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**Master programme in Economic Growth,
Innovation and Spatial Dynamics**

**Counterfeiting – The new economic phenomenon.
An investigation of anti-counterfeiting measures and
strategies from an organizational insight.**

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Abstract: The need for a corporate plan against infringing counterfeit products on your trademark is essential in today's business climate. This research aims towards filling the current gap of existing literature from a business perspective. Results indicated that businesses need to take a pro-active stand against counterfeits to succeed. If corporations take a passive stand, counterfeits will affect the brand value, sales volume or market share, which ultimately could render in bankruptcy. Thus, if businesses do not protect themselves, this process will undermine economic growth, and also affect the innovation process. These results might be useful to organizations that are in need of increased knowledge of practical methods to protect their business against counterfeits and piracy.

Key words: Counterfeiting, piracy, organizational insight, innovation process, brand-degradation

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1. Introduction

1.1 Background

According to OECD, 2008, the counterfeit and piracy product market has developed into a global epidemic problem, which threatens business owners, consumers and governments all over the world, on a daily basis. In 2005, international trade of counterfeited products was estimated to 200 billion USD. This analysis excluded the Internet as a trade platform due to the magnitude of information, which would have been impossible to address. Economists argue that these numbers could easily be several hundred billions more (OECD, 2008). Counterfeiting is an illegal act, whereas the main incentives for these criminal networks are monetary. Thus, reports made have also indicated that many products may pose health risks, and safety risk, even to the extent of life-threatening risks. The economic impact of counterfeiting does not stop there; it is argued by many that the global economy is highly threatened by this economic phenomenon. It has wide implications for example the innovation process, which is important to worldwide economic growth. To put this in perspective, Berman 2008, stated;

“An IDC Economic Impact Study estimates that if all global software piracy was lowered 10 % over the next four years, this would contribute 2.4 million new jobs and 400 billion USD in economic growth to the global economy”.

It affects governments in terms of tax losses, costs that are related to address this issue, and moreover, in some parts of the world corruption runs deep for criminals to be able to facilitate its illicit activities. The magnitude of this problem needs to be solved by governments, businesses and consumers in co-operations. However, we are still in an ‘initial’ state to combat counterfeiting due to insufficient and poor legislation in terms of IPR protections, patent rights and also stricter policies against counterfeiting and piracy in some parts of the world. Due to the global economy with physical distances erased, there needs to be a cohesion policy and wide implications worldwide for such actions, but unfortunately as mentioned, we are still in an early stage where one might argue that there is a lack of knowledge and information in how to handle the situation with counterfeiting both on a macro and micro level. For organizations today and specific industries, it might be considered naive to only rely and trust government initiative and non-profit organizations to address this issue. There is a need to be able to deal with this matter internally as well, but the lack of established framework for such matters are limited. Since counterfeit products represent 6 % of all global trade, there are no doubts that it is the businesses that take the hardest hit, and the losses is not only related to loss in sales revenues. Companies have to deal with several problems such as damage of their brand, whereas the brand equity (e.g. loyalty), trademark, goodwill and current reputation is being exploited and used (Harvey, 1988). Certain brands strive on their image where efforts in building public brand personality, loyalty and awareness. These processes do not come cheap. A deceptive or non-deceptive purchase has both negative implications towards the genuine business, where two markets occur namely, a primary and a secondary market, which I will discuss later in this dissertation. Nevertheless, it has as mentioned not only economic implications. Consumers that are exposed of inferior counterfeit goods in for example the pharmaceutical market are under serious risks. There have been several cases of deaths due to falsely entered counterfeit medicals. Furthermore, other industries that are being exposed and deceived by fake products are for example the audio and visual sectors, automotive sector, electronic sectors, food and drink sectors, pharmaceutical sector, the tobacco sector and the perfume sector to name a few. The trade of fake products to

these sectors is equivalent to the national GDP of approximately 150 economies (OECD, 2008). Hence, this cause for both broad and profound effects, which also will be discussed later in this dissertation. According to the OECD counterfeiting has implications on;

1. *“General socio economic effects –criminal activities, environment, employment, foreign direct investment and trade”.*
2. *“Effects on rights holders – Sales volume and price, brand value and reputation, royalties, firm-level investment, cost and the scope of operations”.*
3. *“Effects on consumers – Health and safety risks and consumer utility”*
4. *“Effects on governments – tax revenues, expenditures and corruption”.*

(The economic impact of counterfeiting and piracy – OECD, 2008).

All these four general effects will however not be analyzed in this study. I will address the aspect from the business perspective and the second issue mostly, since it is accurate to argue that problems originate and stems from their success. At this point of time there is a need for a strengthened knowledge base for this issue, both from a governmental perspective but more importantly, from a business perspective. This dissertation will give important managerial insights from global brands perspective in strategically combat counterfeiting and piracy.

1.2 Problem discussion

The fast paced increasing problem of counterfeiting, as the new so called ‘economic phenomenon’ by economists, has created a very tough challenge for organizations and rights holders. Counterfeiting brings various problems for firms such as; loss in market shares and sales volume, price reductions, brand value and reputation degradation. Furthermore, it calls for time and money, however, if the problem is being neglected it has shown to be fatal for many businesses. It is safe to argue that protecting your brand or product today, is protecting your future revenue.

There are currently a great amount of literature from governments and several reports from different organizations focusing on the consequences that this problem brings on a macro level. However, there is rather limited empirical framework which focus on specific measurements that organizations may use in the combat of counterfeiting and piracy.

The impact of counterfeiting and piracy brings a challenge for organizations on a micro level to deal with. Thus, the problem for firms is how to strategically protect themselves.

1.3 Objectives & Purpose

To investigate the anti-counterfeit measurements for Scandinavian Cosmetics AB and GANT AB in Sweden. The objective is, moreover, to compare and explore underlying differences in their respective ‘corporate plan’ towards combating counterfeits. I further want to find out the magnitude of problem attached to their products and brand, hence, what strategies result in best effectiveness in each case.

Since GANT AB is operating under a global market, and Scandinavian Cosmetics under Scandinavia, it is interesting to find out how brand owners differs from agents/distributors, which might give the empirics a more comprehensive assessment overall.

1.3.1 Research Question

- How do Scandinavian Cosmetics AB and GANT AB combat infringing counterfeit goods on different levels?

Since this study aims towards listing and identifying key factors and list appropriate measures to combat counterfeiting on different levels, I want to find out what strategies are used in going about protecting their product, brand, and in what ways they are trying to detect and reduce the illicit trade of counterfeits.

The empirical objects will be two selected Swedish based organizations, which are currently fighting this issue on a daily basis. This study also aims towards providing a theoretical platform for businesses that are in need of organizational insights to help address the expanding counterfeit problem on the global market.

1.4 Limitations

The aim for this study is to obtain a theoretical framework on the emerging problem of counterfeit and piracy goods, hence how organizations might go about protecting themselves. The nature of the research question calls for a qualitative research, which is rather time consuming. Therefore, the empirical findings were also rather limited, which requires the author to conduct an even deeper analysis.

Naturally, generalizations of the analysis thus suffer a bit, and increased empirical objects would be beneficial to the reliability of the results.

1.5 Outline

After the first chapter, which aims to explain the background to the problem and the research question, the second chapter will aim to answer why I have chosen to conduct a case study in a qualitative nature. The third chapter will present the secondary data, with theoretical framework on collected views how to combat counterfeits within the organization and the economic opportunities of counterfeiting. It will also regard what consequences counterfeiting has for organizations. The fourth chapter will present the empirical finding of both cases. The sixth chapter will be the analysis of the empirics, with a discussion. Lastly, I will end up with some concluding remarks.

2. Methodology

2.1 Choice of subject

This thesis aims to answer how firms may situate and protect themselves against counterfeiting on different levels within the organizations.

To be able to draw comparisons and obtain a comprehensive analysis I have chosen to study two independent cases, which necessitates a deeper understanding of each situation in a qualitative nature.

