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Neither an Authentic Product nor a Counterfeit: The Growing Popularity of Shanzhai Products in Global Markets

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Abstract

Counterfeits have been a longstanding concern to global brand manufactures. However, recently, a new product category that partly imitates and partly innovates under the term shanzhai has entered into market. Shanzhai products mimic original leading brands through visual or functional similarities and may also provide additional features. Given this new copycat phenomenon, our study for the first time conceptually distinguishes shanzhai products from counterfeits, theoretically compares the values of consumers choosing

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shanzhai products versus counterfeits, and empirically tests such differences in one integrative model. Specifically, shanzhai buyers value product functional benefits more than counterfeit buyers, while counterfeit buyers value status consumption, yet experience less self-clarity than shanzhai buyers. Our findings offer important implications for imitative innovation literature as well as for practitioners.

Keywords: shanzhai products, counterfeits, consumer values, imitative innovation, emerging economy, demand drivers

Résumé

De tout temps, la contrefaçon a toujours été une source de préoccupation pour les fabricants de marques mondiales. Cependant, récemment, une nouvelle catégorie de produits basée partiellement sur l'imitation et partiellement sur l'innovation et baptisée shanzhai a fait son entrée sur le marché. Les produits shanzhai imitent les marques phares d'origine avec lesquels ils comportent des similitudes visuelles ou fonctionnelles et peuvent exhiber des caractéristiques supplémentaires. Les auteurs de la présente étude s'appuient sur cette nouvelle forme de copisme pour d'une part, distinguer, pour la première fois, conceptuellement, les produits shanzhai des contrefaçons, d'autre part, comparer théoriquement les valeurs des consommateurs qui choisissent les produits shanzhai par rapport aux contrefaçons, et, enfin, tester empiriquement ces différences dans un modèle d'intégration. Leurs analyses montrent que les acheteurs de shanzhai apprécient davantage les avantages fonctionnels des produits que les acheteurs de contrefaçons, tandis que les acheteurs de contrefaçons apprécient la consommation de statut, tout en étant moins sûrs

d'eux-mêmes que les acheteurs de shanzhai. Les résultats comportent d'importantes implications pour la littérature sur l'innovation imitative et pour les praticiens.

Mots-clés : produits shanzhai, contrefaçons, valeurs du consommateur, innovation imitative, économie émergente, moteurs de la demande.

Introduction

While original brand manufacturers have fought against counterfeit products, counterfeits are still flourishing, especially given that e-commerce makes them readily available all over the world (Berman, 2008; Frontier Economics Ltd., 2011). Recently, a copycat phenomenon called *shanzhai* has drawn consumers away from original brands, and developed rapidly in emerging economies such as China, Vietnam, and India (Chubb, 2015). Shanzhai originated from the Chinese characters “山寨” and refers to a “bandit stronghold outside government control” (Tse, Ma, & Huang, 2009, p. 2). Shanzhai products are merchandise that imitate the original, prestige brands through obvious similarities (such as visual or functional similarity) and may provide additional benefits. They are different from counterfeits with respect to the degree of similarity to the original brand and the possible additional benefits they provide. Perhaps the earliest shanzhai products are the various shanzhai versions of Apple’s iPhone. Chinese shanzhai manufacturers produce and improve the mobile phones in line with local consumer desires, such as multiple slots for more SIM cards, waterproof features, and projector functions, and so on (see Figure 1). These shanzhai mobile phones were extremely popular in the local and adjacent market, and it is estimated

that shanzhai mobile phones gained a 30% market share in the Chinese mobile phone market (Chubb, 2015).

[Insert Figure 1]

Owing to shanzhai mobile phones' popularity, other product categories such as fast moving consumer products, fast-food operations, fashion accessories, and cultural events increasingly appear as varieties of shanzhai products. The volume of shanzhai product sales worldwide is substantial, with sales growing as quickly as counterfeit products (Jiang & Shan, 2016). Tied to global online and offline distribution networks, shanzhai products reach consumers worldwide. For example, several shanzhai handbags were produced by top Italian luxury manufacturers. They kept high visual similarity and the superior product quality of leading brands yet changed the leading brands' names and logos. These shanzhai products were sold at an attractive price through e-business channels, which satisfied consumers who valued superior quality yet cared less about brand names (Zhu, 2014).

While both shanzhai products and counterfeits imitate original leading brands at a much lower cost, they represent two different product categories with respect to the degree of visual and functional similarities to the original brands. According to our fieldwork, a shanzhai manufacturer from Fujian province, China commented, when interviewed: "What we make (i.e. our own shanzhai brand or a counterfeit of global brand) depends on the order." In other words, if international distributors want shanzhai products, they will provide their own shanzhai brands. Thus, shanzhai product consumption may not be identical to counterfeit product consumption.

The extant literature has shown that consumer demand is the key driver of counterfeit product consumption. For example, product attributes such as low price and acceptable quality motivate consumers to choose counterfeits (Bian & Moutinho, 2009; Yoo & Lee, 2009), and non-product attributes, such as social status and materialism, drive counterfeit purchase (Jiang & Cova, 2012; Yoo & Lee, 2009). Given the differences between counterfeit and shanzhai products, it is crucial to answer questions such as how shanzhai products differ from counterfeits (conceptually and empirically); what drives consumers' shanzhai purchases; and do these reasons differ from the motivations that drive counterfeit purchase. A careful analysis of prior shanzhai literature has revealed that scholars have investigated the characteristics of innovative shanzhai manufacturers (Dong, 2014), the dynamic capabilities needed for shanzhai manufacturers (Ren, Yu, & Zhu, 2016), shanzhai manufacturers' entrepreneurial capability and institutional environment (Lee & Hung 2014), shanzhai as a branding strategy in a firm's start-up stage (Leng & Zhang, 2011), and the social and psychological implications of the shanzhai phenomenon (Chubb, 2015). In other words, most of the prior shanzhai literature has focused on either shanzhai manufacturers as an organizational-level unit of analysis, or the external environmental impact of the shanzhai social phenomenon—a macro social perspective—but there is a general lack of attention on how consumers perceive shanzhai products differently from counterfeits, and the implications of that perception on corporate strategy. The limited shanzhai literature often confuses shanzhai products with counterfeits by considering shanzhai as one type of counterfeits (for instance, Jiang & Shan, 2016; Liu, Yannopoulou, Bian, & Elliott, 2015). Such blending of shanzhai products with counterfeits might lead to an implicit assumption that the motivations for consumers' counterfeit purchases will also apply to shanzhai products. However, such an

assumption might not be accurate. Against this background, the aim of this study is to explicitly distinguish shanzhai products from counterfeits and investigate what factors motivate consumers' shanzhai product purchase over counterfeits.

