify and bring together some strategies from previous studies to combat the production and commercialization of counterfeit luxury products.

Introduction

Today, some of the world's most renowned luxury brands include Chanel, Givenchy, Hermès, Louis Vuitton, Prada and Gucci, whose product offerings encompass categories such as jewelry, accessories, watches, handbags and luxury clothing (Chen et al., 2022). These brands and other brands have become targets of counterfeiting. Luxury counterfeiting is an illegal practice that harms various important stakeholders, including companies, consumers, governments and society as a whole.

Counterfeiting luxury goods is problematic as, *vis-à-vis* authentic products, several characteristics stand out. In terms of price, counterfeit items are usually sold at significantly lower prices compared to authentic luxury goods. The quality of materials is totally different: while genuine luxury goods use premium materials, counterfeits often use cheaper, low-quality materials. Luxury items sometimes come with authentication cards or certificates, often absent or poorly replicated in counterfeits. Authentic items have meticulous craftsmanship, whereas counterfeits may show poor stitching, finishing, or cuts. While luxury brands maintain consistent design details, counterfeits might have slight variations in colors, logos, or patterns (Chen, 2022; Jiang & Shan, 2016). This is a serious concern for consumers, businesses, brands and governments.

The lack of transparency in the manufacturing and distribution processes contributes to the proliferation of counterfeit products (Chen et al., 2022). Counterfeiters often operate discreetly, making it difficult to identify and penalize them, as they do not manufacture and sell counterfeit products in the same jurisdiction (Wilcock & Boys, 2014).

The evolution of research on counterfeit luxury consumption can be broken down into four distinct periods, each with its own focus, methodological approaches, and contributions (Khan et al., 2020). Before the 1990s, the widespread availability of counterfeit goods was considered the main reason for their growing popularity. As little consideration was given to consumer motives or behaviors, strategies to combat counterfeiting largely involved supply-side measures, such as enforcement and market regulation, without addressing the underlying consumer demand (Khan et al., 2020). During the 1990s, studies highlighted consumer demand as a critical factor driving the counterfeit market. However, only during the 2000s did a more structured theoretical support emerge, linking consumers' personalities and behaviors to their counterfeit purchase intentions. It also brought attention to psychographic determinants, helping brands understand diverse motivations behind counterfeit consumption. After the 2010s, studies started integrating cultural perspectives, particularly in Asian markets. Studies began to explore luxury brand outcomes, such as *schadenfreude* (pleasure derived from another's misfortune) and countercultural views, and considered consumers who owned both genuine and counterfeit luxury items (Khan et al., 2020). More recently, even environmental aspects are taken into account to position luxury products, making them more valuable to sustainable segments (Gasulla Tortajada et al., 2024)

In 2019, the Harvard Business Review estimated that the global trade in counterfeits was worth around 4.5 trillion dollars. The counterfeit luxury goods industry accounts for 60-

70% of all counterfeit transactions, far exceeding the pharmaceutical and entertainment industries in value (Wang et al., 2020).

China poses one of the most significant threats to companies worldwide, as it is the world's primary manufacturing hub for counterfeit goods (Cesareo & Pastore, 2014). China's counterfeiting industry is not only the world's largest, but is also becoming increasingly sophisticated and export-oriented (Werner, 2017).

Two social trends further contribute to the perpetuation of counterfeiting. Firstly, challenging economic conditions can lead companies to prioritize "essential" activities, creating opportunities for counterfeiters to gain market share. Additionally, consumers may opt for counterfeit products due to their lower prices. Secondly, the widespread use of the Internet and privacy regulations make it increasingly difficult to identify the origins of counterfeiting operations (Wilcock & Boys, 2014).

Furthermore, a company's indifferent attitude towards counterfeiting can, in the long term, erode brand reputation. An example is the Ralph Lauren brand; once considered a luxury brand, it was massively copied without any adequate defense, resulting in a decline in brand perception and association by the middle class that exists today (Werner, 2017). The growing counterfeiting industry presents a significant challenge for luxury brands. Anti-counterfeiting management of luxury products has become a primary concern for these brands. It involves a series of measures adopted by luxury brand companies and governments to combat the production and commercialization of counterfeit products, aiming to protect brand integrity, avoid reputational damage, guarantee product quality and preserve the exclusive experience associated with luxury brands.

Anti-counterfeiting management of luxury goods has become increasingly necessary, given the numerous challenges posed by counterfeiting, which are subsequently outlined. First, counterfeiting of luxury products can damage a brand's reputation and image, creating unfair competition for legitimate companies that invest in design, innovation, and quality. As such, the sale of counterfeit products results in substantial revenue loss for luxury companies. Second, counterfeiting infringes on the copyrights, trademarks and other intellectual property rights of luxury companies. Third, the counterfeiting industry damages the economy, resulting in the loss of legitimate jobs, tax evasion and reduced investment in research and development. Fourth, the counterfeiting industry is often linked to criminal activities such as money laundering, terrorist financing, and the exploitation of child labor.