2.2 Data

The data collected in this thesis will be of a qualitative nature. I will conduct in-depth interviews on different hierarchical level to find out how the companies combat counterfeiting, and thus the process of anti measures on a strategic, managerial and operational level. I will perform nearly identical questionnaire in each case to be able to compare and explore differences, which might explain outcome of results and effectiveness separating each organization, and hence answer my research question. The reason why I am conducting interviews on different hierarchical level is for me to be able to observe a vertical coherence throughout the both organizations and a broader perspective for the analysis. Secondary data is collected through various scientific articles aiming towards the different aspects of anti-measurements to combat counterfeiting. It is from the secondary data, which I will set the framework of my empirical investigation. As Saunders et al 2009 argues, it is of importance when conducting such research to use how, why and what, to get an better exploratory insight.

2.3 Research Approach

Due to the nature of this study, this thesis will take a deductive approach, where I will originate from secondary data to develop my empirical investigation. A deductive approach is when a researcher tries to develop a theory to test from secondary data, where the aim is to find out if previous data may solve a specific case (Saunders et al 2009). It is safe to argue that a deductive research has a lot of similarities to scientific research, and the purpose of this study is investigating the nature of a problem. The study will furthermore be carried out on a relative small sample where I will move from theory to data with a context of particular variables (Saunders et al, 2009).

2.4 Research Strategy

This thesis is a case study, where I will investigate two different empirical objects, namely Scandinavian Cosmetics AB and GANT AB which are dealing with counterfeiting problems. The study addresses a “contemporary phenomenon within its real life context” which is synonymous with case studies (Saunders et al, 2009). In my empirical investigation I aim towards getting a deeper understanding of two situations, which necessitates interviews on different levels within the organizations. The benefits of doing a case study to reach my objectives of this study is that; it is a method which is advantageous in deeper analysis, and thus it may enhance my goal of trying to elaborate on a specific situation for two organization at a broader level. However, it is arguably hence harder to generalize findings and results of

case studies in general. Important for this study will be, since I am comparing two cases, to grasp the opportunity of observing and analyzing this phenomenon and problem for these two specific organizations. Few have revised over those before, and providing a rationale evaluation of result and effectiveness will be of importance when trying to contribute to the theoretical platform on a micro level. For me to be able to draw wide generalizations on this thesis would demand findings on numerous or multiple case studies, which is not within the frame of a master dissertation.

Case study also provides an understanding of previous literature and combined with a deep empirical investigation, it gives the reader a clearer combined framework (Saunders et al, 2009).

2.5 Operationalization

When conducting a qualitative research, with in depth interviews it is of importance to justify your questionnaire to be able define certain variables to measurable factors. To increase the reliability and validity of the research the section tries to convert words into practical explanations, where the purpose also is to increase the quality of results. Since this research aims towards analyzing two cases I am conducting the same questionnaire to all respondents. Some questions were also followed up by other questions, to increase the detail knowledge, and moreover, to interpret thoughts and feelings more easily. Most questions were also taken directly out of context from the theoretical framework I have used in this thesis, to transform secondary data into testable empirical research.

1. Start describing a little bit about your company; what are you doing and your development over the last couple of years.
2. How has the increased problem of counterfeiting and piracy affected your business?
(Sales volume, brand value & reputation, firm-level investments and scope of operations)
3. In what ways are you working actively against counterfeits?
4. Describe how your corporate plan against counterfeits looks like on different levels;
 - *Strategic*
 - *Managerial*
 - *Operational*
5. How do you as senior staff take this issue in consideration in terms of;
 - *Budget*
 - *Education*
 - *Internal integration*
6. Discuss the importance of collaboration with other authorities such as;
 - *Lawyers and legal team (Patents & trademark protection, legal actions towards criminals and different legislations cross borders)*
 - *Non-profit organizations*
 - *Within Industry*

7. Discuss the Internet as a global trade platform and thus, its implications for your business?
 8. Discuss the 'Counterfeit Prevention' model and explain which facets have most significance for your business in terms of results and effectiveness? (See Figure 3)
 9. Discuss your view regarding the future of this matter and the outcome if you would not engage in these problems?
-

1. The first question was aimed to get an understanding when their problems started to occur. I also wanted to know about the respondent's position within the company. The question was important to get an overall assessment and a company description.
2. Question two was aimed to find out their scope of operations, thus get an assessment of how much they are currently working with the issue. The question also derives from Akerloff (1970) about brand degradation, and how counterfeits affect a brand value. I also wanted to know approximately how much the estimation in sales volume loss was.
3. The third question was formed so I could get an understanding of how they are going about combating counterfeits, exactly in what ways. I wanted to have one short open pinpointed question to let them think about abstract approaches. This was also a question that I wanted to elaborate much on through; how, what and why.
4. The fourth question was made to understand in what different hierarchy levels the organization is working on, from Michael Harvey (1980) model. Is there any difference on a strategic level down to operational? Is for example the CEO out on field trips looking for fake products?
5. The fifth question stems from Berman's (2006) theory on how internal cohesive integration is important within the firm. Furthermore I wanted to find out the financial aspect of M. Harvey counterfeit prevention model.
6. The sixth question is regarding collaboration with for example lawyers or investigators, which might be authorities outside the actual firm. The question derives from Chaundry, Zimmerman, Peters, Cordell (2008) who argues the importance of external relationships.
7. The seventh question was aimed to form a discussion on how the firms are going about reducing infringing product of their trademark on Internet. The OECD report (2008) acknowledge the increasing levels of counterfeit products on the Internet, which will become an important task for the businesses – How are they going to address that problem?
8. This question was formed to get information in which facets actually was important in their respective combat against counterfeit. I showed Michael Harvey's (1988) model for every respondent to get information which aspects has most implications for their results and effectiveness in their combat.
9. The last question was aimed to find out their thoughts on what would happen if they did engage in strategies to combat counterfeits. This question also derives from Akerloff (1970) who argues that a passive approach creates loss in market share, sales volume and brand degradation.

3. Theoretical Framework

*“A **counterfeit** is an imitation, usually one that is made with the intent of fraudulently passing it off as genuine. Counterfeit products are often produced with the intent to take advantage of the superior value of the imitated product” (Wikipedia, 2011).*

*“**Counterfeit consumer goods**, commonly called **knock-offs** are **counterfeit** or imitation “products offered for sale. The spread of counterfeit goods has become global in recent years and the range of goods subject to infringement has increased significantly. According to the study of Counterfeiting Intelligence Bureau (CIB) of the International Chamber of Commerce (ICC) counterfeit goods make up 5 to 7% of world trade, however, these figures cannot be substantiated” (Wikipedia, 2011).*

3.1 Background

Michael Harvey argued that a counterfeit protection system is highly essential in the corporate business environment today. That statement was made in his article ‘New Ways to Combat Counterfeiting’ in 1988 (Harvey, 1988). Even up to date there are very few papers that discuss the efficiency of strategies to combat this issue. Firstly, I will review theory concepts that explains why and where counterfeiting take place. I will further present the facets within the organization that comes to play an important part in this process, thus from an organizational perspective. Moreover, I will discuss brand-degradation and how internet/globalization has contributed to today’s economic environment of virtual markets. Lastly I will conclude the theoretical framework.

3.2 Counterfeiting and economic opportunities

According to “The economic impact of counterfeiting and piracy” report by the OECD 2008, a primary market of a genuine good is characterized by simple economic theory, where businesses are trying to maximize profits by exercising monopoly power through their IPR-protected products. In cases where counterfeit products are able to penetrate this market, means that the consumer will be deceived by believing they are buying the original product. In other words, the market is being exposed to unauthorized infringement of patents and protected products/technology. This in turn may render in loss in sales for the rights holder, moreover, it may have substantial effects for the brand reputations, which have several further other implications such as negative customer loyalty and brand image (OECD, 2008). The primary market is as mentioned characterized mostly by deceptive goods, which means that the purpose is to deceive consumers, until this is noticed (OECD, 2008).

