LEGAL/PRIVACY

Countering counterfeits: How luxury brands are challenging the knock-off culture

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Prestige brands continue their epochal battle against piracy and counterfeiting in hopes of stemming both lost revenue and tarnished brand equity.

Louis Vuitton, Tiffany & Co. and Fendi are just a few of the brands in wars against those selling – or permitting the sale of – knock-off items that look like luxury goods. The results of such counterfeits are damaging to luxury brands, both in terms of sales and brand equity.

"The biggest risk is certainly the concern of reputational damage," said Milton Pedraza, CEO of the Luxury Institute, New York. "People will see a knock-off that looks a lot like a luxury item, and they'll be put off by the fact that it's not great quality, or the craftsmanship is poor.

"Luxury items obviously have great craftsmanship and have high standards, but consumers don't always know that the items are counterfeit," he said.

Damage done

A luxury brand's most valuable asset is its status – it is known for its heritage, its quality of work, the quality of materials it uses and its price.

However, counterfeit items are almost always shoddily made. Although they may look the same, the materials are of poor quality and the high standards of which luxury brands pride themselves are gone.

This is damaging to a brand's status in the luxury sector because unknowing consumers will assume that the knock-offs are real, and that all items made by the actual luxury brand are not worth the price.

"All popular brands and types of luxury manufacturers are susceptible to counterfeiting," said Mark Rosenberg, intellectual property attorney at Sills, Cummis and Gross PC, New York. "It is pure economics. The greater the demand for a particular brand, the greater the incentive for counterfeiters to knock-off that brand."

Another obvious concern is the economic dip that brands take when consumers buy pirated items instead of luxury ones.

"From an economic standpoint, the longer economy remains relatively stagnant and discretionary income limited, the more likely it is that consumers desiring luxury goods will consider purchasing a less expensive counterfeit," said Mr. Rosenberg.

"This is particularly true where sophisticated counterfeiters are able to produce knock-offs that are nearly indistinguishable from the genuine product."

What can be done?

Insofar as legal action, there is only so much that brands can do.

EBay has been sued for selling counterfeit goods mimicking Louis Vuitton, Dior, Gucci, Kenzo and Guerlain.

Upscale jewelry designer Tiffany & Co. even tried to sue eBay for not properly monitoring the buying and selling of knock-off goods trying to pass off as luxury jewelry (see story).

However, the Supreme Court refused to hear Tiffany's case, dealing a blow to luxury brands who had hoped to stifle piracy on the Internet.

"The greatest challenge facing luxury brands is the fallout from the Supreme Court's recent ruling in the Tiffany & Co. vs. eBay case," said Sills, Cummis' Mr. Rosenberg. "That case places the burden of policing the Internet for counterfeits squarely on the shoulders of brand owners."

"At the same time, that case absolves Web sites that permit third party sales such as eBay and Amazon.com of the responsibility to proactively police their own Web sites for obvious counterfeiting."

Likewise, Fendi also took legal action against Burlington Coat Factory, when the former claimed its goods were being impersonated and sold (see story).

"As far as legal battles go, sometimes [luxury brands] can do something, and sometimes they can't," the Luxury Institute's Mr. Pedraza said.

"It's hard for law enforcement to try to clamp down on something as huge as this, especially when so much money is involved," he said.

While the Supreme Court found eBay not liable in the Tiffany & Co. case, Fendi won $10 million from its lawsuit.

Street sales, however, are an entirely different problem.

Brands can pressure law enforcement to try to crack down on fake luxury item street vendors, but the business is never going to be completely shut down.

There are always going to be people willing to sell and buy luxury items.

"The business is too profitable and too lucrative for vendors to stop selling pirated items," Mr. Pedraza said. "Surreptitious people are always going to find opportunities."

He also suggested strength in numbers. Almost every luxury brand is fighting a battle against knock-offs, and cooperation and collaboration across the globe is key.

Benefits of real luxury

With all of the much cheaper counterfeit products, it can be difficult for luxury brands to persuade consumers to buy the real deal, even though the prices are considerably higher.

"Luxury designers actually have a lot going for them," Mr. Pedraza said. "They have heritage, quality, excellent craftsmanship and design and have a chance to build their Web sites and retail stores to reflect their image."

While this may seem like a simple tactic, elegance and status are the things that set apart luxury brands from others.

Furthermore, many upscale brands have failed to make their Web sites easy to use and ecommerce friendly, or to build Facebook and Twitter accounts.

By adopting a more visible digital profile, high-end marketers could stimy efforts by counterfeiters trying to steal the ecommerce spotlight.

However, the most important thing that a luxury brand can do to fight knock-offs is to emphasize customer service.

This is almost a requirement when charging premium prices. A luxury brand needs to let people embrace more than just the product. Consumers should be able to embrace the brand itself.

"Why would a consumer want to go into a retail store to spend a lot of money and not be treated well?" Mr. Pedraza said. "Luxury brands need to make sure the people working in their stores are knowledgeable, friendly and reflect the brand's values."

"Consumers need to feel special and want to pay more money for a premium product," he

said. "If a brand wants its products sold, the experience needs to be dramatically different than anything a customer has ever had."

Final Take
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