Given the incalculable problems caused by the production and commercialization of counterfeit luxury goods, anti-counterfeiting management deserves in-depth examination. Given its importance in promoting sustainable development and reducing the promotion of counterfeiting, anti-counterfeiting management has become a hot topic around the world, as it seeks to combat illegal activities and protect the integrity of legitimate markets, in order to ensure that companies are properly rewarded for their creative and innovative work. As such, this chapter aims to provide valuable information for manufacturers, governments, companies and consumer protection institutions to combat these illegal activities and protect the integrity of legitimate markets.

Anti-counterfeiting luxury management

The global nature of counterfeiting presents one of the most significant challenges, particularly requiring businesses, policymakers and law enforcement agencies to coordinate their efforts both within and across borders. Tackling the counterfeiting of luxury goods has emerged as a priority economic and social issue for businesses and governments. Numerous scientific papers have explored this issue, almost all of which focus on legal (regulatory) and commercial strategies to combat counterfeiting.

Yacoub and Laperche (2013) investigated the extent to which technological innovation is a favored strategy for luxury cosmetics companies to address counterfeiting. The study revealed that while essential, strategies to valorize existing knowledge capital cannot guarantee luxury cosmetics companies lasting protection against counterfeiting. However, optimal effectiveness is achieved when these strategies are combined with technological innovation, aimed at accumulating knowledge capital.

Wilcock and Boys (2014) sought to demonstrate how integrating anti-counterfeiting initiatives into quality management strategies can mitigate supply chain risks. They explored issues related to product counterfeiting, the practical application and limitations of anti-counterfeiting initiatives in the supply chain and the intersection of anti-counterfeiting initiatives with quality management programs. Wilcock and Boys (2014) suggest applying quality principles to offset counterfeiting, which can reduce supply chain risks.

Werner (2017) provides a comprehensive overview of current trends and developments in the evolution of the counterfeiting industry in China, providing a wide range of corresponding countermeasures. Not only are conventional online and offline combat strategies described, but also advanced legal concepts such as trade dress protection under

China's Unfair Competition Law, as well as the advantages and details of well-known trademark status.

Chen et al. (2022) propose the development of a blockchain-based management system using smart contract technology to address counterfeiting and data tampering. This system tracks information related to luxury products and guarantees the accuracy and authenticity of the relevant data, ultimately aiming to combat luxury product counterfeiting. In addition, the solution offers enhanced flexibility in transmission, more secure protocols and greater resistance to tampering and falsification, effectively addressing counterfeiting and tracking challenges for luxury products.

How the verbal and visual aspects of anti-counterfeiting advertising affect the purchase of counterfeit luxury brands is an important issue addressed by Ryu et al. (2023). For the verbal element, the authors considered two types of anti-counterfeiting messages: expressive of value and social adjustment. For the visual element, two modes of visual presentation were compared: participants were presented only with images of counterfeit products or with images of both counterfeit and genuine products. The results of two experiments revealed that both variables interacted with consumers' self-construal in determining the effectiveness of anti-counterfeiting advertising.

Wang et al. (2023) explored the psychological impact of anti-counterfeiting efforts on consumers and discussed their impact on prices and profits. The authors concluded that: first, anti-counterfeiting efforts positively impact the selling prices of branded products and company profits, with the impact on wholesale prices varying depending on who implements the anti-counterfeiting strategy; second, companies are more likely to invest in anti-counterfeiting efforts when their branded products offer superior quality; third, implementing anti-counterfeiting measures within a direct sales structure is the most effective strategy for manufacturers.

Strategies to combat counterfeit luxury goods

One of the major challenges in the fight against luxury counterfeiting is the lack of cooperation from some countries in cracking down on counterfeiting activities. Many countries have lenient legislation or insufficient resources to effectively combat counterfeiting, hindering global efforts to protect luxury brands. A more effective response to the supply and demand of luxury counterfeits can be achieved through greater collaborative efforts among academics, government agencies, law enforcement authorities and, most importantly, luxury brand managers (Amaral, 2020; Wilcock &

Boys, 2014). Werner (2017) further emphasizes the need attack supply chains and close down factories to eliminate the source of counterfeits.

It is important that the authorities step up their efforts to identify and punish those responsible for the production and sale of counterfeit luxury goods. In this regard, anti-counterfeiting strategies should target the supply side, i.e. production, distribution, and commercialization of counterfeit products, as well as the demand side involving consumers (Cesareo & Pastore, 2014). Evidence supports that luxury brand managers also recognize the importance of ethical considerations in reducing counterfeiting activity and are seeking to address this through greater inter-organizational cooperation and collaboration with government agencies (Amaral, 2020).