Contrary to the primary market is the secondary market. Consumers who are aware of purchasing a product that is not an original one characterize this market. This affects the genuine product in terms of lowering the demand, which naturally affects the price negatively. In the absence of counterfeits, this problem would be absent. Furthermore, this has also implications of harming the brands image in many aspects. A survey made by Chaundry 2006, showed that a large market of infringed products affected the purchase decision of a genuine product consumer negatively. Hence, in cases of for example products at high expense, with high brand power status, this is a worst-case scenario (OECD, 2008).

A secondary market is also contributing to a market that normally would not buy the genuine products, which may result in a loss of that exclusivity, which many of those businesses are striving towards. Hence, the power to be able to maximize profits, is being destroyed by entry of infringed goods on a secondary market (OECD, 2008).

Patent is something that is available for any product, process or innovations that are considered new. It excludes other unauthorized from using, selling, importing or even use a patented process. Thus, how do the economic opportunities of counterfeiting threaten global economic growth? According to “The economic impact of counterfeiting and piracy” by OECD (2008); When an entrepreneur invents and launches a product, for example on the Internet, with a high level of brand popularity, thus creating a great potential on other markets not yet entered. The entrepreneur then might face very negative consequences if another person then bought the product, copied it, almost identical under the same brand. Thereafter sold it on his home market, lowering the price substantially and makes a large amount of profits illegitimately. This example is reality for many entrepreneurs (OECD, 2008). The economic opportunities of counterfeiting have taken a vast expansion due to the Internet as trade platform. The OECD (2008), report on counterfeiting argues that this scenario is also exactly what is threatening global economic growth (Grossman & Shapiro 1998).

Hence, this further leads us to the importance of patents and IPR protection on a global scale. As mentioned in the example above, a high percentage of all counterfeits are manufactured in China, Taiwan, Thailand and India etc, which is, amongst other factors, a result of domestic weak intellectual property rights, patent legislation and their failure in being able to punish, deter and impose strict laws (Chaundry, 2006). Therefore, problems for such countries have a global impact. Patents today are geographically bound. Hence, businesses have to apply for which markets they seek to protect. Nevertheless, today we currently have centralized centers, where one might apply throughout all countries, which is a standard procedure (OECD, 2008). WTO has also created trade global agreements, which provides a global forum for attacking the emerging problems with IPR and patents, however, many argue that nations still live by their own laws and collaboration agreements are way insufficient in relation to the combined impact that this problem actually cause.

3.3 How to combat? An organizational overview; the important facets within a firm

A rather old but debated model throughout the years of theoretical framework on counterfeiting was originally issued by Michael Harvey 1988, in his article 'A New Way To Combat Counterfeit Product'. The strength of the model was that it was first to cover every important aspect in the prevention of counterfeits. Hence, this section covers a collection of other author's revised theoretical framework on the same facets, which they argue is important, in the combat against counterfeits from an organizational viewpoint. Thus;

The Counterfeit Prevention Task Force

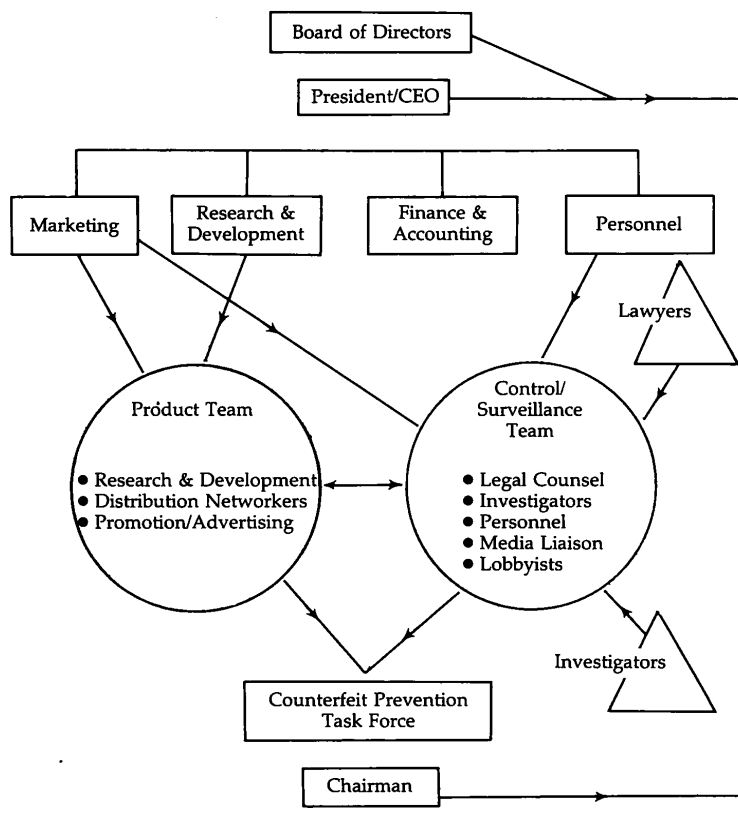


Figure 1 (Harvey, 1988)

According to Harvey (1988), there is a need for a certain level of co-operation among departments within an organization. Harvey (1988) argues that within organizations there are often departments working close around the product, for example research and development, distribution and promotion/marketing. This is illustrated as the “product team”, which was argued by Harvey (1988), to be the backbone of the company. Harvey (1988) further suggested that the “product team” should be supported by a “control/surveillance team” in the process of anti-counterfeiting strategies. The latter aspect is what has been given a lot of attention in later articles regarding this issue. It was highlighted that the combined effort of each facet had an importance to be able to handle the scope of the problem. Furthermore, the recognition that ‘regular employees’ was insufficient, whereas the external players had to be an integrated part in a cohesion policy throughout an organization became obvious.

In a “control team” there is a number of important players such as, “legal counsel”, “investigators”, “personnel” and “public relations/lobbyists” Harvey (1988).

I will now further explain each facet within the organization, and what has been recognized as of importance by several authors in the battle against counterfeits and piracy, Berman (2008), Harvey (1988), Chaundry (2006), Chaundry, Zimmerman, Peters, Cordell (2008).

3.3.1 Research and development

Research and development relating this matter focus on specific internal control system, which may enhance the tracing of the products. There are numerous of different scientific articles focusing on recommended internal protection system, and how to detect the genuine product. Michael Harvey claims that the priority of R&D should be emphasized on the detection systems, both for the company, manufactures, end retailers and in some cases the end customers. Barry Berman (2008) argues however, that an internal protection system is also very important in reducing grey market activities. He argues that in some cases products are sold through unauthorized distribution channels, which necessitates verification of the genuine product at the end retailer (Berman, 2008). In this aspect it is argued among authors that the R&D is suggested to have a close relationship to the legal department, for making their developments new, unique and “patentable”. Moreover, the attributes that have been developed through the research are certain characteristics that may become very useful in the hands of lawyers (Chaundry Zimmerman, Peters, Cordell, 2008).

