# Busan Consumers' Perception of Counterfeit Products 2019

EUROPEAN CHAMBER OF COMMERCE IN KOREA
주한유럽상공회의소

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# INTRODUCTION

The European Chamber of Commerce in Korea (ECCK) is the prime advocacy channel for European companies conducting business in and with Korea. Furthermore, it cooperates with organizations that share mutual interests to promote an optimal business environment and fairly represent the European business community. The ECCK is a non-profit and non-political organization.

In the current global economy "knowledge is […] the driver of productivity and economic growth"[1] and a nurturing and supportive IP environment is an essential condition for a vital and a successful economy[2]. According to the Korea Institute of Intellectual Property (KIIP), IP-intensive industries accounted for 43% of Korea's GDP, adding a total value of KRW 560 trillion (EUR 436 billion). Moreover, IP-intensive industries employed 30% of the entire Korean workforce and paid their employees an average 50% higher salary than employees in non-IP intensive industries.

In light of the importance of intellectual property for both industry as well as government, ECCK operates an Intellectual Property Rights (IPR) Committee. This Committee has the three-fold objective of fostering communication and cooperation with relevant stakeholders, facilitating the exchange of information between industry and the government in Korea, and raising public awareness of the importance of protecting IPR.

The last objective also encompasses instilling awareness as to the insidious effects of the counterfeit industry on all levels of society. It is harmful to businesses, consumers, and society at large as it places consumers at risk, hinders economic growth, stifles innovation, reduces business and government revenue and results in job losses. In addition, there is evidence of a link between counterfeit goods and the financing of criminal syndicates.

In order to curb these devastating effects, the IPR Committee remains willing and ready to continue providing support to all parties involved in enhancing the Korean IP environment, ranging from increasing awareness of the importance of IP among all levels of society to enhancing enforcement of all types of IP. These efforts have enabled many improvements, including the significant decrease in the open sale of counterfeit products at certain street markets, as well as enhanced measures by online intermediaries to curb the sale of counterfeit products.

While it is essential for government officials and industry to jointly take action against the illegitimate counterfeit industry, an important role is reserved for consumers as they have one of the most powerful tools at their disposal: purchasing power. The unfortunate reality is that many of the globally consumed counterfeit products follow a deliberate purchasing decision with knowledge about the product's illegitimate nature. As long as a demand exists, counterfeiting will be a lucrative business. Enhanced consumer awareness of the facts about the counterfeit industry and its harmful implications will lead to a decrease in consumer demand and a disavowal of the false notion that counterfeiting is a harmless crime.

In order to learn more about consumers' perception of counterfeit products, their purchasing patterns and opinions on the enforcement activities against counterfeiting, ECCK conducts consumer surveys.

[1] OECD (1996), The Knowledge-based Economy.
Link: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=OCDE/GD%2896%29102&docLanguage=En
[2] OECD (2013), Supporting Investment in Knowledge Capital, Growth and Innovation. Link: http://dx.doi.org/10.1787/9789264193307-en

# EXECUTIVE SUMMARY

This report analyses the results of a public survey conducted by ECCK during the Busan Global Gathering on May 19, 2019. The survey is part of an ongoing campaign by ECCK to enhance awareness of IPR and measures public perception of counterfeit products. The survey consisted of 8 questions and was completed by 602 people. Of the respondents, 326 were female, 205 were male and 71 did not indicate their gender. Respondents in their twenties made up the largest age group of all respondents (34%).

44% of all respondents indicated to have purchased counterfeit goods, with street stalls and internet or mobile shopping being the two most common sources, as used by 34% and 28% of the respondents respectively. Open markets (such as G-market, Auction, 11th Street, Naver Smartstore, Interpark and Alibaba) were the most common type of outlet for online purchases (as indicated by 42% of the respondents), followed by individual shopping malls (28%).