Anti-counterfeiting strategies can range from defensive to proactive approaches, and companies must select appropriate strategies depending on the current state of the industry and the illicit market (Cesareo & Pastore, 2014).

While there is no single measure against counterfeiting, there are some recommendations that luxury companies could follow to combat counterfeiting. Several strategies are going to be presented below to address both the supply side (production and distribution) and the demand side (consumer).

Strategies to combat the production of counterfeit luxury goods

One of the main challenges in luxury anti-counterfeiting management is the constant evolution of counterfeiting techniques. Counterfeiters are increasingly skilled at replicating high-quality and nicely finished luxury products, making it difficult to distinguish fake items from genuine ones.

To combat counterfeiting, several supply-side measures can be implemented. One of them is through cooperation between companies and authorities. The other one is resorting to technology and innovation.

Co-operation between companies and authorities: Establishing partnerships between government authorities and legitimate companies is essential for sharing information and resources in the fight against the production of counterfeit luxury products. Luxury brands should work together with the authorities to develop effective strategies to combat the trade in counterfeit goods.

A notable example of such collaboration is the Global Anti-Counterfeiting Group (GACG), formed in China and now encompassing 23 countries and numerous luxury brands, including Burberry, Chanel, Fendi, Gucci, Hermès, LVMH, and Prada (Amaral,

2020). Additionally, other national and international anti-counterfeiting, trademark protection, and intellectual property rights associations – such as the Quality Brands Protection Committee (QBPC) in China, the Anti-Counterfeiting Group (ACG) in the United Kingdom, the Brand Protection Group (BPG) in Lebanon, the International Anti-Counterfeiting Coalition (IACC), the Association of European Trademark Owners (MARQUES), the World Customs Organization (WCO), and the World Intellectual Property Organization (WIPO) – can provide valuable support in the fight against counterfeiting through collaborative efforts.

However, the secretive nature of with which luxury brand managers operate can hinder the fight against counterfeiting (Kapferer, 2012). Companies should share specific details and characteristics of legitimate products with customs authorities and police forces. This would involve deploying anti-counterfeiting teams to work alongside authorities to help them identify genuine and counterfeit products (Cesareo & Pastore, 2014). Luxury brand managers could benefit from closer collaboration with researchers and policy experts to evaluate the effectiveness of various anti-counterfeiting strategies and tactics (Amaral, 2020).

Technology and innovation: Cesareo and Pastore (2014) claim that there is no brand protection without traceability. Integrating technology into luxury products can make them more difficult to counterfeit. This may involve the use of tracking chips, tamper-proof authenticity labels, among other features. Chen et al. (2022) propose a blockchain-based anti-counterfeiting management system for traceable luxury goods. By utilizing Hyperledger Fabric to deploy and execute smart contracts, information related to raw material sourcing, producers, consumers, product flow, and logistics can be recorded on the blockchain (Chen et al., 2022). By utilizing Hyperledger Fabric to deploy and execute smart contracts, information related to raw material sourcing, producers, consumers, product flow and logistics can be recorded on the blockchain. This decentralized, tamper-proof and traceable system ensures data security and reduces reliance on regulatory bodies and hardware installations.

Furthermore, employing security technologies such as unique labels, watermarks, authenticity codes and special packaging can make it more difficult to counterfeit luxury products. These technologies can help validate the authenticity of the product and provide an additional layer of protection against counterfeiters.

In addition to strategies related to counterfeit luxury product production, several commercialization-focused strategies can be implemented on the supply side.

Strategies to combat the commercialization of counterfeit luxury goods

The distribution networks for counterfeit products are complex and constantly evolving (Wilcock & Boys, 2014). It is essential for luxury brands to implement strict controls throughout their distribution chain, from sourcing raw materials to final sales. This involves selecting reliable suppliers, auditing the supply chain and monitoring distribution channels. Several strategies can help combat the commercialization of counterfeit luxury goods.

Publicity: Ryu et al. (2023) demonstrated the effectiveness of advertising as an anti-counterfeiting strategy. Their study provides practical guidelines for designing communication strategies aimed at reducing consumer desire and intent to purchase counterfeit luxury brands. For example: when an expressive value message or a single image is used in an advert, 'I' should be used in the text to prepare those with an independent self-construction, while a social fit message or double images should be employed with the use of 'we' to increase the effectiveness of the advert.

Technology and innovation: The use of technological solutions to protect and trace original products, such as smart labels, is crucial to reduce the possibility of counterfeits from entering legitimate supply and distribution chains (Cesareo & Pastore, 2014). Encouraging the adoption of traceability technologies such as security labels, electronic chips, QR codes and other tools or resources can facilitate counterfeit identification.