3.3.2 Distribution networks

Chaundry Zimmerman, Peters, Cordell (2008) claims that part of controlling your company is extensive communication with distributors and channels, which is arguably essential in this matter. Harvey (1988), argues that control of its distribution system may be difficult for large manufacturers, but verification of channels is a link to quality controls. Moreover, it is argued that counterfeiters often penetrate the system through weak chains in the distribution system, which therefore calls for constant verification from top management Harvey (1988). Chaundry Zimmerman, Peters, Cordell (2008) claims that existing literature provides a wide range of diverse opinions on how to improve the relationship with channel members, however, their study tried to solve the issue of determining what type of action was most useful, and when discussing the network of distribution and channel members, there was a rather unanimous tactic. The study showed that warnings and education relating the possible damages from counterfeits was most frequently used. As mentioned the author argues that education is relating tracking devices, develop tactics, monitor lower channels and new innovation among the counterfeits (Harvey 1988, Chaundry Zimmerman, Peters, Cordell, 2008). Another interesting aspect of the distribution system is what Barry Berman (2008), is discussing in his article relating a very popular method among multi-national corporations namely; outsourcing. He addresses the importance of collaboration among certain departments of the organization when dealing with controlling outsourced suppliers. As mentioned in the previous facet, the legal aspect becomes of great importance, and their communication to the R&D department, since patents and contractual mechanisms are very different when crossing borders (Berman 2006, Harvey 1988). In the case of outsourcing, managers also need to consider the fact that sensitive information is being shared, which thus necessitates legal actions towards confidential information on products and processes

(Berman, 2006). There have been several reported cases where after completion of contracts with outsourced producers, where confidential information has been shared, which has rendered in continuous produced goods, that later has been sold on grey markets. According to Berman, when dealing with outsourcing, one should keep in mind to;

- *“Carefully select outsourced service providers based on past honest relationships with other firms”.*
- *“Monitoring outsourcers through surprise inspections”.*
- *“Ensuring that outsourcers return all confidential technical, production, sales, and marketing information when the outsourcing relationship ends”.*
- *“Using multiple outsourcers for the same good so that one firm does not have the resources to copy a manufacturer’s good” (Barry Berman, 2006).*

Harvey (1988) claims that when it comes to education, it is an important step in prevention since middlemen need to be aware of what legal actions they might face, obligations and penalties that comes along when doing business with counterfeit goods.

3.3.3 Promotion and Marketing involvement

Chaundry Zimmerman, Peters, Cordell (2008) argues the importance of good public relations. Marketing and promotion within businesses often focus on the everyday marketing of the product, where emphasis is put on the benefits and attributes of the real product. However, Harvey (1988) claims that when counterfeit product been carried out to consumers, it is in the companies best interest to present the problem in the best way possible. When counterfeits are being detected it may, as mentioned previously, have serious implications for the brand image. In some cases when dangerous products have been carried out to public, the media contact is crucial. In cases of pharmaceuticals, make-up, and other dangerous products it also necessitates the business to assure the consumers best interest, especially in terms of physical damage. Authors have highlighted this facet as important since; there are many cases of ‘worst-case scenario’, when serious counterfeit incidents have damaged the brand image and customers loyalty, to later become the end of the business. Therefore, it is claimed to be important to have promotional ties to various media (Harvey, 1988).

3.3.4 A Legal perspective

It is no surprise that most previous theoretical framework address the importance of a collaborating legal team to the business. It is argued that this aspect is vital, from specific legal advisers to incorporate own lawyers within the business. Counterfeit protection is highly inadequate without legal enforcement (OECD, 2008). Berman (2006) claims that legal actions are a definite must in the actions from businesses perspective in trying to close counterfeit operations. It is as simple as with any other crime, firms cannot take the law into their own hands, which means that they have to be represented by lawyers. Moreover, since this is an ongoing process for many firms, it is preferable to have a close working relationship. Chaundry, Zimmerman, Peters, Cordell (2008) further argues that managing trademarks and patents in all markets of operations are not in the capable hands of regular businessmen. Harvey (1988) also explains that registrations of these sorts are a process that necessitates a guarantee that legal protection is possible in every situation. He further argues that law enforcements stems from giving maximum protection, depending on the specific business perspective. Moreover, if the situation occurs, legal actions must be taken fast towards removing the fake product from the market or channels, and this is not always a fast process. A business cannot physically do this themselves; it rather goes through the legal team to law enforcement that acts in order (Berman, 2006). This is why the legal enforcement team are mostly discussed among the theoretical framework, and highlighted as the most important player in the anti-counterfeiting combat (Harvey 1988, Chaundry, Zimmerman, Peters, Cordell 2008, Berman, 2008). Furthermore, there are many organizations at both local level, and on a global scale that the legal team could work with, and to name a few; “Trademark Counterfeiting Act”, “Anti-counterfeiting Consumer Protection Act” and “Stop Counterfeiting in Manufactured Goods Act” (Berman, 2006). Chaundry, Zimmerman, Peters, Cordell (2008) argues when it comes to managing trademarks and patents, it is important to recognize various patent claims, and jurisdictions cross borders. Even though there are programs such as World Intellectual Property Organization, which aims to support trademarks in an cohesion policy globally, it is critical for global or expanding firms to have some form of legal team or advisor working closely to your business in order to manage trademarks, IPR protection and patents in other markets. Authors also claims that a critical notion is to work towards non-profit organizations by governments in order to be up to date in the wide range of legislations cross nations (Chaundry, Zimmerman, Peters, Cordell 2008). In the report of ‘Economic Impact of Counterfeiting’ by the OECD 2008, is it also explained that collaborations towards these organizations is of further importance since in countries such as China and India where domestic legislations is weak towards counterfeiting, it is necessary to have a multilateral legal framework enforcement to provide support, identify concrete objectives to improve the outcome and raise the awareness. Such institutional organizations also take on specific initiatives to support and undermine counterfeiting on lower levels to support operations (OECD, 2008).

3.3.5 Investigative team & Personnel

Chaundry, Zimmerman, Peters, Cordell (2008) claims that there are firms that do have rather large sophisticated anti-counterfeiting and piracy department within the organizations. It is however a question of the magnitude of problem related to profit losses. Moreover, it is a question of estimating a future problem, and calculating this within budgets. The authors further argue that an informal and formal team is necessary in order to locate and track

counterfeiters. Berman (2008) also argues the importance of full time monitoring of websites. As mentioned in the background, the Internet has become such global trade platform which necessitates such actions of monitoring, since in many cases of counterfeiting, the digital market is much more safe for the criminal, than the actual physical one. Harvey (1988) further argues that knowing how many counterfeiters you are facing on the market is rather difficult, and that is why the detection part of the process becomes of such importance;

“If counterfeits of a product do exist, no prosecuting steps can be taken without first detecting the fake”. Harvey (1988) claims that this notion speaks for itself, since if you do not know counterfeit environment you are facing, there is no need for strategies to counter the problem. It also has an importance out on the actual field, to actively state that your business works against the issue, where no counterfeits go undetected. To have representatives who are familiar with the business is further important because investigators, who spot fake products, lay in many cases the groundwork for legal staff to follow up on. It is therefore critical with close ties between the investigators and legal departments/advisors.

To continue on personnel, investigators are an important link as educators to the rest of the organization. Authors have highlighted the importance of education throughout firms, distribution channels, markets and consumers. It is argued that employer’s knowledge is an overall important link in the business combat. Chaundry, Zimmerman, Peters, Cordell (2008) states that it is in the firm’s management who calls for recognition towards the seriousness of the issue. Therefore, it calls for education in those areas that are in need of educations, which might be a wide variety of clientele. Therefore, it is viewed as an important part of combating counterfeits from a firm’s perspective.

3.3.6 Lobbying & Media

Lobby efforts from businesses are a powerful tool in the battle with counterfeits. Moreover, lobbying does not necessitate a continuously ongoing working process and a specific team of operatives like some of the other practices demand. In many cases the highest-level executives in the company are the one’s that lobby together with legal advisors. Thus, why is lobbying powerful? Harvey (1988) argues that it is safe to claim that changing one law in a country will not lower the chance of counterfeiting cross nations. However, it is the combined efforts of education that have a great impact. With that claimed, it is argued that it is not only important to lobby, but also to work closely with other organizations from a business perspective. Furthermore, it is the cohesive and united efforts that will have a combined larger efficiency. Several authors argue that there are many cases where anti-counterfeiting organizations have impact on foreign governments. Berman (2008) further argues that lobbying might enhance chances of organizing education seminar in key markets, which may be very valuable for the business to reach various media. Chaundry, Zimmerman, Peters, Cordell (2008) also claims that when it comes to lobbying, a united organization may have an advantage in developing legislations, enhance existing laws and educate in foreign markets through governments.

