

Managing the risks of counterfeit products

The effects of celebrity
culture on the luxury
goods industry



The cult of celebrity is helping to fuel a luxury goods industry worth £1.87 billion¹ over the next two years. Conversely, the desire by consumers to own the same clothes and accessories as their celebrity icons is also accelerating an enormous growth in cheaper, counterfeit goods that is costing the luxury goods industry millions in lost sales and damage to their brands.

The questions facing luxury goods manufacturers are clear: what is the extent of the risks presented by counterfeit goods and what can be done to mitigate against them?

In this paper, PricewaterhouseCoopers² analyse the changing consumer buying behaviour that we believe is one of the main drivers behind continued investment in luxury goods and counterfeits³. We explain why this behaviour is both an opportunity and a threat, and outline the steps that luxury goods manufacturers need to take in order to reduce the damage that counterfeit products is having, and will continue to have, on their businesses.

¹ Based on YouGov market research using ONS population statistics (mid-2005)

² 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom).

³ PwC commissioned YouGov Plc to interview consumers about their views on luxury goods. Total sample size was 2,238 adults and fieldwork was undertaken between 18th and 20th April 2007. The figures have been weighted and are representative of all GB adults (aged 18+).

The genuine luxury goods marketplace

There is no doubt that the luxury goods marketplace has seen massive growth in the past decade. According to our own research* one fifth of UK consumers now owns at least one example of genuine luxury goods (defined for this purpose as 'genuine luxury clothing or accessory items, eg Burberry, Gucci, Prada, Louis Vuitton, Mulberry, Jimmy Choo etc), while almost a third of consumers aged between 35 and 44 intend to spend more than £500 on luxury goods over the next two years.

The ownership and purchase of genuine luxury goods has been partly driven by

the success of the UK's financial markets in the past decade in the same way that metropolitan house prices have continued to rise to dizzy new heights.

Ostensible wealth worn (literally) on the sleeve is back in vogue, despite an increasing pressure on household bills and interest rates and the 'credit crunch' in the investment world.

It's often argued that the luxury goods marketplace is immune to the normal vicissitudes faced by other sectors. Consumers with 'real' money to spend don't

feel the cold winds of recession the way that the average household does.

However, most luxury goods manufacturers recognised some time ago that they need to stretch their brands outside their traditional clientele if they were not just to thrive but to survive.

This has opened up the luxury goods market to a much wider range of consumers and consumer idols than ever before – luxury brands have stretched into hotels, perfumes, sunglasses, mobile phones, belts and handbags that more people can afford.

This strategy has backfired for some brands, as exclusivity has been exchanged for revenue generation. However, once the brand is out there and been espoused by a celebrity icon (however inappropriate) it can't be put back in the box – you can't stop people with enough money buying, wearing and being photographed in the branded item.

20%
of UK consumers own
at least one example of
genuine luxury goods

The rise of the
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The cult of celebrity

The rise of the cult of celebrity, in which everyone can be famous for 15 minutes, can be directly related to the rise of reality television and social networking sites.

Instead of using traditional channels to build a career as a successful entertainer or musician, for example, 'ordinary' people can become famous overnight for being on the X-factor or Big Brother.

The concepts of being famous for being famous and overnight stardom are consequently no longer alien – they are part

of our cultural DNA. And the trappings of being famous are also well-acknowledged: the designer tote handbag; the high-heeled designer shoe; the just-off-the-catwalk bike jacket; the bejewelled watch; the over-sized sunglasses.

The fact that an 'ordinary person' can go from the council estate to launching her own perfume and clothing range in a matter of years just by marrying a footballer is testament to the successful cult of celebrity. It also makes other 'ordinary people' who

consume mass culture feel as though celebrity is just within their grasp, and that they can take the very first step towards it by owning a designer bag.

Affordable alternatives

A whole new breed of consumer magazines now exists to show not just photographs of celebrities and the clothes and accessories they are wearing but also advice on where affordable versions of those items can be bought on the high street.

Recognising the huge demand for luxury goods, high street stores and even supermarket chains have responded in a number of different ways:

- Bringing catwalk 'look-alike' clothes and accessories to their stores in record time after the originals are shown

- Appointing well-known designers to develop exclusive 'diffusion lines' for their stores – designers like Stella McCartney for H&M who have one foot in couture and another in the high street
- Appointing celebrities such as Kate Moss for Top Shop to design their own clothing and accessory ranges to sell in-store

There is a sub-strand to this, which is the mix-and-match trend for both consumers and celebrities to blend cheaper high street clothes with one designer piece, notably a genuine handbag or pair of shoes.

Traditional consumers of luxury goods will think nothing of wearing clothes from Top Shop with designer accessories, for example.

Where next for luxury goods?

Where does this leave the luxury goods manufacturer? The good news is that there is a wider market for their products with consumers who want to be part of the celebrity culture.

The not so good news is that just as the credit crunch may dampen City bonuses and impact their traditional markets at the high end, the more prosaic squeeze on mortgage

payments and energy bills could have an impact on those who buy just one or two pieces a year.

The fact that the young and the less affluent now have a taste for modelling their wardrobes on celebrities could also fuel a flight to counterfeit goods – not the real thing, but just near enough to complete a particular look.

“The UK is a key market for luxury brands, with one in five of us owning luxury clothing or accessories”

Mark Hudson, UK Retail & Consumer Leader,
PricewaterhouseCoopers LLP

Unlicensed products

Yet just as much of a concern for the luxury goods manufacturers is the amount of unlicensed product on the market.

