

## CHAPTER I

### INTRODUCTION

#### 1.1 Research Background

Counterfeits are reproductions of a trademarked brand (Cordell et al., 1996), which are identical to genuine products, include packaging, labeling and trademarks, and intentionally resemble the original product (Kay, 1990; Ang et al., 2001; Chow, 2000). Lai and Zaichkowsky (1999) stated that counterfeiting and piracy are in essence the same since they are both the reproduction of identical copies of authentic products. These two terms have been used interchangeably (Wee et al., 1995; Kwong et al., 2003). However, piracy is mainly related to software and fixed medium content such as film and music recordings (Chow, 2000; Cheung and Prendergast, 2006). Furthermore, counterfeiting is dissimilar to other forms of intellectual property infringements like grey market goods. De Matos et al. (2007) have utilized scales that measured grey market products for counterfeits, which is undeniably different in characteristics and definition. Grey market goods are, by definition, overruns from outsourced manufacturers that are distributed through unauthorized channels (Huang et al., 2004; Gentry et al. 2006), whereas counterfeiting involves an illegally produced copy of the original product. (Phau and Teah, 2009)

Based on International Anti-Counterfeiting Coalition (IACC), counterfeiting is a federal and state crime involving the manufacturing or

distribution of goods under someone else's name, and without their permission. Counterfeit goods are generally made from lower quality components, in attempt to sell cheap imitating similar goods produced by brands consumers know and trust.

According to the World Customs Organization, counterfeit goods account for roughly 7–10% of global trade, and revenues from these sales are growing (Global Market Review of Counterfeit Apparel – Forecasts to 2014, 2008). There is report that has examined the value of seized counterfeit goods in the 38 economies sampled and the World Customs Organization (WCO). The value of counterfeit goods seized and reported by customs authorities today from the sample of 38 economies (\$5.2 billion) represents slightly less than 2.5% of the global measure of physical counterfeiting of \$461 billion dollars. The percentage is not balanced. From the list of country, Indonesia is in 7th place with 0.3% shares to global physical counterfeiting figures. (International Chamber of Commerce, 2016).

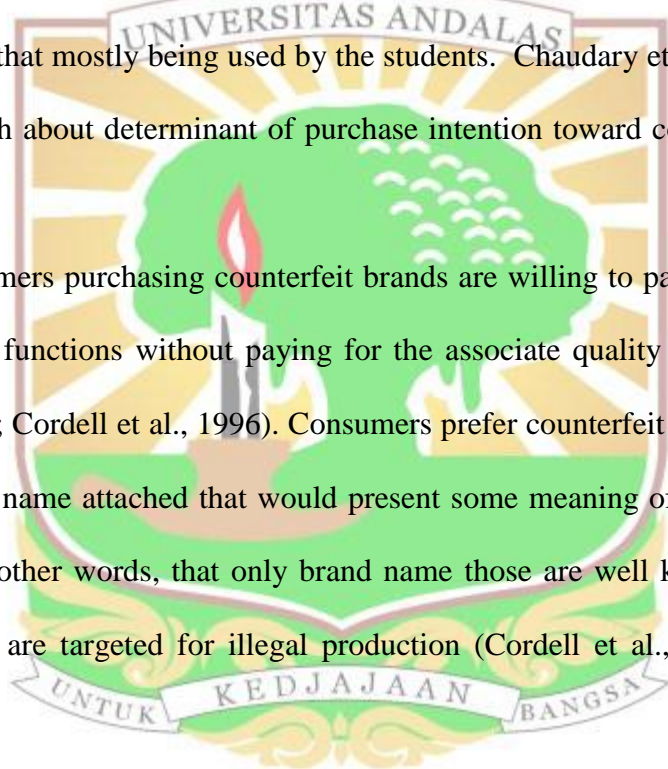
It's a common thing now to see people especially women wear any branded fashion item easily. Middle age women in the market, college students, strangers in public car, they all wear shoes, bags or clothes from expensive brand. Even it traditional market, the seller innocently will offer purse or shoes from expensive brand with extremely lower price and the seller said it's the original one.