3.4 Brand-degradation

According to Akerloff (1970) infringing counterfeit goods from a marketing perspective has various negative consequences. A brand is of numerous investments made by rights holders, from different production systems, developments of the product and last but not least marketing investments. The aim for the trademark owners is to be able to withdraw higher value from their products compared to other non-marked competing products. In Akerloff's article from 1970, it is stated that when a brand carries a higher brand value, there is more incentives for people to infringe that trademark. For the general consumer the brand also stands for quality, exclusivity, functionality and attractiveness to one's image that the consumer wants to be identified with. Hence, the brand power, which creates a higher price premium, is what constitutes monetary incentives. When counterfeits hit their operating markets, they will normally be offered at a lower price, which affects the exclusivity. In most cases a deceptive purchase will not obtain the same quality and function as the genuine product. Furthermore, when the supply of the product is increased at a lower price, it has implications for the attractiveness to its real target group. In sum, it all adds up into a 'brand-degradation'. The image of the brand is being separated from its target identity. The organization will suffer losses in market shares, which hence affects profits. It will thus create a negative spiral downwards where lower profits will result in lower investments, which create no room for expanding the brand. The money rights holders invest in building up the brand are being exploited and the direct consequence is a 'brand-degradation' (OECD, 2008).

3.5 The virtual market of Counterfeits

According to "The economic impact of counterfeiting and piracy" report by the OECD (2008) it is acknowledged that, as globalization has evolved throughout years, economists' claims that physical distance has been erased much due to the Internet launch in late 20th century. The Internet has been a huge factor in the increasing magnitude of widespread counterfeiting and piracy all over the world. It is creating a virtual platform, which, inevitably created an economic environment where it has become attractive and easy for counterfeiters and pirates to engage through. First off, the criminal activities through Internet are decreasing the chances of detection, thus it is easier to stay anonymous. Secondly, today's global environment creates the opportunity for a counterfeiter/pirates to establish an online business anywhere in the world. Hence, globalization and counterfeiting becomes problematic when such online businesses are forced to close in one nation, can move to a nation where jurisdictions are weaker in terms of IPR legislations and law enforcement. Thus, this flexibility creates a global problem, where businesses cannot rely on national or regional legislations only, whereas the need for internal protection within businesses has increased. Third, the virtual e-market and numbers of e-commerce businesses is of such market size, which makes it hard for firms and agencies to make moves against infringing counterfeiters and pirates. It is therefore argued that businesses should not undermine the necessity of constant monitoring. Fourth, counterfeiters and pirates who used to be located at small informal markets are now reaching a global market at lower costs, every hour of the day, which thus creates humongous opportunities for expanding. Lastly, Internet has created the opportunity to mislead consumers in ways that were not possible in informal markets. For example, the products can be sold alongside the genuine products, which makes deception easier. Furthermore, it is easy to use fake ratings, using fake software and create a fake sophisticated impression of security towards purchasers (OECD 2008).

3.6 Theoretical framework; Conclusion

Previous theoretical framework on this area has been rather limited. This section has therefore focused mostly on a collected organizational overview of several authors' theories under one model of; 'Counterfeit prevention' originally made by Michael Harvey (1988). In each facet I have aimed towards giving a cohesive assessment of existing theories to give the reader a clear view of how businesses can work differently in each department in the combat against counterfeits. Under the 'Product Team' I have acknowledged the importance of;

- Research and Development
- Distribution Networkers
- Promotion and Advertising

In the 'Control/Surveillance Team' I have acknowledged the importance of;

- Legal counsels
- Investigators/ Personnel
- Lobbying/Media

In the beginning of the chapter I further wanted acknowledge general theory concepts that explains why and where counterfeit takes place, because I would argue it is of importance for the reader to understand to be able to follow the research. Lastly I also discussed how counterfeit products causes brand-degradation and damage the brand in terms of value and reputation for businesses, and moreover, how the Internet is causing an increase of e-commerce counterfeit businesses. Hence; which further acknowledges the value of this research, and also importance for businesses to have a combat plan in today's economic climate.

4. Empirical Findings

This section will be an objective summary of the interviews, with key persons within the organizations.

Respondents:

Henrik Sahlin (CEO Kanebo) - Camilla Bengtsson (Marketing Manager) – Frances Dahlman (Key Account Manager)

4.1 Case 1 – Scandinavian Cosmetics AB

Scandinavia Cosmetics AB is a Swedish based company working as a distributor for Proctor & Gamble. Their most dominating products are perfumes, make-up and skincare. They are currently agents for global brands such as Gucci, Dolce & Gabbana, Max Factor, Hugo Boss, Escada and several other lifestyle brands to the Scandinavian markets. The company has 27 years in the business, and has a turnover around approximately 600 million SEK to retail and e-commerce businesses. In Sweden their largest customer are, to name a few, chains like H&M, Åhlens, Kicks, ICA and Lindex. Counterfeiting and piracy has in recent years become a serious problem damaging their business in different ways. Currently, they are having most problems with their semi-selective make-up and with globally famous perfume brands such as Hugo Boss, Gucci and Dolce & Gabbana. Moreover, their problems are not only restricted to counterfeits, but also with large quantities with parallel imported consumers goods. As distributors on the Scandinavian market the problem with parallel imports originate from other sales executives in foreign market, who has problems reaching their sales goals. Therefore, they sell of large bulk parties with goods to unknown middlemen, whereas later those products comes to enter wrong markets, thus to wrong prices in grey markets.

As mentioned previously, counterfeits affect their business in different ways. When it comes to losses due to counterfeits in pure sales volume, it is a hard task in putting exact numbers for the company to estimate, but approximately 6 to 7 million SEK per year, and of course, percentage in market shares. It is moreover affecting them in hurting their brands and respective value and image. Scandinavian Cosmetics AB who distributes Proctor & Gamble's products in Scandinavian markets, are responsible for their own markets, meaning marketing and promotion for those products. This means that the company is in an ongoing marketing process, where the aim is to continuously strengthen their brands for the Scandinavian consumers, which is an effort that amongst many distributors considered high priority. Hence, costing them a lot of money. The respondents explained that in their mind it is the brand value, which is considered the company's biggest dilemma. Representatives from the company once found their products being offered in a store in Sweden called "Rusta", which is a large Swedish "cheap-large-warehouse" kind of retail store. It was one of their most exclusive brands called "Kanebo" which has one of the highest price tags within the industry. For those products to be offered there at dumped prices is a catastrophe through a marketing perspective. Thus, the brand value and reputation gets hurt both through grey markets and through pirated counterfeits, because retailers lower the prices, and destroys the brand building process. It is further negative since their original customers thus may demand discounts.

Moreover, if something would to happen the customers (e.g. the counterfeit product give rashes) Scandinavian Cosmetics are in no position to guarantee any refund, service or quality control. The incident also gave the company bad publicity through local media. Continuing to firm level investment, Scandinavian Cosmetics have one representative who are putting 10 to 12 hours a week of work in the industry association called “Kemisk-Tekniska-Leverantörförbundet, KTF”. It is an organization for Swedish cosmetic, toiletry and detergent distributors and agents, representing the industry. They are working with jurisdictions and local law enforcement where counterfeiting and piracy is a high-agenda issue. KTF are currently trying to work close and educate Swedish customs in coming up with strategies to stop counterfeits from a third country (outside EU). They are working to be able to deter pirates, and also the end customers in Sweden in efforts to be able to withdraw taxes and VAT for purchasing outside EU. KTF are also working with providing full support in building cases, with legal’s and police, against pirates and illegal counterfeits coming into their market.