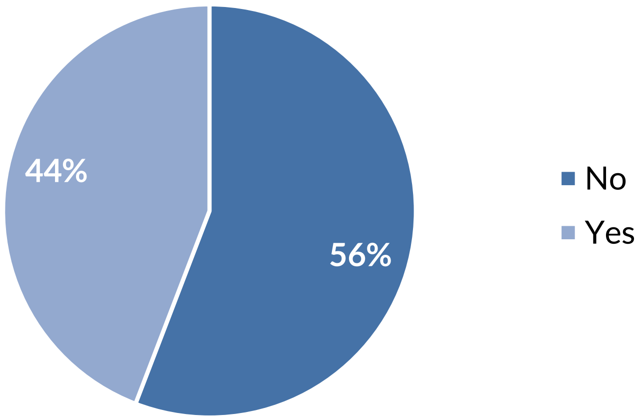
Respondents learned about the availability of counterfeit at specific platforms primarily through searches at the specific platform (open markets (28%), Social Networking Services (22%) and search portals (such as Naver, Daum, Google) (22%)).

The two most popular categories of counterfeit products were 'clothing or shoes' and 'bags or wallets' (accounting for 29% and 28%, respectively). 53% of respondents point to counterfeit products' low price as the main driver behind consumers' purchases. Almost all respondents (95%) perceived counterfeit products to be a problem, with damage inflicted on companies, harm to consumers, and decreasing business opportunities for local honest businesses being selected as the most pertinent concerns.

81% of the respondents expressed a wish for stronger enforcement against the counterfeit industry. Furthermore, one fifth of the respondents indicated that enforcement should also target consumers of counterfeit products, in addition to counterfeit sellers.