As a university student, researcher always sees most of another student use counterfeit product, especially shoes. Moreover, here in one of traditional market

in Padang, called Permindo sell counterfeit shoes along the pedestrian path. Fashion product that commonly counterfeited are clothes, shoes, bags, watches, leather items, and accessories. *Louis Vutton, Gucci, Burberry, Tiffany, Prada, Hermes, Chanel, Dior, Yves St. Laurent and Cartier* are brands that mostly counterfeited (Yoon and Lee 2009). Here, Andalas University Student also at least has one sport shoes or canvas shoes which have more probability being counterfeited. *Converse, Adidas, Nike, Puma, New Balance*, and other brands are several brand that mostly being used by the students. Chaudary et al., (2014) also took a research about determinant of purchase intention toward counterfeit shoes in Pakistan.

Consumers purchasing counterfeit brands are willing to pay for the visual attributes and functions without paying for the associate quality (Grossman and Shapiro, 1988; Cordell et al., 1996). Consumers prefer counterfeit products with a famous brand name attached that would present some meaning of prestige to the consumer. In other words, that only brand name those are well known or worth counterfeiting are targeted for illegal production (Cordell et al., 1996; Sridhar, 2007).

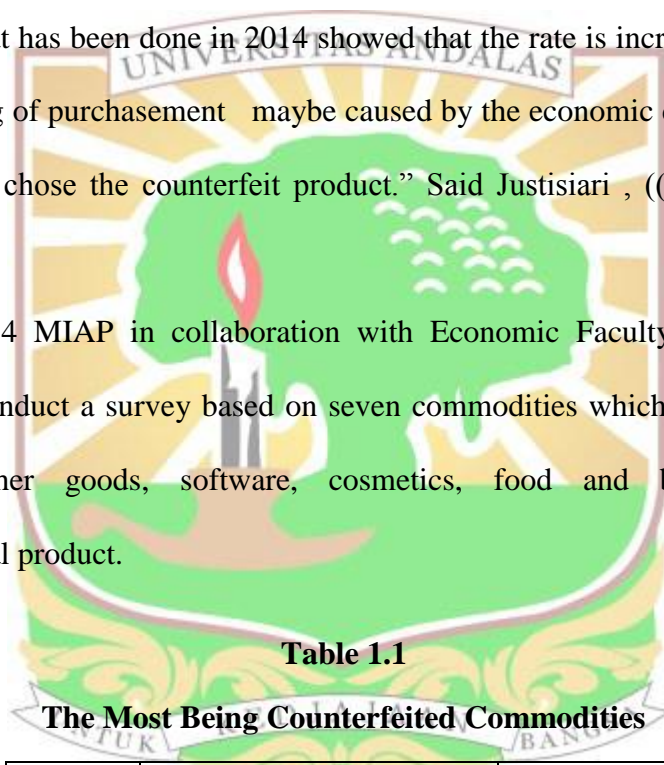
Misbah and Salem (2015) state that according to the finding of International Anti-Counterfeiting Coalition (IACC), that projected value of global trade in counterfeit and pirated goods is around 1.77 trillion dollars (International Anti-Counterfeiting Coalition, 2015) China, India, Russia, Argentina, Chile, Egypt, And Israel are the major countries, with US is taking a lead role in production of counterfeit product (Chaudhary, 2009)



In Indonesia itself, Rachmat Gobel as the minister of trade at the time state that 40% of import product are counterfeited product and product with low quality. (Liputan 6, 30th January 2015)

General Secretary of Masyarakat Indonesia Anti Pemalsuan (MIAP) Justisiari P Kusumah said that based on the surveys that already done for seven commodities describe that there increasing trend of the counterfeited product in Indonesia. “The last survey that has been done in 2014 showed that the rate is increase from 2010. The increasing of purchasement maybe caused by the economic crisis in 2008 so the consumer chose the counterfeit product.” Said Justisiari , ((Liputan 6, 30th January 2015)

In 2014 MIAP in collaboration with Economic Faculty of Indonesian University, conduct a survey based on seven commodities which are printer ink, apparel, leather goods, software, cosmetics, food and beverages, and pharmaceutical product.



**Table 1.1**  
**The Most Being Counterfeited Commodities**

Number	Commodities	Percentage
1	Printer Ink	49.4%
2	Apparels	38.9%
3	Leather Goods	37.2%
4	Softwares	33.5%
5	Cosmetics	12.6%
6	Food and Beverages	8.5%
7	Pharmaceutical Products	3.8%

Sources: Liputan 6 news, 30th January, 2015.