The active work against counterfeits started around a year ago, where the CEO and sales executives started to realize that this problem needs to be met. They have implemented a protection system, for them to be able to trace their products through batch codes and serial numbers. They are also currently trying to work out a “Key-hole” marking for authorized and serious e-commerce businesses for customer’s knowledge. Moreover, they are starting to collaborate with the Swedish customs both by themselves and through their industry association, as mentioned. After the “Rusta” incident they are also trying with strategies such as letting the retailer tie up the customer through ‘soft-values’ which the pirate and counterfeits cannot, which means, not just focusing on the price & product, instead increase the value added through for example service, knowledge and quality. Scandinavian Cosmetics are also in the process of having good relations to local media, thus lobbying. For them, it is an important step in educating media, consumers and promoting serious e-commerce businesses and pinpoint those who are not. Furthermore, they are trying to value the importance of serious networks trustworthy relations.

Throughout the organization, Scandinavian Cosmetics has rather different roles hierarchically, in the combat of counterfeits. On a strategic level, they have a group of CEO, CFO and division executives who is working with producing agreements, which is their biggest support against retailers. They are also the ones trying to close leaks in the their distributions channels through KTF, as well as they are keeping the contact with the brand owners, Proctor & Gamble, who has their own personnel and lawyers (similar to GANT AB, which will be analyzed in the second case). However, agreements and notes that have been settled by the board are produced in writing, and hence passed on down to management level, which is sales managers and key accounts. Their involvement becomes important, since they are the ones taking calls from potential customers. Therefore, they need to be prepared and updated and take the assessment if the clients are trustworthy as retailers. On an operational level, it is stated that this is the most important since they are the link to facts. Salesmen are those who are out on the field and actually doing the physical monitoring. They further says that it is of importance for information to go the same way up as down at different levels, to constantly be updated and educated, and moreover, to get a vertical coherence. When it comes to e-business the sales managers are the ones working on monitoring, thus on an operational level, for their own clients, which becomes their responsibility. So, for those who are monitoring, and discover counterfeits; they directly buy or order the product to their head quarters. Thereafter they check for batch codes or serial number to confirm that the products are counterfeit.

Step two is to contact KTF, and their brand owners to close the leak, with law enforcement and local jurisdictions. Recently they managed to build a case, where a counterfeiter got prosecuted and fined by Swedish law. To some extent they want to raise fines in general, to set the incentives not to engage in these sort of businesses and work as a deter strategy against pirates.

When it comes to collaborations externally outside the firm regarding this issue, Scandinavian Cosmetics is in an initial state with working towards a law firm specialized on IPR and trademark infringement. They want to be able to have more control over their channels, which can be enhanced by legal agreements. As mentioned they are also slowly working towards an relationship with Swedish customs and law enforcement, since they view them as important players in the whole process of reducing counterfeits locally.

Scandinavian Cosmetics views the Internet as a powerful tool that cannot be excluded to their business portfolio. Today they have around six percent of their total business online, but they track their future to approximately thirty percent within ten years. However, when it comes to e-business they are even more concerned since they are aware that businesses are vulnerable against counterfeits on the Internet. Therefore, they have recognized the importance of being accurate from the beginning of selected partners. Right now they have mostly negative experience of e-business much due to parallel imported products and counterfeits that e-retailer has received. Therefore, they have been able to lower prices substantially, which has affected physical retailers to react, since they have lost market share to the e-business. They have also noticed that customers enter the physical store to try out and smell perfumes, to later on, go home and order it online, which has created an upset amongst many retailers. They also believe that when it comes to e-commerce, the only focus is the product and price, whereas the company wants to keep the sense of an actual physical purchase, which might be more beneficial to them.

Scandinavian Cosmetics has a rather clear view regarding which facets in the counterfeit prevention process has most significance for result and effectiveness to remove and deter piracy. First off, they realized the importance of their protection system, which goes under the research & development banner. It enhances their work when the situation occurs that they must separate and track products. It was a large investment (that they would not reveal), but a necessary tool today's economic climate. They have also recognized the importance of monitoring retailers and value business networks. In the future they are striving towards to be able to control even more through legal agreements. To continue of legal department, it has become of real importance through the industry association to pursue legal actions towards counterfeiters and pirates. Scandinavian Cosmetics also tries to lobby through marketing and advertising both to media and the end customer. When it comes to the customer, education has become a powerful method to deter counterfeit purchase since; first off, counterfeiting is an illegal act, secondly, child labor are in many cases involved in the producing of such products, thirdly, some products may actually be harmful to customers. They also try to work towards enlighten the media about which retailers and e-commerce businesses sells fake products. Lastly, they highlight the importance of investigators, which in Scandinavian Cosmetics case is monitoring by sales managers and salesmen.

4.2 Case 2 – GANT AB

Respondents:

Louise De Verdier – Information and Trademark Manager GANT AB

Ann-Charlotte Söderlund:

GANT AB World Wide Legal Counsel (IP, Marketing Practices and Competition law at Gozzo Lawyers, Sweden)

President and Founder of Swedish Anti Counterfeiting Group (www.SACG.se).

GANT Company AB is a Swedish based company, where its headquarters is located in Stockholm. They currently have 600 boutiques in 60 countries all over the world. GANT has independent distributors in their respective active market (like Scandinavian Cosmetics in the Scandinavian market for Proctor & Gamble). Louise Verdier is trademark manager for GANT working full-time, since nine years back, with the issue of counterfeit and piracy consumer goods. She is working closely on a daily basis with Ann-Charlotte Söderlund, who also represents other Swedish multi-national firms dealing with IPR infringement, marketing and competition law. Ann-Charlotte is chairman at the Swedish Anti Counterfeiting Group, with partners from example, Volvo, Sony Ericsson, Canada Goose and GANT. Ann-Charlotte Söderlund is also working in the EU-commissions lawyer group, where she has written several reports on observatory counterfeiting. She has also been involved in revised legislation of EU laws in favor of protecting businesses against counterfeits and IPR infringement.

GANT AB is a global brand, which has suffered from counterfeits in many years. However, during the last couple of years the problem has escalated, as the brand has gotten more popular. The company entered markets such as Thailand and Kina 2005, which has increased the amount of counterfeits unquestionably. The problem with counterfeits and sales volume is a hard task of defining. Louise argues that those customers, who buy genuine GANT clothing, are seldom the consumers who purchase fake clothes. However, she states that the high supply of counterfeit GANT makes the genuine GANT lose its exclusiveness, which probably affects the original buyer. Hence, it is the brand reputation and value that is being affected more dramatically due to the problem. They state that the biggest issue with the counterfeit clothing is its quality; thus, when these clothes manage to penetrate their channels it has high implications for the brand. For GANT, these problems has of course called for rather high firm-level investments, for example the legal costs in hiring Ann-Charlotte Söderlund from Gozzo lawyers who works approximately 30 percent only with GANT. Per year it is several millions SEK (they were not allowed to give out numbers).

As brand owners of GANT, they work very actively against counterfeits in several ways. In general, the first step, after finding out that counterfeits has been detected; they take field trips to that market/physical place where those are being exposed. They want to secure and ensure that the counterfeit is actually fake, how they are being sold, how they look and what it is. Furthermore, they want to consider how widespread the production is to determine the expense of the raid. The second step is always to contact local lawyers in the process, since jurisdictions differs significantly across the world.

They also mentioned that GANT has a global legal network through Gozzo, which she pinpointed was crucial in doing raids. Thirdly, GANT contacts local police enforcement, which are executing the raid and seize the counterfeit goods. Depending on what kind of people and country, they sometimes have to co-operate with local military. The last step is prosecution, which they claim, often leads to fines. During this whole process they need their own legal counsel who work closely with local legal officials. Söderlund states that their work in the process is often preparations, so that they can “push the button” exactly in time when the situations calls for it. She further states that their global network is key to action. Their local agents can act in ‘no-time’ if it is necessary. They state that when such raids are being executed, they have to consider the expense in relation to how extensive the counterfeit products actually are.

When discussing their corporate plan against counterfeits, it is stated that their strategic and managerial levels often goes hand-in-hand. Louise works closely to their board who are approving financial funds for them to be able to do raids. On an operational level, it is their often their distributors at respective market who are the ones who monitor their markets. Local legal counsel may also fill the role as providing information and monitor.