The present study aims to make three contributions. First, rather than assuming shanzhai products as one type of counterfeit, we have found that shanzhai products are indeed different from counterfeits conceptually and empirically. By making a conceptual distinction between shanzhai products and counterfeits, we empirically test consumers' motivation in choosing shanzhai versus counterfeit products in one integrative model.

Second, viewing shanzhai products as an alternative consumption choice over counterfeits, we draw on the nascent research stream on consumer values and attitudes (Han, Suk, & Chung, 2008; Sheth, Newman, & Gross, 1991; Wiedmann, Hennigs, & Siebels, 2009) and the rich literature on counterfeits purchase (Cesareo, 2016; Eisend & Schuchert-Güler, 2006; Staake, Thiesse, & Fleisch, 2009), and unify them with the framework proposed by Wiedmann and colleagues (Wiedmann, Hennigs, & Klarmann, 2012) to provide a theoretical model to study how consumer values may drive shanzhai and counterfeit product purchase intentions differently. We test the framework using an experiment with consumers.

Third, a series of solutions for original manufacturers to combat shanzhai product threats are provided. The extant shanzhai literature either views the shanzhai phenomenon from a manufacturer's entrepreneurial and corporate strategy perspective (Dong 2014; Lee & Hung 2014; Ren, Yu, & Zhu, 2016) or blends the shanzhai phenomenon with counterfeiting by considering this phenomenon as a part of globalization and the counterfeiting culture (Chubb 2015; Yang 2015). Despite an increased interest within the academic community in studying the shanzhai phenomenon, the present study is the first to provide systematic solutions for

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firms by taking a consumer-value perspective to differentiate shanzhai consumption from counterfeit consumption.

Theoretical Framework and Hypotheses

The Shanzhai Phenomenon

Shanzhai products are part of a broader phenomenon of shanzhai culture that refers to the active reappropriation of economic and cultural events for diverse local purposes (Chubb, 2015). Shanzhaiism denotes Chinese-style innovation; the term is akin to inferior imitation or tinkering in the English language. Literally, in Chinese, the term shanzhai describes “a mountain village controlled by a Robin Hood kind of figure, which implies a rebellion against officials and stands for the general public” (Hu, Wan, & Zhu, 2011, p. 54). “Shanzhai” originated from the Chinese characters “山寨,” representing an unauthentic yet inferior imitation. Within shanzhai culture, shanzhai movies, CCTV evening shows, advertising, and even shanzhai versions of movie stars and singers deconstruct original content, achieving commercial success through parody (see Figure 2). Common to all variants of shanzhai culture, they all imitate high-end, popular, authentic products, services, or events in which grass-roots power usually cannot participate. In the process, they reshape or redefine these originals with multiple purposes.

[Insert Figure 2]

The focus of the present study is shanzhai products, which imitate the physical appearance and functional benefits of well-known brands, yet with a different brand name and logo that are desired by many local consumers (Leng & Zhang, 2011; Yin, Li, Cheng, & Qiu, 2010). Shanzhai products first appeared in the mobile phone industry, manufactured by private small and medium-sized enterprises (SMEs) in China's Pearl River Delta since 2000. These shanzhai manufactures mimic the design and features of leading global brands' mobile phones, sometimes adding innovative or localized functions such as loudspeakers, waterproof functionality, UV lights, and so on. These shanzhai products have shorter production cycles and lower production costs compared to the originals because they imitate leading brands' designs (Dong, 2014).

Lately, shanzhai products have appeared in other product categories. For example, the well-known Chinese household retail brand Miniso, which imitates Daiso, Uniqlo, and Muji, opened more than 2,000 stores worldwide and generated revenue of \$1.5 billion in 2016 (The Economist, 2017). Shanzhai products, once established as shanzhai brands, can even compete with and threaten leading brands (Deng & Li, 2010). For example, Xiaomi, a Chinese mobile phone brand that imitates Apple, reached annual sales of around US\$1 billion in 2016 (Fang, 2017), and was called the "Apple of the East."

Differentiating Shanzhai Products from Counterfeits

Counterfeits. Cordell, Wongtada, and Kieschnick (1996) define counterfeiting as "any unauthorized manufacturing of goods whose special characteristics are protected as intellectual property rights (trademarks, patents and copyrights)" (p. 41). Counterfeits, therefore, exist because of consumers' desire to own well-known brands. Brands provide

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superior functional features, such as product quality, differentiation, and durability. Moreover, brands help consumers express their identity (Vigneron & Lester, 1999) and provide the product's owner with recognition within his or her social group (Dubois & Duquesne, 1993; Wiedmann, Hennigs, & Siebels, 2009). To compete in these markets, counterfeits must resemble the genuine product as much as possible and sell at a much lower price (Gabrielli, Grappi, & Baghi, 2012). In the past, the quality of counterfeit products varied quite a bit from the original version. These were thought of as low-quality counterfeits (Bian & Veloutsou, 2007; Phau & Min, 2009). However, due to advanced design and manufacturing technology, in recent years the quality gap between genuine brands and counterfeits has been narrowing (Eisend & Schuchert-Güler, 2006; Jiang & Shan, 2016; Wiedmann, Hennigs, & Klarmann, 2012). This kind of counterfeit is often referred to as a high-quality counterfeit. Such counterfeit products can be easily deceptive and allow consumers to enjoy a branded product's prestige at a much lower cost (Cordell, Wongtada, & Kieschnick, 1996). In sum, counterfeit products, unlike shanzhai products, are copies of the authentic version of a branded product; visually and functionally comes as close as possible to the original brand; and can be categorized into two types—high-quality counterfeits and low-quality counterfeits.