<http://bisnis.liputan6.com/read/2181061/berapa-kerugian-ri-dari-peredaran-produk-palsu>



This survey also take up the significant increase of state loses caused by counterfeiting activity in 2010. MIAP predicted the loss amount of Gross Domestic Bruto (GDP) is Rp. 43.2 trillion. And in 2014 the amount of state's potential loss increases Rp. 65.1 trillion. In details, the biggest contributors of these losses come from apparels and leather goods as Rp. 41 trillion. And additional losses from tax as Rp. 191 billion.

All of the above data are the conclusive evidences that counterfeited product demand in Indonesia is increasing as well. With apparels placed in second rank, which shoes counts as part of apparels, it's also indicated that shoes being the second of most counterfeited commodities. Increasing rate of counterfeited demand describe how the consumer desires the branded product. The reason why people buy this branded product can become the significant indicators why they buy the counterfeited branded product (Wilcox, *et al.*, 2009)

As Cordell, Wongtada, and Kieschnick (1996) stated, price difference is an important factor behind the reason to select a counterfeit. Counterfeits are usually sold at lower prices and the greater the price-quality relationship and affordability associated with the original brand, the less chance the consumer is inclined to seek counterfeit goods and vice versa.

There are two main differences consumers perceive between a counterfeit and genuine product, which are the prices and the guaranties or quality. Counterfeits have lower prices and poorer quality when compared to the genuine products, while price is likely to be one of the most important factors related to a change in purchase intention (Huang, Lee, & Ho, 2004). As Obomiller stated that

the price-quality linkage is inferential, there is no logical necessity that higher prices indicate higher quality; nor do lower prices indicate lower quality (1988). Inference of quality by the price level is a common among consumers and it is an important factor in consumer behavior (Chapman & Wahlers, 1999). Hence Consumers tendency is to believe that high (low) price means high (low) quality. It becomes more important when consumers' lack of information or unable to judge the product quality (Tellis & Garth, 1990). So, a consumer who strongly believes in price and quality inference has higher intention to purchase genuine product, and less intention to buy the counterfeit product. (Huang, Lee, & Ho, 2004). To measure consumer's price quality inference, the main indicators are the judgment of quality based on product pricing, price-quality worthiness of the product, and willingness to pay more (less) price for better (lower) quality of product.

As cited from Mirabi and friends (2015), customers purchase decision is a complex process. Purchase intention usually is related to the behavior, perceptions and attitudes of consumers. Purchase behavior is a key point for consumers to access and evaluate the specific product. Ghosh (1990) states that purchase intention is an effective tool to predict buying process. Purchase intention may be changed under the influence of price or perceived quality and value. In addition, consumers are affected by internal or external motivations during the buying process (Gogoi, 2013). Previous researchers have proposed six stages before deciding to buy the product, which are: awareness, knowledge, interest, preference, persuasion and purchase (Kotler & Armstrong, 2010) (Kawa et al.,

2013). Customers always think that purchase with a low cost, simple packaging and little-known product is a high risk since they the quality of these products is not trustable (Gogoi, 2013).

According to (Schiffman and Kanuk 2010:108) The behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products, services, for his needs. Consumer behavior focuses on how consumers make a decision to spend their resource (time, money, effort) for consumption product.

To understand the desires of consumer it needs analysis about what they are thinking of (cognition) what they feel (affect), and their environment. From those three elements will form consumer perception from their experience, feel and the use of product. Consumer behavior influenced by two factors. There are internal factors which come from consumer self and external factors which come from consumer environment.

Another factor that also part of consumer behavior is consumer attitude. Because consumer behaviors are realized in an attitude. Attitude can be define as a feeling of favorableness or unfavorableness that an individual has towards an object (be it a person, thing or situation) (Shiffman and Kanuk 2010:222).

## **1.2 Problem Statement**

The data of most counterfeited product and the increase of state loses caused by counterfeiting activity above are the conclusive evidences that counterfeited product demand in Indonesia is increasing as well. Purchase

intention may be changed under the influence of price or perceived quality and value. In addition, consumers are affected by internal or external motivations during the buying process (Gogoi, 2013).