In GANT’s case it cannot be denied the importance of the collaboration to Ann-Charlotte Söderlund and her law firm. Louise states that Söderlund’s knowledge and network is very important in the whole process. Söderlund is important in providing legal agreements in those markets that GANT seeks to operate in. Due to various legislations, this task becomes important to fully secure your rights through confidentiality agreements. Furthermore, as mentioned, GANT is a member a SACG, who seeks to lobby to various authorities. They seek to educate customs, police and prosecutors. It is a nonprofit organization, which has been active since 1996. Ann-Charlotte Söderlund, however, clearly states that even if you are member of such organization, every firm has to be active and aware of chasing their own counterfeits.

When it comes to the Internet GANT have one employed who works full-time with monitoring of different e-commerce businesses. They claim that it is a very time consuming activity, and that they will never be able to find everything, far from it. Furthermore, they think that Internet will accelerate its significance amongst customers. The key right now for them is to try to build cases against the host.

The important facets in counterfeit prevention for GANT has been, research and development, where they have a sophisticated labeling of their clothing. They state that those systems are rather comprehensive. Secondly, they argue that their distributors are controlled by extensive legal agreements. And an important aspect in that facet is that their distributors are also very urgent when dealing with this issue on their local market. Furthermore, GANT’s legal counsels are an important player in this process, as well as their collaboration with SACG, who represent them in lobbying efforts and education processes.

Regarding the future of this problem, they argue that the issue will not decline by itself, rather it necessitate constant work, otherwise you might lose market share to competitors who are better in the process of cleaning up counterfeits.

5. Analysis/discussion

In this section of the thesis I will summarize a comprehensive analyze of my empirical findings, with relations to my theoretical framework. I will end the chapter with a reflective discussion.

The empirical findings of this study shows that both Scandinavian Cosmetics AB and GANT AB, has rather structured and extensive ways of dealing with fake products infringing their trademark. It seems as though they have recognized the importance of this issue and the necessity to actually deal with it on many levels throughout their organizations. The empirics also showed that both organizations are working with products that might be considered a good target from a counterfeiters perspective. The most affected products are brands which are global, and carries a rather high brand value, thus; brands that many consumers wants to be identified and associated with. In Scandinavian Cosmetics case, they have for example products that costs 6.500 SEK, which comes in a small packaging and a bottle around 40 ml. It is in terms of logistics, packaging and inventory a target that is tailored for e-business. However, in today's competitive economic environment, generally speaking, most products that become popular get copied in different ways. According to Ann-Charlotte Söderlund, who has a lot of experience and knowledge within the area, businesses today are naïve in the sense of neglecting the issue, because it demands a post within budgets and firm-level investments that they do not want to put efforts in. However, I would argue that this is a cost that should be considered within the marketing budget, since less counterfeits on the market, means increased sales of the genuine product.

In both cases of Scandinavian Cosmetics and GANT AB, they have acknowledged the importance of a counterfeit prevention assembly. The model by Michael Harvey 1988, which has been revised by authors such as Berman (2008), Chaundry (2006), Chaundry, Zimmerman, Peters, Cordell (2008) suggest that cohesive efforts among different facets within an organization is what has effects on results and effectiveness against piracy and counterfeits.

To start off in Scandinavian Cosmetics case, the empirical findings shows that their protection system has a clear significance to track, where and when the products have been produced. As Barry Berman 2008, acknowledge this system is important in also reducing grey market activity, which the company also having problems with. In their case, the situation necessitates verification, since they have a lot of unauthorized products penetrating their distribution channels. The company has also realized the importance of monitoring their distribution channels, hence retailers, and value healthy business relationship, which is supported by Chaundry, Zimmerman, Peters, Cordell (2008) theory. It is the verifications of channels, which becomes the link to quality. As Harvey (1988) also acknowledged, was the importance of letting middlemen be aware of what legal actions they might face if they interfere with parallel imported products or counterfeits, which Scandinavian Cosmetics CEO are trying to implement, as they are trying to develop a co-operation with local legal counsels. They want to enhance their control even more through sophisticated legal agreements. To continue on the notion of legal aspect, their collaboration with their industry association, "KTF" seems to be an important part of this process to become more effective.

They are working with providing members with legal preparations and driving cases forwards against counterfeiters. Furthermore, the company is working through KTF with Swedish customs in trying to penalize end customers and smaller e-commerce retailer who purchases cheaper larger counterfeit parties, through taxes and VAT. KTF are then providing with necessary information to carry those cases. Previous theory and OECD reports suggest that collaboration with associations that are tailored for your business was preferable, which was particularly true in Scandinavian Cosmetics case. The last facet from the study that I realized was important for Scandinavian Cosmetics in their process was education and lobbying. They put efforts in trying to educate and deter both end customers and media, through enlighten them about the fact that counterfeits are illegal, and sometimes even harmful in their case. Moreover, they want to highlight the moral aspect of the issue. Those empirical findings may be supported by Harvey's (1988) theoretical framework on lobbying and its combined efforts for greater impact. However, an interesting aspect that previous literature do not discuss, is lobbying efforts and educations towards the end customers, which ultimately is the "mouse within the wheel". I would argue that this might have positive significance, where a spread effect might be achieved through education and hard facts about counterfeits. Nevertheless, it is further marketing and budget efforts that needs to be met. Another aspect that I found important in theoretical framework was Chaundry, Zimmerman, Peters, Cordell (2008) acknowledgement of the recognition towards the seriousness of this issue. I would argue that Scandinavian Cosmetics is in a rather early stage in this combat, however, from empirical findings one might draw conclusions that they have a vertical coherence throughout the organization, from a strategic to managerial to operational level. This indicates a pro-active standing point already. I would conclude saying that for emerging firms and entrepreneurs; this is a problem that necessitates to be addressed in an initial state in today's global economic climate. They have to evaluate the economic benefits within budgets, because they will eventually suffer either sales volume loss or market share decline, and that is a fact.

So, what in the case of Scandinavian Cosmetics, thus agents in Scandinavia, has biggest implications for effectiveness and results in combating counterfeits?

R&D protection system → Monitoring/Investigation through **Distribution** → **Lobby/Advertising** efforts to media and end customer => **Collaboration** through **KTF** (industry association – providing **legal counsel** & contact with **Swedish customs** and **law enforcement**).

When it comes to the second case of GANT AB, they are working a bit differently as brand owners. GANT AB is a very interesting empirical object, since they have been very successful in reducing, removing and detecting infringing fake products of their trademark on a global scale. The biggest difference against Scandinavian Cosmetics is budget related, since they are only concerned with the Scandinavian market, whereas GANT works as principals and thus, are worldwide. As mentioned in the empirical findings, Louise De Verdier works full time within the company as 'Trademark Manager', which is acknowledged by Harvey (1988) as surveillance under full-time personnel. He argues that in cases of removing and destroying counterfeits through raids, businesses naturally cannot do this by their own means; "it rather goes through the legal team to law enforcement that acts in order". This is particularly true in GANT's case where Ann-Charlotte Söderlund comes into the picture as their worldwide legal counsel. In turn, she has a global legal network, which is crucial for their company. Previous theory focuses a lot on the legal aspects, and the two respondents have worked together for over nine years, where they argue that they have a successful working relationship. Furthermore, Chaundry (2006) argued that it is necessary when working on a global scale to have a multilateral legal framework, meaning a global network, since the fact is, that legal jurisdictions across the globe is so different. According to the empirical framework it is proved that GANT are provided with high-level legal support, to improve the outcome for this matter. I was not able to get any number on Ann-Charlotte's legal costs, but I think it's safe to argue that the firm-level investment and scope of operations, which is highlighted by Berman (2006), shows the sacrifice and emphasis GANT is putting on initiatives to support operations. Under Harvey's (1988) 'control/surveillance' team was also investigators. Through GANT legal counsel, they are currently under a worldwide network where local legal counsels also are monitoring their respective markets, to help provide information to Ann-Charlotte. Since she is not only representative for GANT, they are probably "free-riding" on a rather large network. Gozzo law firm are only representing IPR and trademark matters, where they have clients such as Volvo, Sony-Ericsson and Canada Goose etc, which are big players within their area of operation. Therefore they may be represented as investigators in this case.