Shanzhai Products. Though counterfeits aim to resemble the authentic brand as much as possible, shanzhai products usually do not try to mask their origin. They still resemble the authentic product through obvious visual similarities, yet consumers are typically aware of the differences between the shanzhai product and the authentic product. Early shanzhai products often just changed a few letters of the original brand name in order to confuse consumers. For example, the shanzhai coffee brand Sunbucks looks highly similar to leading coffee brand Starbucks, which may confuse consumers with low brand knowledge. Such shanzhai products

are known as lookalike copycat or knock-off shanzhai, and are illegal in most countries, including in emerging markets (such as China). Gaining experience in producing pure imitation products, shanzhai manufacturers increasingly use their expertise to substantially improve products further by adding innovative features that are sought after by local consumers (Liu et al., 2015; Luo, Sun, & Wang, 2011). We refer to updated shanzhai products as innovative shanzhai.

Producing counterfeits represents an intellectual property right (IPR) infringement and is illegal in almost all countries, yet producing and selling innovative shanzhai products is legally justifiable, with a few exceptions.¹ Therefore, unlike counterfeits, shanzhai products feature a high level of visual and functional similarities to originals, yet also include additional product benefits. In summary, unlike counterfeit products, shanzhai products; mimic the original brand through visual or functional similarities; may offer additional product benefits; and can be categorized into two types—innovative non-deceptive shanzhai products, and knock-off deceptive shanzhai products (that is, lookalike copycats).

We provide an overview of the differences between shanzhai products and counterfeits in Table 1. Please note although both knock-off shanzhai and innovative shanzhai are considered shanzhai products, we focus on innovative shanzhai products in this study.

[Insert Table 1]

Theoretical Model of Shanzhai Products and Counterfeits Purchase Motivation

Due to the differences between counterfeits and shanzhai products, it is of interest to understand what drives consumers to seek the two categories of products. Antecedents of

consumer demand for counterfeits can be categorized into four groups: product-related factors (that is, product quality, durability, style, performance, and so on); consumer personal factors (demographic variables, self-image, personality traits); social and cultural factors (status consumption, subjective norms, peer pressure); and situational factors (mood, hedonic values) (for a review see Cesareo, 2016; Eisend & Schuchert-Güler, 2006; Lee & Yoo, 2009). In comparing counterfeit versus authentic product purchases, Wiedmann, Hennigs, and Klarmann (2012) develop a conceptual model that proposes that functional, financial, social, and individual values drive purchase intentions for both authentic and counterfeit products. We contend that this framework can be modified for shanzhai products with some variations.

Our proposed conceptual model offers specific variations and adaptations to capture consumers' value perception toward shanzhai products. This framework is presented in Figure 3. To further validate these value drivers, we conducted four focus group discussions in China and two outside China (with consumers of Chinese origin now living in an advanced economy). Next, we elaborate on value dimensions and formulate hypotheses regarding shanzhai products.

[Insert Figure 2]

Functional values. Products are generally designed to satisfy consumers' functional values. Functional values refer to a product's functional utilities and benefits, such as quality and usability (Sheth, Newman, & Gross, 1991; Wiedmann, Hennigs, & Klarmann, 2012). While both shanzhai products and counterfeits can provide basic functional benefits to consumers, the value drivers for purchasing one of the two may be different. Counterfeits try

to imitate the authentic product by copying its name, logo, design, function, and so on. Yet shanzhai products, while also acting as an imitator, aim to provide similar or even additional features desired by the local consumers (for instance, two SIM cards in one mobile phone). Thus, from a functional perspective, we believe that consumers who purchase shanzhai products generally value functional benefits more than those who purchase counterfeits. To capture a product's functional values, we consider utilitarian function and functional value consciousness as drivers of purchase intention.

Theories of attitude suggest that products serve many functions (Katz, 1960; Shavitt, 1989; Shavitt, Lowrey, & Han, 1992; Smith, Bruner, & White, 1956). Specifically, utilitarian functions involve the pursuit of satisfaction by maximizing reward and minimizing punishment. Consumers who hold stronger attitudes toward product utilitarian benefits will value a product's functional benefits compared to qualities such as prestige, style, appearance, and so on (Grewal, Mehta, & Kardes, 2004). For example, consumers who hold a utilitarian attitude toward their sunglasses will view the sunglasses as a tool to protect their eyes, not necessarily as a fashion accessory that conveys social prestige. While the latter may apply more to counterfeits emphasizing a close resemblance to the authentic product, shanzhai manufacturers attempt to provide consumers with a product of similar or greater function and utility compared to the authentic product. Thus, we propose that the greater the consumers' attitudes are utilitarian-function oriented, the more likely they will prefer shanzhai products to counterfeit products. Thus:

H_{1a}: The more consumers' attitudes are utilitarian-function oriented, the more likely they will be to choose shanzhai products over counterfeit products.

Consumer characteristics may also influence product purchase intention (Garretson & Burton, 2003). Considering one's price value consciousness (a proneness to price and deal), we suggest that functional value consciousness may be a driver in choosing shanzhai products over counterfeits. We define functional value consciousness as an inclination to seek functional benefits when shopping. Since shanzhai products attempt to provide improved and additional product functions compared to counterfeits, we propose that consumers who exhibit high functional value consciousness are more likely to choose shanzhai products over counterfeits. We hypothesize:

H_{1b}: The more consumers tend to exhibit functional value consciousness, the more likely they will be to choose shanzhai products over counterfeit products.

Social values. Product social values refer to the social image (such as social status and social conformity) obtained by using a product (Bushman, 1993; Sheth, Newman, & Gross, 1991; Shukla, 2010). This is particularly true for branded products purchased for their symbolic benefits (Nia & Zaichkowsky, 2000; Yim, Williams, Lee, & Macrury, 2014). The strong resemblance of counterfeits to authentic brands can cause others to believe the consumer owns the branded product. Previous research suggests that consumers buy counterfeits because they wish to derive symbolic benefits and demonstrate social status, in addition to signalling that they belong to a social group (Eisend & Schuchert-Güler, 2006). However, shanzhai products are typically distinguishable from the original products, and hardly reflect the original brand's social values.