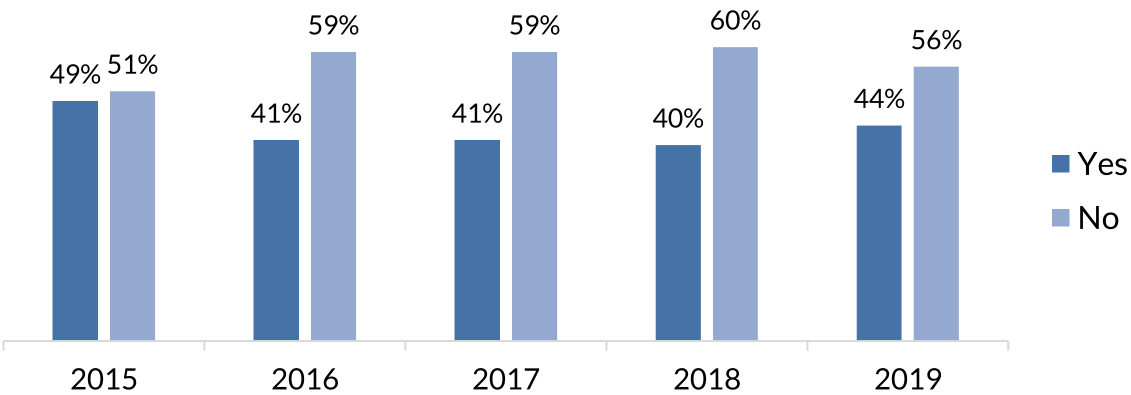
# ANALYSIS OF INDIVIDUAL QUESTIONS

## 1. "Have you ever purchased any counterfeit goods?"

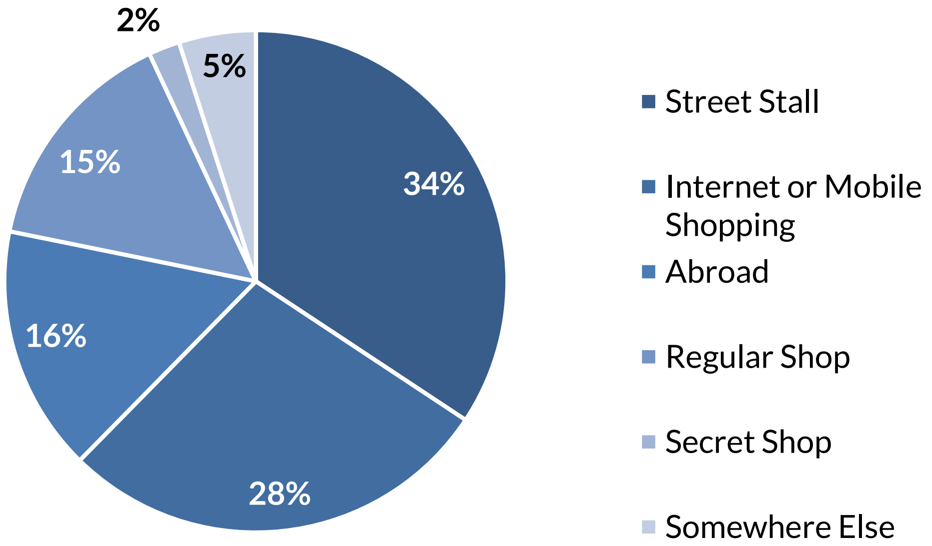



44% of the surveyed consumers indicated to have bought counterfeit products. Female respondents indicated a lower rate of counterfeit purchases than their male counterparts (42% compared to 47% respectively). Additionally, discrepancies were further observed amongst different age groups, as more than half of the respondents in their thirties, forties, and fifties (53%, 55%, 58% respectively) reported to have previously purchased counterfeit goods, while less than 40% of respondents in their teens and twenties indicated that they had purchased counterfeit goods.

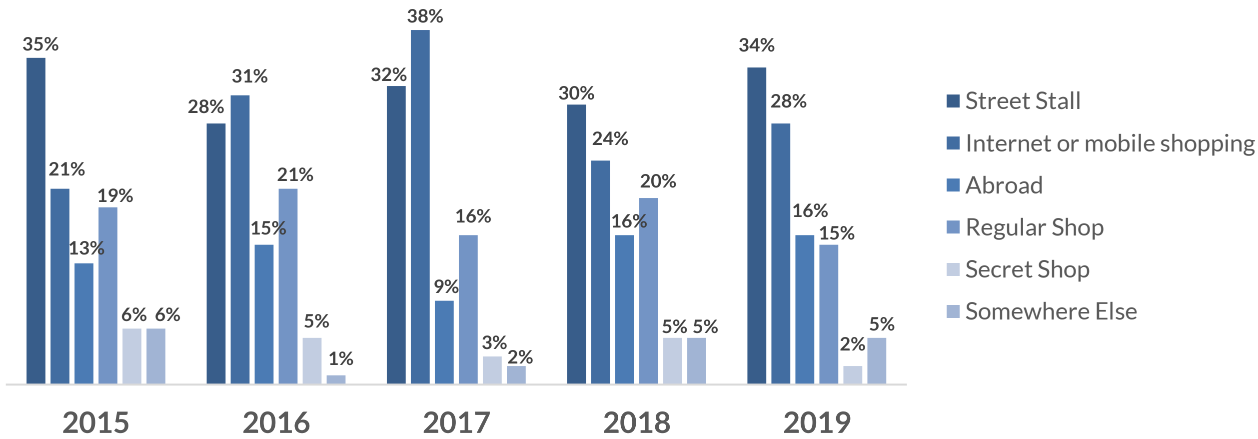
In contrast to the decreasing trend of counterfeit purchases observed in ECCK surveys in the previous years, this year's survey found a 4 percentage point increase of counterfeit purchases compared to 2018.



## 2. “Where did you purchase these goods?”




Street stalls and online platforms have been selected as the top two locations to purchase counterfeit goods for the past five years and this continues to be the case. Notably, 62% of the respondents indicated to have purchased counterfeit goods either online or at street markets. This represents an 8 percentage point increase compared to last year’s results (54%).