Unlike counterfeits, which are made by unscrupulous companies to varying degrees of authenticity and quality, unlicensed goods are those made by licensed manufacturers under agreement with the original designer but just not declared.

PwC's own licensing team regularly identifies

misreported royalties as part of examinations into licensed manufacturers – 95% of examinations have identified misreporting.

This means that there are unknown volumes of royalty-free goods entering the market and being bought for near-counterfeit prices by consumers who are aware they are not the genuine article.

There are two main levers to address the problem of consumers buying royalty-free or

counterfeit products: legal action/regulation; and consumer education. Luxury goods manufacturers regularly call for tougher action by customs officials to curb cross-border trafficking of counterfeit goods, particularly from China.

The Walpole Group, which promotes British luxury brands, reports that customs seizures of fakes have increased 10-fold in the last five years. In 2004, EU Customs seized a

massive £103 million counterfeits, leading to the Walpole Intellectual Property Working Group being set up to lobby EU and UK governments and raise awareness of the issue.

Luxury goods manufacturers such as Tiffany, LVMH and PPR have also started to take the problem into their own hands by bringing (or threatening to bring) legal action against

online marketplaces such as Ebay. Fendi is reported as tripling or quadrupling the legal fees devoted to fighting counterfeiting.

However, given the massive volumes of fake goods, the huge demand for them and the level of resources available in China and elsewhere to manufacture them, it seems unlikely that legal action alone will stem the tide.

One in three consumers aged between 18 and 45 are fully prepared to buy fake luxury goods and accessories

Educating consumers

The other lever is customer education. The shocking news from our consumer research is that as many as one in three consumers aged between 18 and 45 are fully prepared to buy fake luxury goods and accessories.

Only half of consumers surveyed said they would not buy fakes, with more affluent and skilled ABC1 respondents saying they would buy fakes than C2DE respondents.

Is it possible to change these attitudes?
After all, buying a fake handbag is in effect

stealing unlicensed intellectual property from a designer because no royalty has been paid. And £1 in every £10 generated through the sales of counterfeit goods is estimated to go on to fund criminal activity.

But as we have seen with the music industry these messages are not ones that always resonate with consumers who view the effects on the profits of luxury goods manufacturers as less important than their need to buy the product they want.

To understand consumer behaviour in more detail, and help to inform the potential education process that is needed, we broke the findings of our research down into regional, age and gender differences.

We found that while one in five respondents already own genuine luxury clothing or accessories, there were significant difference between age groups. For example, 30% of 18 – 24 year olds own luxury goods compared with just 13% of the over 55s.

This suggests that the younger generation are currently more interested in owning luxury goods (and will continue to spend on them), perhaps driven by the cult of celebrity more readily than older people. The big question is whether this generation will continue to spend more as they grow older and face more pressure from mortgage payments and the cost of raising families/ investing in pensions.

Not surprisingly the ownership of luxury goods is tied to metropolitan areas such as London, Manchester and Newcastle than the countryside. 30% of respondents in London own luxury goods compared with just 14% in the South West.

Turning to the propensity of consumers to buy counterfeit goods, only half of respondents overall said that they wouldn't buy fakes. This rises to 60% of the over 55s,

reflecting the comparatively low interest in luxury goods overall. Men were more likely to buy luxury items that were fake (29% of respondents overall) than women (24%).

Regionally, 38% of respondents in Wales said that they would be willing to buy fake goods, compared with 30% in the North East, 27% in London and a low 22% in the North West.

The motivation for buying luxury goods also differs by age, region and gender. Men who own luxury goods are more likely to do so because they have 'a better quality and feel' than high street products than for any other reason, while women are more likely to own them because they have been given them as presents.

Respondents in London are also more likely to buy luxury items because of better

quality or simply to spoil themselves than in other regions, reflecting the higher levels of disposable income in the capital. Interestingly, respondents across all groups were least likely to give the reason that they 'wanted to show off their wealth' as motivation for buying luxury goods.

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Next steps

Our research suggests that the best way for luxury goods manufacturers in the future is to promote sales of their products is to appeal to the psychology of owning quality and spoiling oneself than in necessarily aligning brands with ostentatious wealth per se.

This could involve doing more to promote the 'experience' of being a customer of a luxury brand – providing an exclusive store

that is more accessible than the traditional Bond Street emporium, perhaps, or starting an online community.

Another measure could be to use technology to ensure the veracity of clothing or accessories, such as a hologram or intelligent chip built into a tag.

Overall, however, we believe that counterfeiting is not just difficult to control

but impossible to eradicate altogether. While this continues to be the case, we would always advise companies to look in more detail at their global licensing arrangements, which in many cases have been in place for a number of years and should be reviewed (see side panel). This would at least help to address the problem of royalty free goods entering the marketplace.

Analysing your relationships with licensees

Many licensing agreements have been in place for many years and need to be looked at in detail. We recommend taking the following steps:

Inspect your relationships – understand exactly who your licensees are and review the terms and conditions of your contracts with them

Audit your licensees – our licensing regularly uncovers misreported royalties from licensees when they are audited

Don't rely on trust, no matter how long you have had a relationship for – you trust your employees but you would still audit their expenses and working hours

Know who you are going into business with – it's not just about reviewing existing relationships but also about carrying out due diligence with new partners

Understand brand impact – unlicensed product in the supply chain damages the reputation of your genuine products as well as the bottom line

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