Thus, we believe that consumers who purchase shanzhai products generally value social values less than those who choose counterfeits. Regarding consumers' desire to purchase shanzhai products versus counterfeits, we consider face consciousness, status seeking, and social conformity as purchase intention drivers.

Face consciousness is defined as "people's desire to enhance, maintain, and avoid losing face in relation to other people in social activities" (Bao, Zhou, & Su, 2003, p. 736). Highly face-conscious consumers are concerned about others' approval (Keh & Sun, 2008), and will pay more attention to brand prestige than product quality (Belk, 1988; Monkhouse, Barnes, & Stephan, 2012). Face consciousness has proven to be a positive factor that predicts consumers' preference for counterfeits (Chen, Zhu, Le, & Wu, 2014; Jiang & Cova, 2012). Thus, when considering shanzhai products and counterfeits, the strong resemblance of the counterfeit product to the authentic product may signify greater brand prestige for face-conscious consumers, yet this may not be the case for shanzhai products, which are readily distinguishable from the authentic product. Accordingly, we hypothesize that:

H_{2a}: The more consumers exhibit face consciousness, the more likely they will be to choose counterfeit products over shanzhai products.

Status is defined as "the position or rank in a society or group awarded to an individual by others" (Eastman, Goldsmith, & Flynn, 1999, p. 42). Packard (1961) suggests that people consume products to demonstrate social status and ranking both to themselves and in their surroundings. In the counterfeit research, consumers who desire high status yet cannot afford original brands typically own counterfeits to signal their social status (Han, Nunes, & Drèze,

2010). When consumers wish to signal status, we propose that counterfeits can better satisfy this interest compared to shanzhai products. Counterfeits, which are very similar to their authentic counterparts, may indicate status to the consumer's social circle. Thus:

H_{2b}: The more consumers value status, the more likely they will be to choose counterfeit products over shanzhai products.

Conformity describes the tendency to comply with others' behaviour and attitude or group norms (Burnkrant & Cousineau, 1975; Eastman, Goldsmith, & Flynn, 1999). In consumption settings, brands usage characteristics (such as visibility, public consumption) will influence consumers' shopping choices (Midgley, Dowling, & Morrison, 1989). To be accepted within a group, consumers tend to choose branded products to seek others' approval. Previous research demonstrates that consumers who pursue conformity feel more positive toward counterfeits, and are more willing to pay for counterfeits (Han, Suk, & Chung, 2008; Jiang & Cova, 2012). Thus, counterfeit products, given their close similarity to their authentic counterparts, can satisfy consumers' conformity needs better than shanzhai products. Accordingly:

H_{2c}: The greater consumers' concern for social conformity, the more likely they will be to choose counterfeit products over shanzhai products.

Individual values. Besides functional and social values, products can also satisfy individual needs such as materialism and enhancing self-concept (Nia & Zaichkowsky, 2000).

Prior research has found that individual characteristics such as materialism and perception of self-image have a strong impact on counterfeit purchases (Eisend & Schuchert-Güler, 2006; Kozar & Marcketti, 2011; Penz & Stöttinger, 2008; Stöttinger & Penz, 2015; Yoo & Lee, 2009). In this study, we use self-clarity and materialism to capture the impact of individual values on the purchase intention of shanzhai products and counterfeit products.

Self-clarity refers to the extent to which people have a clear and coherent sense of themselves (Campbell, Trapnell, Heine, Katz, Lavalley, & Lehman, 1996). The literature on self-clarity points out that low self-clarity individuals are susceptible to materialism and interpersonal influence (Mittal, 2015), and are inclined to use brand consumption as a coping strategy for their own identification (Bearden, Netemeyer, & Teel, 1989). When comparing the purchase motivation of shanzhai products and counterfeits, we suggest that consumers with low self-clarity will be more inclined to choose counterfeits over shanzhai products since counterfeits portray the image of the authentic brand. We thus hypothesize the following:

H_{3a}: The weaker consumers' self-clarity, the more likely they will be to choose counterfeit products over shanzhai products.

Materialism is defined as “a mindset or constellation of attitudes regarding the relative importance of acquisition and possession of objects in one’s life” (Richins & Dawson, 1992, p. 307). Materialistic people are inclined to consume prestige brands to represent themselves, and thus are less likely to choose lesser-known brands. Accordingly, materialism has been shown to be a major factor that influences consumers’ purchase of counterfeits (Davidson, Nepomuceno, & Laroche, 2017; Yoo & Lee, 2009). We postulate that since counterfeits

have a greater resemblance to their authentic counterparts, they satisfy consumers' materialistic needs better than shanzhai products. Thus:

H_{3b}: The more materialistic consumers are, the more likely they will be to choose counterfeit products over shanzhai products.

Financial values. Financial values refer to a product's monetary attributes, such as product price and cost (Ahtola, 1984; Monroe & Krishnan, 1985). Previous studies have shown that acceptable product quality at a fair price is the key factor that drives consumers to choose counterfeits (Eisend & Schuchert-Güler, 2006; Penz & Stöttinger, 2008). We believe that financial advantage also drives consumers' shanzhai purchases. In the present framework, we adopt product acquisition value and transaction value to capture the impact of product financial values on the purchase intentions of shanzhai products and counterfeits. Acquisition value is defined as "the perceived net gains associated with the products or services acquired" (Grewal, Monroe, & Krishnan, 1998, p. 48). Transaction value is defined as "the perception of psychological satisfaction or pleasure obtained from taking advantage of the financial terms of the price deal" (Grewal, Monroe, & Krishnan, 1998, p. 48). Prior research suggests that counterfeits offer satisfactory transactional and acquisition utility to buyers (Gentry, Putrevu, & Shultz, 2006; Tang, Tian, & Zaichkowsky, 2014). Therefore, the effects of financial value are not the focus of the current study. We regard product acquisition and transaction values as control variables in our model.

Method

Research Design and Procedure

An experiment was conducted to test factors that drive consumers' purchase intention of shanzhai products versus counterfeits. Given that both types of products find appeal among a variety of consumers, a sample of 155 participants were recruited through Amazon's Mechanical Turk (MTurk). Forty percent of the participants were male and sixty percent were female. Their median age ranged from 31 to 35 years old.