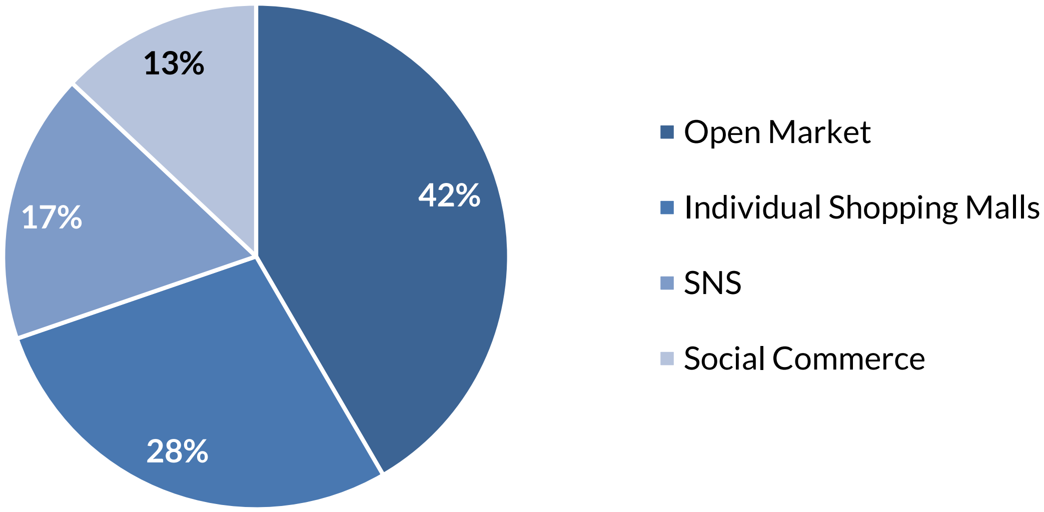



The most common source for counterfeit purchases by both male and female respondents was street stalls (34%, respectively 33%), followed by internet or mobile shopping platforms (32%, respectively 26%).

Almost half of all respondents in their twenties (45%) used online platforms for counterfeit purchases, compared to a quarter of respondents in their teens, thirties, and forties (25%, 24%, 26%, respectively). Teenagers as well as respondents in their fifties and sixties pointed to street stalls as their top source of counterfeit goods.

It is noteworthy that toy claw machines were mentioned as another source of counterfeit products (with it being indicated by 80% of respondents in their teens that purchased counterfeit products ‘somewhere else’).

## 3. “If you have purchased counterfeits online, which platform did you purchase it from?”




The widespread adoption of digital technology has led to more consumers making purchases online than ever before. According to the Ministry of Trade, Industry, and Energy, 2018 saw an average growth of 15.9% in online sales of top Korean retail companies, compared to a 1.9% growth in offline sales[3]. Counterfeit sellers, too, have followed this trend and have expanded their operations to the digital market, further fuelling the growth of illicit goods sold online.

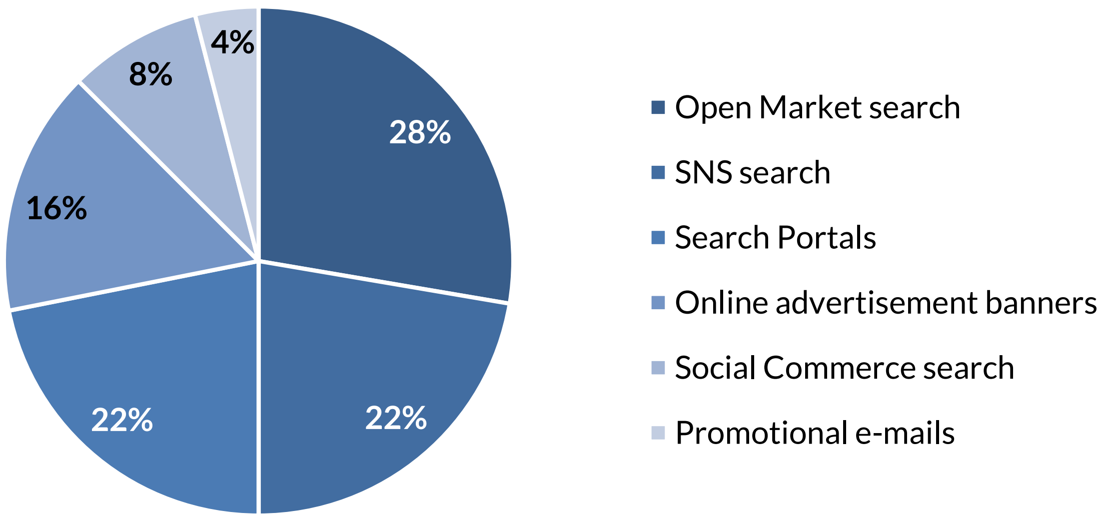
In order to get a better understanding of the use of various online intermediaries for the purchase of counterfeit goods, the survey asked those that had purchased counterfeit goods online, at which type of online platform they had made their purchase. 42% of respondents pointed to open markets (such as G-market, Auction, 11th Street, Naver Smartstore, Interpark, Alibaba), which is an increase compared to last year (at which time 33% of respondents indicated to have used open markets).