Author thought that it's important to identify what are the factors that affect consumer purchasing intention in buying counterfeit product. In this research author will use two factors that affect the purchase intention of counterfeit product which are price-quality inference and consumer attitude.

The research background produce 4 research question;

Thus, there are research questions;

1. How does the effect of attitude toward purchase intention of counterfeit shoes?
2. How does the effect of price-quality inference toward consumer attitude of counterfeit shoes?
3. How does the effect of price-quality inference toward purchase intention of counterfeit shoes?
4. How attitude mediates the effect of price-quality inference and purchase intention of counterfeit shoes?

### **1.3 Research Objective**

This research intends to analyze the effect of price-quality inference in customer attitude toward purchase intention of counterfeit shoes product.



1. To analyze the effect of attitude toward purchase intention of counterfeit shoes.
2. To analyze the effect of price-quality inference toward consumer attitude of counterfeit shoes.
3. To analyze the effect of price-quality inferences toward purchase intention of counterfeit shoes.
4. To analyze how attitude mediates the effect of price-quality inference and purchase intention of counterfeit shoes.

#### **1.4 Research Contribution**

This research is expected to contribute on:

1. Researcher

This research will be the reference for researcher for the research in the next time and can be the information that will advance the knowledge of the researcher. Furthermore, this research also used by researcher in the thesis for the final assignment of graduation

2. The Company

Expected to be a valuable input in order to solve problems related on price-quality inference, consumer attitude and purchase intention. The Company also cause the result to create a new marketing strategy associated with those topics. The Company may determine consumer interest towards branded goods

(original) and the interest of consumers against counterfeit products, especially Andalas University's students so that it can become informed about the success of its products.

### 3. For Literature and Next Study

It is expected to train and develop other references, as well as add some insights and knowledge related to price-quality inference, consumer attitude and purchase intention.

## 1.5 Research Scope

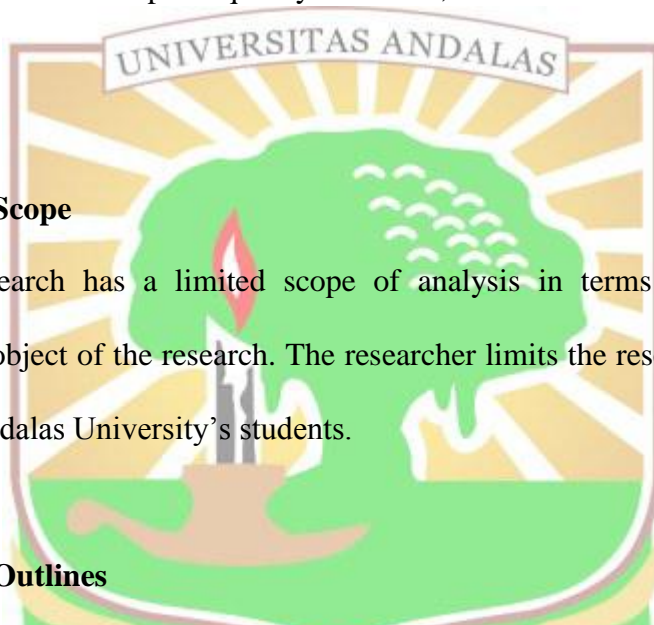
This research has a limited scope of analysis in terms of numbers of variables and object of the research. The researcher limits the research context by focusing to Andalas University's students.

## 1.6 Research Outlines

In order to make it easier and make moderate the forwarding of content, this research is divided into five chapters:

CHAPTER I            Contains about background to the research, problem statements, objectives of research, contributions of research, scope of research, and outline of research.

CHAPTER II           This chapter contains the literature, theory, and last research related with this research. This chapter also contains the literature that evaluates variables of this research, which are price-quality inference, consumer



attitude, purchase intention and counterfeit product itself. and also this chapter contains theoretical framework of this research.

CHAPTER III This chapter contains the explanation about research method which are research design, population and source of sample, type of data and variable measurement, research variables, operational definition, data analysis, test of instrumental, structural model test, and hypothesis testing.

CHAPTER IV This chapter contains the explanation about results and consists of characteristic of respondent, descriptive analysis, structural measurement of the influence of price-quality inference, by using customer attitude as mediator on university students purchase intention of counterfeit product.

CHAPTER V This chapter explains about conclusion of research, implication, limitation and recommendation for further research.