The study first asked the participants to read an explanation of the purpose of the study, and then asked them to assess their general value drivers (that is, product functional, financial, social, individual values) when shopping. Next, the participants were provided the definition of counterfeit products and shanzhai products, and asked to carefully read the following hypothetical situation. Participants were asked to imagine that they were shopping for a scarf. They were randomly presented with two successive scenarios, one involving a counterfeit Burberry scarf and one a shanzhai Burberry scarf. The counterfeit Burberry scarf photo description was, "this scarf looks like the original Burberry scarf in all aspects, but the brand name and logo are used without the permission of the Burberry company" (see Appendix A). The shanzhai Burberry scarf was described as, "a scarf brand named Pery that looks rather similar but not identical to the Burberry scarf. In addition, Pery is stitched with two pockets on the other side of the scarf. Consumers can put hands in when using as a tippet" (see Appendix B). While other product categories such as fashion accessories and athletic accessories were considered, we ultimately selected a Burberry scarf as the stimulus since it embodies functional, individual, social, and financial values and is well known in the global market. We controlled the price across the two products (the counterfeit and shanzhai scarves)

as being equal. After the explanation of the scenarios, we asked participants to indicate how likely they were to buy either the counterfeit scarf or the shanzhai scarf. Lastly, demographic information and control variables were measured.

Measurements

For the independent variables, multiple item scales were formulated to measure each construct. All items were directly adopted from existing counterfeit and consumer value research with adjustments to fit the current study context, and measured by a seven-point Likert scale ranging from *strongly agree* to *strongly disagree* (see Table 2 for the measures used in this study). For the dependent variable (that is, purchase intention), we use a bipolar continuous variable by asking consumers to indicate to what degree they would likely purchase a shanzhai scarf or a counterfeit scarf (1= *Scarf looking the same as Burberry*, 7= *Scarf looking similar to Burberry but having two pockets*, that is, the Pery). Controls include age, monthly expenses, the ethics of purchasing counterfeit (that is, the belief that buying counterfeit products is ethical), the ethics of purchasing shanzhai (buying shanzhai products is ethical), two financial values (acquisition value and transaction value), and brand consciousness (“The well-known national brands are best for me”). These controls may influence buyers’ counterfeit versus shanzhai purchase intentions in addition to value drivers discussed in the hypotheses. The item loadings for the control constructs are presented in Table 2.

[Insert Table 2]

Analysis and Results

Confirmatory Factor Analysis (CFA) Results

We conducted CFA in structural equations modelling (SEM) to test the goodness-of-fit, the reliability, and the validity of the model. EQS 6.3 for Windows software was employed. The results are provided in Table 2. The chi square per degrees of freedom is 1.49 ($p > .05$) indicating a good model fit. Since chi square is sensitive to sample size and distribution normality (Hu & Bentler, 1995), we also checked the following fit measures: NNFI (.96), IFI (.97), CFI (.97), and RMSEA (.05). These indicators suggest a good fit of the model to the data in accordance to the criteria established by Browne and Cudeck (1993) and Bentler and Bonett (1980).

To check for common method bias, we followed the procedures recommended by Podsakoff and Organ (1986) to conduct a global factor analysis on items related to all predicting and criterion variables for each side. No general factor was detected in the unrotated factor structure, and thus we did not detect common method bias in the analysis.

We assessed the reliability and validity of all constructs. First, all composite reliability values are over .50, indicating a good internal reliability (Bagozzi & Yi, 1988). Second, we examined the average variance extracted (AVE) for each construct. These values are all above the .50 cut-off suggested by Fornell and Larcker (1981). As indicated in Table 2, all items load significantly on the focal constructs, indicating good convergent validity. In summary, our results show the good reliability and validity of the constructs.

Hypotheses Testing

We used EQS 6.3 for Windows SEM to test the hypotheses. Table 3 lists the descriptive statistics and Pearson correlation coefficients of our model. Table 4 shows the path model results of the main effects. H_{1a} , which suggests that consumers who value utilitarian function are more likely to choose shanzhai products over counterfeits, is supported ($\beta = .24, p < 0.01$). Similarly, H_{1b} , which states that functional value consciousness will drive consumers' shanzhai purchase intentions more than counterfeit, is also supported ($\beta = 0.20, p < 0.05$). These results support our general prediction that consumers who value functional benefits tend to buy shanzhai products over counterfeits.

H_{2b} indicates that the more consumers value social status, the more likely they will be to choose counterfeits over shanzhai products. We find support for H_{2b} ($\beta = -0.84, p < 0.05$). H_{2a} proposes that as consumers' face consciousness increases, the more likely they will be to choose counterfeits over shanzhai products. Unfortunately, this hypothesis is not supported by our data. Our result indicates the opposite case, that face consciousness leads to a higher level of shanzhai purchase intention ($\beta = 0.90, p < 0.01$). A follow up ANOVA test shows that face consciousness is different across ethnic groups in our sample ($F = 9.23, p < .001$). Importantly, the majority of our respondents are non-Hispanic White or Euro-American (125 out of a total of 155 respondents) with a mean value of face consciousness at 3.52, indicating a skew toward low levels of face consciousness in our sample. We suspect this unsupported hypothesis H_{2a} is due to the sociocultural value differences between East Asia, where shanzhai originates, and the US, where counterfeits are not often readily available. It may be worthwhile to conduct further research investigating how cultural values may influence the link between face consciousness and shanzhai-versus-counterfeit product purchase intention. H_{2c} indicates that social conformity will drive counterfeit purchase over shanzhai; this is not

supported ($\beta = .01, p > 0.1$). We suspect that the unsupported hypothesis might be due to the general low level of social conformity needs ($M = 4.23$) in the American culture.

H_{3a} states that the weaker the self-identity, the more likely consumers will choose counterfeits over shanzhai products. This is supported ($\beta = 0.17, p < 0.05$). H_{3b} proposes that materialism will drive counterfeit purchase over shanzhai. This is not supported ($\beta = 0.12, p > 0.1$). These results indicate that our general predictions that the identity-confusing consumers who pursue a materialistic dream will be more likely to buy counterfeits over shanzhai products are partially supported. Weaker self-identity indeed can increase the likelihood of counterfeit purchases over shanzhai products, but our data does not support the direct effect of materialism on counterfeit over shanzhai purchases. One potential explanation might be that the effect of materialistic values may be conflated with cultural values, that is, power distance belief and self-construal constructs, which makes the mechanisms more complicated than we expected.