While open markets have always been pointed to as the most commonly used type of online platform for counterfeit purchases, a gradual rise in the use of individual shopping malls is noticeable. Almost three out of ten consumers in this year’s survey pointed to individual shopping malls as the source of their counterfeit products, which represents an increase compared to last year’s figures (23%) and nearly a doubling of the 2017 figures (15%). When broken down into age groups, individual shopping malls surpassed open markets as the primary online source of counterfeit products for respondents in their forties to sixties (being indicated by 38%, 44% and 83% of respondents in the respective age groups).

22% of female respondents answered to have made counterfeit purchases through social media platforms (such as Naver/Daum Blog/Café, Kakao, Instagram, and Facebook), compared to 11% of their male counterparts. Male respondents on the other hand were more inclined to use social commerce sites (such as Coupang, Ticket Monster, and WeMakePrice) to purchase counterfeit goods than female respondents (16% compared to 11%).

[3] Press release from MOTIE (January 2019).
Link: http://www.motie.go.kr/motie/ne/presse/press2/bbs/bbsView.do?bbs_cd_n=81&bbs_seq_n=161309

## 4. "How did you know that you could purchase counterfeit goods from the platform answered above?"

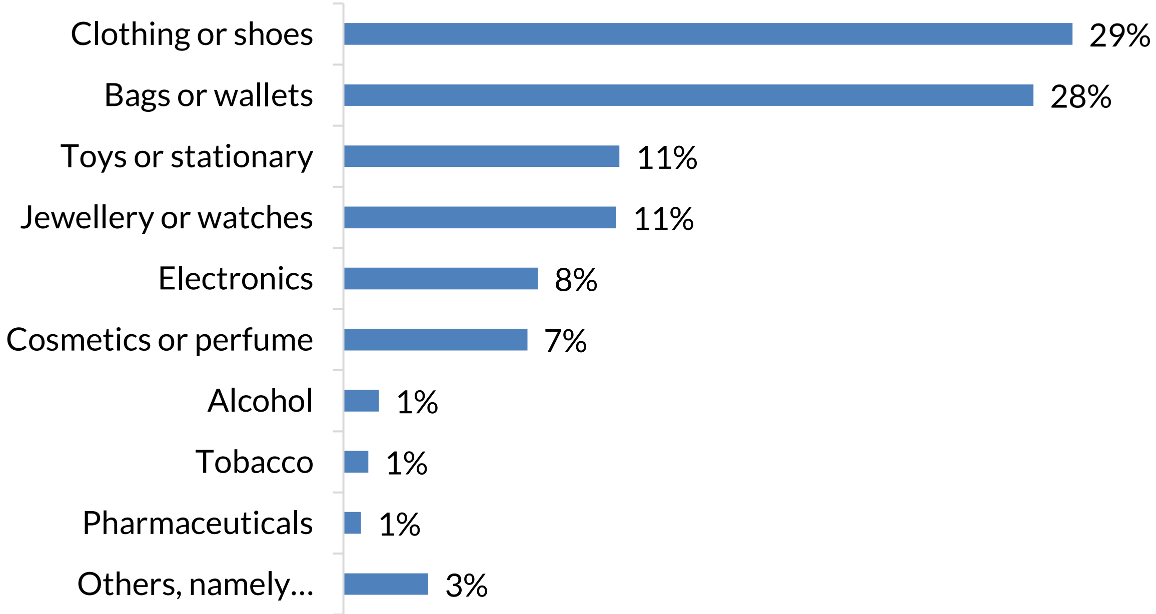



Following engagement with the public in previous years, this year's edition contained a follow-up question to gain insight on how respondents knew counterfeit products could be purchased on the platform specified in the previous question. The use of the platforms' own search function was most popular, with searches at open markets accounting for 28%, and searches at Social Networking Services and at search portals accounting for 22% each.