In the process of actively working against counterfeits, GANT is doing rather extensive raids to seize products. During the different steps that they take in this process, it seems as GANT is working with their legal counsel during the whole process. Hence, they provide support and identify concrete objectives to local law enforcement where legislations are weak. Moreover, since GANT deals with a lot of distributors, Ann-Charlotte provides GANT with legal agreements for those markets GANT seeks to operate in, meaning, their channels are controlled pretty tight by these agreements. As Berman, Harvey and Chaundry has highlighted in previous theory, GANT's legal counsel is of importance.

So, what in the case of GANT AB, thus global brand owners, has biggest implications for effectiveness and results in combating counterfeits?

Personnel full-time through Louise → **Legal counsel** through Gozzo; thus, global network of legal enforcement; hence, **investigators** at a certain level => **Collaboration** through SACG (lobby and education to high authorities).

I would argue that Michael Harvey's model in 'A New Way to Combat Product Counterfeiting' is little overly ambitious in certain ways. However, I think it is safe to argue that many facets within the model has to be incorporated in the combat against counterfeits, which many authors after that has emphasized, which is also obvious by reading the theoretical framework in this research. Nevertheless, it might be too ambiguous to engage all departments at the company the way Harvey has portrayed it in the model. The empirical findings shows that it is not the case where all departments are involved as Harvey demonstrates it, even though GANT is a major company, with widespread problem on a global scale.

As Akerloff (1970) acknowledges, there is definitely a problem with brand-degradation in both cases due to counterfeit products. When their brands get exploited, it is safe to argue that their marketing investments are being destroyed. According to the empirical findings one might conclude that, the level these to corporations are working on is very different in terms of market size; global versus Scandinavia, and therefore probably financial and budget wise. However, what the two companies have in common is, that the board of directors has a genuine interests and understanding of the weight of this problem. I would argue that as key in this problem, and moreover, firms should not stare blind on the issue of the problem as a cost, rather see it as a post within the marketing budget. Hence, in that way marketing effort end up more valuable. I would argue that, in Scandinavian Cosmetics case (and other 'agents' case), it is really important to handle this issue because;

Once consumers start to buy a lot of counterfeits, for example on the Internet where it is 30-40 percent more cheaply, their physical retailers will react. Hence; they will demand discounts, which leads to that the distributor and the agent's role in the value chain will be eroded. When they cannot afford offering discounts, it will lead to a negative spiral downwards, where the marketing to the Scandinavian market will suffer, when marketing is the highest priority to keep the brand's reputation fresh to generate sales. Therefore the following question becomes important:

What happens in 5 to 10 years? When for example Scandinavian Cosmetics who distributes successful products on the market, starts pressuring prices due to the demand from retailers, (who are complaining about infringing products), it will affect all the smaller brands who cannot afford to keep those price levels. It will force them into bankruptcy, since the customer rather focuses on the price, which causes a market failure.

In a larger sense I would go about arguing that this problems has bigger implications. Those market failures when firms go bankruptcy due to counterfeits is causing an undermine of economic growth. I would further argue that the whole innovation process is being affected since;

The basic principle of property rights is monopoly. Hence, you should be awarded for inventing and innovating. When you cannot assure that you get to keep your 'all rights reserved' the whole basic principle fails; thus the whole innovation process, which we all know is key to economic growth.

Furthermore, it is accurate to go back in economic history to refer to the ‘China-problematization’ where a very large share of the worlds counterfeit products is being produced. I would argue that the problem derive all the way back to Mao and communism. He was the one who abolished the material law of owning. When China then wanted to become members of the ‘World Trade Organization’ it was a demand from USA to implements the law of material-ownership again (Zimmerman. A, P.E. Chaundry 2009). However, now they have a law, which is only a decade old, but they have still, basically, a very strong culture of copying. Thus, they are not an ‘innovation-strong’ country, since the reward of being innovative has accrued the government and the state previously. Chinas economy is growing extremely fast, but it is not due to their innovativeness, rather copying and producing counterfeits (A. Zimmerman, P.E. Chaundry 2009).

Complementary to theoretical and empirical framework I would suggest that firms should have a;

7. Action-plan → Knowing exactly what to do when infringing problems occur.
8. Pro-Active plan → Having systems and representatives on set, who knows your products and brand. Thus; have the ability to work and act fast, when problems occur.

Regarding the future of these problems, all the respondents were in line that this problem is only going to evolve as globalization increases. The empirical study shows that, among firms and start-ups today, there is a need of healthy economic reasoning, where the value of the issue needs to be considered in relation to the budget.

I would also acknowledge the fact that education towards the end-customer might be a powerful tool, as shown by the empirics in case 1. It is important to know that behind counterfeits is often an organized crime scene. Thus, when dealing with counterfeits and pirated products, you are indirectly contributing with drug dealing, trafficking and child labor. There is moral aspect where businesses can educate consumers in their struggle against counterfeits.

6. Conclusion

The last chapter will summarize the research, and try to establish an answer to my research question.

This research has tried to fill the current gap in lack of theoretical framework on the issue of how businesses might protect themselves against counterfeit products. The empirical object has been a case of agents and distributors, but also brand owners to get a more comprehensive overview. Previous research have mostly focused on the organizational overview, where many authors have emphasized their theoretical framework on different departments within organizations, and how they are to go about working in the process of combating counterfeit products. As mentioned, Michael Harvey in 1988 created a counterfeit prevention model, which was discussed by several authors after that. I tried to implement latter theories into the section of Michael Harvey's model to get a steady ground to form a testable empirical research question;

How do Scandinavian Cosmetics AB and GANT AB combat infringing counterfeit goods on different levels?

The study showed that there might be differences in how businesses combat counterfeits depending on how their market and situation looks like. In Scandinavian Cosmetics case, they put more efforts into the 'product team' according to M. Harvey's model;

R&D protection system → Monitoring/Investigation through **Distribution** → **Lobby/Advertising** efforts to media and end customer => **Collaboration** through **KTF** (industry association – providing **legal counsel** & contact with **Swedish customs** and **law enforcement**).

In GANT's case they put more efforts into investing in a 'Control/Surveillance team' according to M. Harvey;

Personnel full-time through Louise → **Legal counsel** through Gozzo; thus, global network of legal enforcement; hence, **investigators** at a certain level => **Collaboration** through **SACG** (lobby and education to high authorities).

The reason to the difference might be explained by GANT's global involvement, whereas Scandinavian Cosmetics only operates under the Scandinavian market, which might not necessitate the same amount of extensive legal counsel support that GANT are in need of. Therefore, there is also a difference in budget and financial support, where GANT approximately spends several million SEK per year, whereas Scandinavian Cosmetics mostly put time efforts into their industry association KTF to receive legal counsel.

The study showed in both cases a clear significance in brand-degradation due to counterfeits operating under their market. However, study also showed that part of their success was due to the understanding and genuine interest from respective board to actually deal with this issue, which I would argue is key in this matter.

I further believe that the counterfeit and piracy issue has much bigger implications towards the general society. The problem undermines economic growth, since many producers are forced into bankruptcy because the counterfeit products are stealing market share and sales volume. The innovation process basic principles are failing, when you cannot assure that you get to keep you're monopoly for inventing and innovate. When the innovation process is being destroyed – so is economic growth.

6.1 Future Studies

For future studies it would be interesting to increase the number of empirical objects. The development of this information is very limited as this problem vastly increases. Additional research can be made on a customer perspective and a governmental perspective. However, expanding information from a rights holders perspective is still in a very initial state, so I would argue that different sector specific analysis would be in order, to continuously enhance information from various point of views.

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