[Insert Tables 3 & 4]

In sum, we find evidence supporting H_{1a} , H_{1b} , H_{2b} , and H_{3a} . The results suggest that the likelihood of choosing shanzhai products over counterfeits appears to increase when consumers seek higher utilitarian value and functional-value consciousness; have less desire for high social status; and have a higher level of self-clarity. In comparison, the probability of choosing counterfeits over shanzhai products appears to be greater when consumers exhibit low self-clarity; and when they seek social status.

Discussion

Summary

As a particularly widespread and cross-industry phenomenon, shanzhai exists in many emerging markets (such as China, Brazil, and India, and others.). Shanzhai is often an efficient and effective strategy for late movers in emerging markets as they attempt to cater to the growing middle class of consumers with an appetite for name-brand products. In these circumstances, with greater knowledge and affinity for premium brands, consumers increasingly turn to shanzhai products. These imitations, similar to but different from counterfeits, mimic the original brand's name, design, and function, yet consumers are typically aware of the differences between the shanzhai and authentic products. Shanzhai products usually command a much lower price, and often feature enhanced and localized product functions. Consequently, consumers in emerging markets enthusiastically embrace shanzhai products. Most interestingly, the popularity of online retailers such as Alibaba and Amazon has made the practice of shopping for shanzhai products a global phenomenon. This makes it more difficult to estimate the global sales of shanzhai products.

Recognizing the spread of shanzhai products in global markets, the present study makes three contributions: we provide an explicit conceptual distinction between shanzhai products and counterfeit products; we establish different drivers for shanzhai versus counterfeit product purchase intentions by testing both in one integrative model; and we will propose a series of solutions for original manufactures to combat shanzhai threats. Our empirical evidence supports the notion that the drivers for purchasing shanzhai products differ from those of counterfeit products, even if both products are priced similarly. Consumers concerned with a

product's functional values are more likely to choose shanzhai products over counterfeits. Additionally, shanzhai buyers are less attracted by status consumption and have greater self-clarity. This profile is different than that of counterfeit buyers, who tend to be more status-seeking and have lower self-clarity. Therefore, marketers of shanzhai and counterfeit products will benefit from targeting different consumer segments. These findings are empirically supported by structural equations modelling analysis, which shows clear and distinct patterns between buyers of shanzhai products versus counterfeits. Another finding of interest is that when consumers' attitude toward the ethics of shanzhai products is positive (that is, they feel that buying shanzhai products is ethical), consumers are more likely to purchase shanzhai products and less likely to purchase counterfeit products.

Contribution to Scholarship

The current study makes several contributions to academic research. First, we introduce a widespread phenomenon, shanzhai products, into brand imitation research, and contrast it to counterfeits. While both categories of products imitate leading brands at lower cost, shanzhai products obviously differ from counterfeits with respect to the degree of visual and functional similarities to the genuine brands. Until recently, original brand marketers often overlooked the competitive threats posed by shanzhai imitators.

Second, we investigate shanzhai buying behaviour. The results indicate substantial differences exist between purchase drivers for counterfeit and shanzhai products. Interestingly, the present study demonstrates that it is psychographic consumer motivation, not demographic characteristics, that differentiate shanzhai buyers from counterfeit buyers. Specifically, we reveal the processes underlying consumers' preferences for shanzhai versus

counterfeit products, which should aid brand managers understand why consumers may choose imitation products over authentic products. Based on this understanding, brand manufacturers can employ different approaches in appealing to consumers who may be inclined to purchase shanzhai products or counterfeits. In competing with shanzhai and counterfeit products, name-brand marketers can emphasize both functional and social/individual values as a way to differentiate their brands. Authentic brands need to be strongly positioned against imitators to justify their relatively high price.

Applied Implications

The findings offer practical implications for name-brand marketers looking to combat shanzhai products while reinforcing the motivations for the consumption of authentic products. First, leading brand marketers may provide high quality yet more favourable prices in catering to local consumers. Most shanzhai companies originate from emerging markets, such as China, Thailand, India, and Brazil, where consumers cannot afford the authentic leading brands. Shanzhai products that provide similar or additional product benefits yet sell at a much lower price represent formidable alternatives to higher-priced authentic brands. Our empirical results imply that financial and functional values tend to be the main factors driving consumers to the consumption of shanzhai. Thus, to compete with shanzhai products, name-brand marketers ought to utilize their established management and marketing prowess to develop localized product features offered at much lower cost to compete with shanzhai products. For example, IKEA can provide good quality yet lower-priced furniture. Apple could launch lower-priced yet high-quality phones (which recently occurred with the 5C and SE iPhones).

Second, name-brand marketers should be cognizant of the threat of rapid and innovative imitation by shanzhai marketers. The advantage of late development allows shanzhai imitators in emerging markets to catch up to competition in advanced economies. Once shanzhai imitators accumulate capital and technological resources, some may establish successful global brands (such as Xiaomi). This occasionally results in reverse innovation, where the name-brand manufacturer adopts the innovation from the later movers in the emerging markets (He, Fallon, Khan, Lew, Kim, & Wei, 2016). Therefore, name-brand marketers ought to speed up their innovation cycles, and acquire greater prowess in adapting to local needs and preferences.

Third, original brand manufacturers should actively pursue legal action against shanzhai rivals once they enter developed markets. Such lawsuits may help significantly slow down the entrance of shanzhai rivals and sometimes even successfully prevent their ultimate entrance. We may see more lawsuits against shanzhai products in developed markets in the future.