Partnerships with online platforms: Globalization and the expansion of e-commerce have facilitated the distribution of counterfeit products, making it difficult to control sales channels. Online sites make it very easy to sell fake and luxury products because they can be hosted on servers in different countries (Werner, 2017). Working together with e-commerce platforms to identify and remove counterfeit products from their sites can significantly discourage these practices.

Training and awareness: Distributors of luxury brands must be trained to identify counterfeit products. All employees, from corporate headquarters to retail staff, should be knowledgeable about the characteristics of genuine products and be able to detect fakes and know how to report them (Cesareo & Pastore, 2014). This involves establishing an internal anti-counterfeiting department, which can carry out investigations and take action to prevent and combat counterfeiting. Education and information are crucial for employees and those who are part of the legitimate supply chain.

In addition to officials, suppliers, distributors, customs agencies and police forces must be educated and informed about counterfeiting to facilitate detection and reporting of fake products (Cesareo & Pastore, 2014).

Demand-side strategies to combat luxury counterfeiting

It is important to acknowledge that the profits generated by the counterfeiting trade come at the expense of the economic loss of the original manufacturers (Koay, 2018) and rely on consumer co-operation (Globalization, 2022). This does not mean that luxury brands cannot take steps to defend their rights and protect their goods from illegal imitations; on the contrary, it calls for an even greater joint effort by everyone to protect the legitimate products from illegal imitations (Cesareo & Pastore, 2014). Many consumers in developing countries, with lower income levels, find genuine luxury brands unaffordable (Eisen et al., 2017). This consumer demand for luxury goods, often unmet by legitimate means, contributes significantly to the prevalence of counterfeiting. As counterfeit products exist due to consumer demand (Ting et al., 2016), it is essential to address consumer awareness. Many consumers remain uninformed about the risks and consequences associated with consuming counterfeit products, inadvertently perpetuating this illegal market.

Consumer awareness is a critical challenge in luxury anti-counterfeiting management. It aims to educate consumers about the damage caused by buying counterfeit products. To curb the demand for counterfeits, it is necessary for companies, industry organizations and anti-counterfeiting associations to join forces in order to raise consumer awareness of the risks, dangers and negative effects of purchasing counterfeit goods (Cesareo & Pastore, 2014). Governments can play a role by educating consumers and disrupting the supply of counterfeit goods. Publicizing the outcomes criminal prosecutions of illicit suppliers through ‘buzz marketing’ can spread the word among peer groups that manufacture counterfeit products and can promote social disapproval of the sale of counterfeit goods (Ahmed, 2016).

Europe has been particularly aggressive in punishing consumers for buying counterfeit luxury products through severe sanctions (Amaral, 2020). Italy, for example, has implemented stringent measures to punish the purchase of counterfeit luxury goods, imposing hefty fines, up to 2,000,000 euros, and potential imprisonment, up to ten years (Amaral, 2020). However, the inconsistent application of these laws has raises concerns

about their effectiveness. To address this, a more consistent and rigorous enforcement of demand-side sanctions is essential.

Another strategy to discourage demand for counterfeit luxury goods is to promote legitimate alternatives. Supporting support programs and offering incentives for legitimate brands can facilitate market entry and provide consumers with affordable, authentic options. In addition, brands can invest in educational campaigns to teach consumers how to identify counterfeit products. This can be done through awareness campaigns, product authenticity instructions, employee training, and informing consumers about the detrimental effects of counterfeiting, in order to encourage the purchase of authentic products. Educational campaigns can be a good approach for non-governmental organizations (NGOs) as activism to influence consumer behavior towards the negative side of non-native cultural production and consumption. Activism in this sense can take a wide range of forms, from writing letters to newspapers or politicians, to rallies, street marches, and so on (Ahmed, 2016).

Information strategies should aim to raise awareness of counterfeiting and its damaging effects on countries, economies, businesses and consumers (Cesareo & Pastore, 2014).

Conclusions

This chapter has aimed to identify strategies that can be adopted to combat the production and commercialization of counterfeit luxury products.

While there is no ‘silver bullet’ against luxury counterfeiting, a great deal of effort has been invested in developing strategies that governments, companies and luxury consumers should implement in order to maximize the return on their efforts to tackle counterfeiting.

Anti-counterfeiting management of luxury products is a complex challenge that requires a multidisciplinary approach, involving investments in technology, collaboration with government agencies, consumer awareness initiatives and legal measures. Only through a joint effort is it possible to effectively combat luxury counterfeiting and protect brands and consumers.

For consumers, strategies to combat luxury counterfeiting should focus, on one hand, on encouraging legitimate purchases and, on the other hand, penalizing counterfeit consumption.

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