Fourth, original brands should actively educate consumers as to the value of intellectual property and accentuate the appeal of owning authentic products. Shanzhai companies often originate in emerging markets where consumers' awareness of intellectual property is inadequate. Although shanzhai imitations may be an efficient short-term strategy for these firms to catch up with their Western rivals in global competition, shanzhai imitations will undoubtedly weaken the entire industry's innovative capacity and diminish consumer welfare in the long run. For example, name-brand marketers need to constantly redesign and update their products, which eventually adds a cost burden (Dobson & Zhou, 2014). Small-scale original marketers that may be lacking adequate resources may be frustrated by free-riding and thus lack the incentive to invest in ongoing innovation. Over time, the number of brand

innovators may be reduced, limiting the choice of novel brands. Since shanzhai buyers tend to possess greater self-clarity, we believe that advocating for intellectual property protection may be an effective way to prevent shanzhai consumption.

Limitations and Future Research Directions

While novel in many respects, several limitations about the present study should be noted, providing opportunities for future research. First, our conceptual framework sought to examine prevalent drivers of name-brand versus imitations. Nevertheless, we considered a limited set of drivers. Therefore, future scholars may seek to incorporate additional drivers, and to develop more comprehensive models to better understand this multi-faceted consumer behaviour. Second, we examined only one product category—a scarf—which encompasses functional as well as symbolic benefits. Testing our model with different product categories should enhance its predictive validity. Lastly, we investigated shanzhai in Western cultures with a limited number of study participants. It would be of interest to explore this phenomenon with a larger group of consumers in multiple cultures. Taken collectively, our research provides a preliminary understanding of a novel product category. Given the paucity of extant research in this area, we hope that the empirical findings presented in this article will spark the interest of other scholars.

JEL classification:

Endnote

1 Although Xiaomi and Samsung's tablets are highly similar to the iPad in design and function, Xiaomi and Samsung's tablets were legally sold all over the world except in some countries such as the US and Germany. For example, Apple sued Samsung, claiming that Samsung had copied the design of iPhone and iPad both in America and Germany since 2011. Apple won and was awarded \$399 million in damages (Rossignol, 2017). Similarly, Apple recently won a lawsuit against Xiaomi in Europe by claiming that Mi pad was close enough to iPad to confuse the public (Meyer, 2017). Shanzhai products can therefore be considered to be sold as a legal marketing activity in general, with the lawsuits against Samsung and Xiaomi in the US categorized as exceptions.

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Figure 1. Shanzhai iPhone

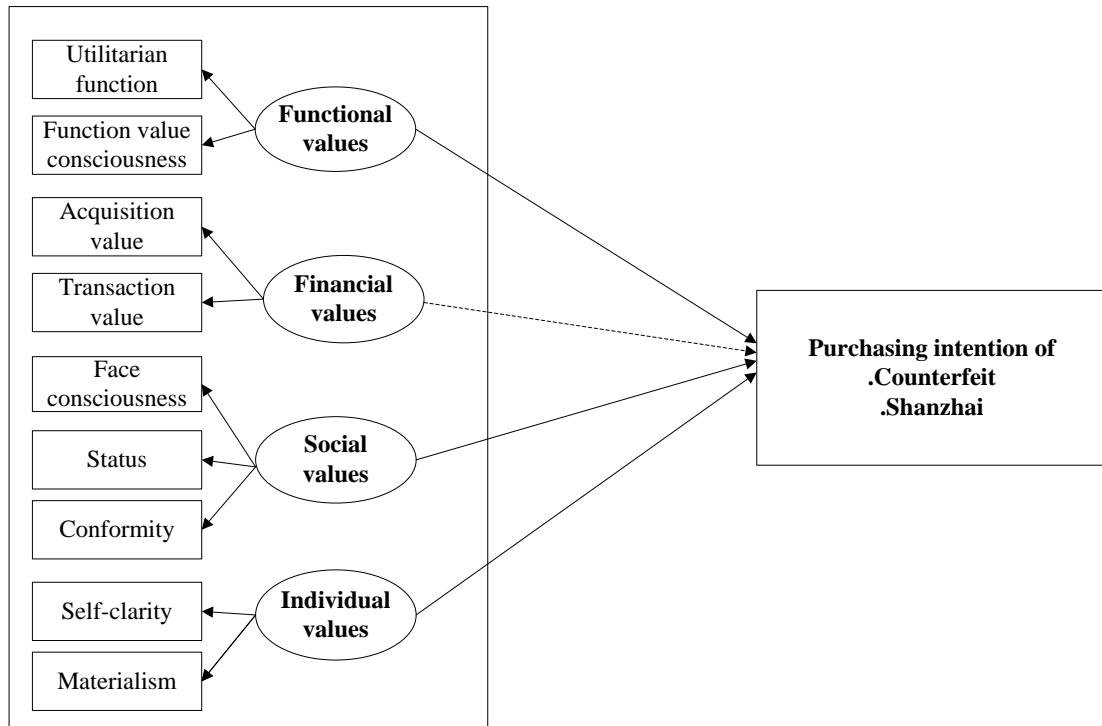


Figure 2. Broad applications of shanzhai



Note. pictures clockwise from top left: shanzhai panda; shanzhai superstars; shanzhai train; shanzhai police station, mastermind surnamed Zhou (adopted from Chubb, 2015).

Figure 3. Theoretical model



Note. The dotted line represents the controlled effect; solid lines are the main effects.

Table 1
Differences between counterfeits and shanzhai products

	Innovative shanzhai products	Knock-off shanzhai products (i.e., lookalike copycats)	Low-quality counterfeits	High-quality counterfeits
Legal?	Legal in most cases with few exceptions	No	No	No
Visually similar to originals?	Similar but different	Very similar	Almost identical	Identical
Deceptive to consumers?	Not deceptive	Deceptive	Deceptive	Very deceptive
Differentiated from the originals?	Noticeable differences from original	Trivial differences from original	Identical to original	Identical to original
Product functions compared to originals?	Additional functional benefits	No additional functional benefits	No additional functional benefits	No additional functional benefits

Table 2
Confirmatory factor analysis results

Constructs and their items	Standardized coefficient
Antecedents	
Functional values	
Utilitarian function CR = .78, AVE = .55	
I often buy practical products.	.70**
I buy product mainly based on product functions.	.74**
I usually buy the product that has the maximum product functions that I need.	.78**
Functional value consciousness CR = .61, AVE = .82	
I am very concerned about product function value.	.83**
When purchasing a product, I always try to maximize the product functions.	.76**
When I shop, I usually pay more attention to the function information for products I buy.	.75**
Social values	
Face consciousness CR = .90, AVE = .68	
It is important that others like the things I buy.	.84**
Sometimes I buy a product because my friends do so.	.85**
I enjoy showing off my new possessions to others.	.73**
Name-brand purchasing is a good way to distinguish people from others.	.87**
Status seeking CR = .92, AVE = .80	
I would buy a product just because it has status.	.92**
I am interested in new products with status.	.87**
I would pay more for a product if it had status.	.90**
Conformity CR = .82, AVE = .61	
Buying the same products and service as the people around me makes me feel comfortable.	.82**
I feel relaxed when following the purchasing decisions made by the majority of people around me.	.90***
We need to learn to fit in and get along with others.	.60**
Individual values	
Self-clarity CR = .90 AVE = .63	
My beliefs about myself don't change very frequently.	.69**
In general, I have a clear sense of who I am and what I am.	.86**
I don't spend a lot of time wondering about what kind of person I really am.	.69**

My belief about myself is stable.	.83**
I am clear about what kind of person I am.	.90**
Materialism CR = .84, AVE = .64	
I admire people who own expensive homes, cars, and clothes.	.94**
The things I own say a lot about how well I'm doing in life.	.72**
I'd be happier if I could afford to buy more things.	.71**
Consequence	
Purchase intention CR = .97, AVE = .83	
1= Scarf identical to Burberry (i.e., counterfeit), 7= Pery scarf (i.e., shanzhai)	
I would buy:	.94**
I would prefer to buy:	.92**
I am very interested in buying:	.91**
Which scarf do you like more?	.86**
If you were going to purchase a scarf, to what extent would you consider buying each of the two options?	.92**
Between the two scarves, which one do you think you are more likely to buy?	.90**
How likely would you be to purchase between the two scarves?	.92**
Controls	
Acquisition value CR = .77, AVE = .53	
When I shop, I believe that acquiring a product should meet both my high quality and low price requirements.	.67**
When I shop, I always make sure that I am getting good quality product for a reasonable price.	.74**
When I shop, I believe that the product I chose would be a worthwhile acquisition for the price I paid.	.78**
Transactional value CR = .85, AVE = .65	
Taking advantage of a price deal makes me feel good.	.83**
I would get a lot of pleasure knowing that I saved money at a reduced sale price.	.83**
Beyond the money I save, taking advantage of a price deal will give me a sense of joy.	.75**
Ethics counterfeit CR = .77, AVE = .63	
Buying counterfeit products is ethical.	.86**
Buying counterfeit products is legal.	.72**
Ethics shanzhai CR = .81, AVE = .68	
Buying shanzhai products is ethical.	.93**
Buying shanzhai products is legal.	.71**

Brand consciousness CR = .87, AVE = .63

The well-known national brands are best for me.	.77**
The more expensive brands are usually my choices.	.79**
I prefer buying the best-selling brands.	.78**
The most advertised brands are really very good choices.	.83**

Chi-Square (990 d.f.) = 1471.49

NNFI = 0.96

CFI = 0.97

IFI = 0.97

RMSEA = 0.05

Note. $p < .10$. * $p < .05$. ** $p < .01$. *** $p < .001$.

Table 3
Correlation matrix

Constructs	Mean	SD ^a	1	2	3	4	5	6	7	8	9	10	11	12	13
1. Utilitarian function	5.64	.90	.74												
2. Functional value consciousness	5.62	.92	.73**	.78											
3. Face consciousness	3.77	1.59	-.20*	-.11	.82										
4. Status seeking	3.59	1.71	-.21**	-.16*	.80**	.89									
5. Conformity	4.23	1.34	-.05	-.04	.71**	.69**	.78								
6. Self-clarity	5.27	1.19	.32**	.36**	.05	.09	.14	.80							
7. Materialism	4.35	1.49	.01	.04	.64**	.62**	.60**	.04	.80						
8. Purchase intention	4.49	1.91	.04	.08	.06	-.05	.08	.22**	-.04	.91					
9. Acquisition value	5.74	.91	.74**	.71**	-.20**	.29**	-.10	.26**	.02	-.01	.73				
10. Transaction value	5.67	1.10	.68**	.67**	-.09	-.15	-.03	.27**	.06	-.04	.71**	.81			
11. Brand conscious	3.95	1.51	-.12	-.10	.73**	.75**	.64**	.01	.76**	-.08	-.17*	-.12	.79		
12. Ethics counterfeit	3.76	1.60	-.18*	-.15	.47**	.48**	.36**	-.09	.37**	-.03	-.25**	-.16	.39**	.80	
13. Ethics shanzhai	4.63	1.42	-.05	.02	.12	.18**	.17**	.12	.16*	.13	.02	.02	.15	.35**	.83

Note.

a: SD = Standard deviation.

b: Numbers on the diagonal shown in bold denote the square root of the average variance extracted (AVE) (Fornell & Larcker, 1981).

** .Correlation is significant at the 0.01 level (2-tailed).

* .Correlation is significant at the 0.05 level (2-tailed).

Table 4
Path model results

Variables	Purchase intention 1= Counterfeit, 7= Shanzhai
Control variables	
Age	.05 ^{n.s.}
Monthly expenses	.01 ^{n.s.}
Acquisition value	-.25 ^{n.s.}
Transaction value	-.12 ^{n.s.}
Ethics counterfeit	-.10 ^{n.s.}
Ethics shanzhai	.19 [*]
Brand consciousness	-.26 ^{n.s.}
Antecedents	
Functional values	
Utilitarian function	.24 ^{**}
Functional value consciousness	.20 [*]
Social values	
Face consciousness	.90 ^{**}
Status	-.84 [*]
Conformity	.01 ^{n.s.}
Individual values	
Self-clarity	.17 [*]
Materialism	.12 ^{n.s.}
Model fit:	
Chi-Square (1152 d.f.) = 2276.36	
NNFI	.94
CFI	.94
IFI	.94
RMSEA	.08

Note. Report standardized path coefficients
[†] $p < .10$. ^{*} $p < .05$. ^{**} $p < .01$. ^{***} $p < .001$.

Appendix A. Counterfeit Burberry scarf



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Appendix B. Shanzhai Burberry scarf



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