Male respondents exhibited a preference for using the search function at open markets (32%), followed by search portals (24%) and the search function at Social Networking Services (14%). Female respondents indicated a preference for the use of Social Networking Services' search function (35%), followed by search portals (29%) and the search function at open markets (22%).

Searches at open markets were indicated as the prevailing method to know about the availability of counterfeit products by all age groups, with the exception of teenagers (less than 10%). Teenagers instead pointed to search portals and searches at Social Networking Services (33% and 31%, respectively) as the main sources of their information on the availability of counterfeit products.

## 5. “What kind of products have you purchased, or would you consider purchasing?”

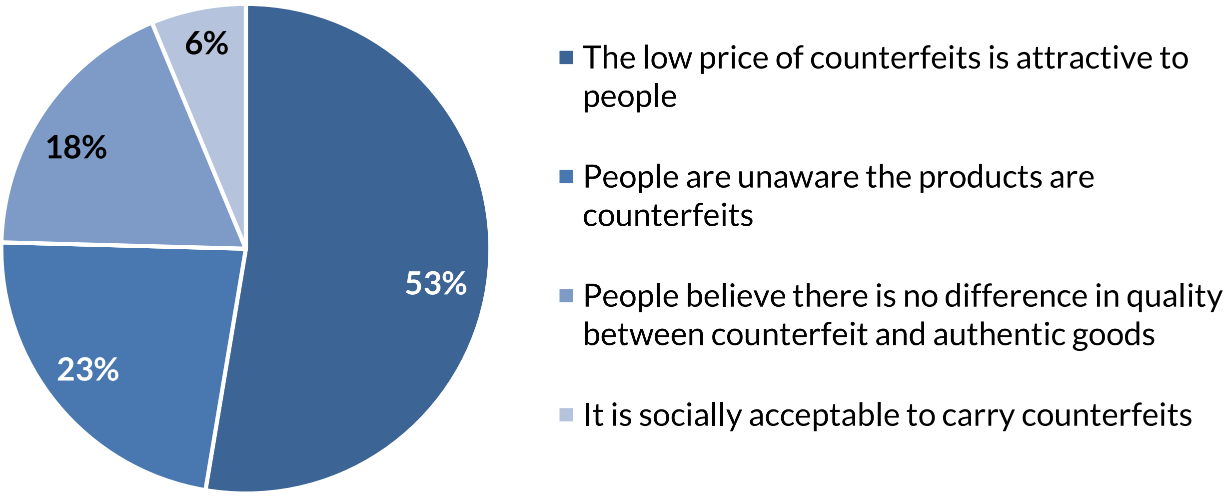



Since the 2015 survey, consumers indicated high interest in counterfeit apparel products. In this year’s survey, the category of ‘clothing or shoes’ (29%) was of highest appeal, closely followed by ‘bags or wallets’ (28%). These two categories jointly make up more than half of all responses. Popularity of counterfeit ‘toys or stationary’ increased in appeal (8% in 2018 to 11% in 2019), whereas ‘jewellery or watches’ slightly decreased compared to last year (14% in 2018 to 11% in 2019), resulting in both categories jointly ranking third most popular category of counterfeit products.

Male respondents expressed higher interest in purchasing ‘electronics’ compared to female respondents (13% compared to 4%), reflecting a continued trend from last year (at which time 11% of male respondents vis-à-vis 2% of female respondents expressed interest in ‘electronics’). On the other hand, female respondents had more interest in cosmetics or perfume (9%) compared to their male counterparts (5%).

Teenagers and respondents in their twenties were most interested in purchasing counterfeit ‘clothing or shoes’ (31% and 32% respectively), whereas respondents in their forties, fifties and sixties were most attracted to counterfeit ‘bags or wallets’ (40%, 42%, 52% respectively). Teens indicated a significantly higher level of interest (25%) in purchasing counterfeit ‘toys or stationary’, compared to other age groups (less than 10%). In addition, respondents in their thirties expressed more interest in counterfeit electronics (15%), compared to other age groups (averaging 5%).

## 6. "What do you think is the main reason people buy counterfeit goods?"



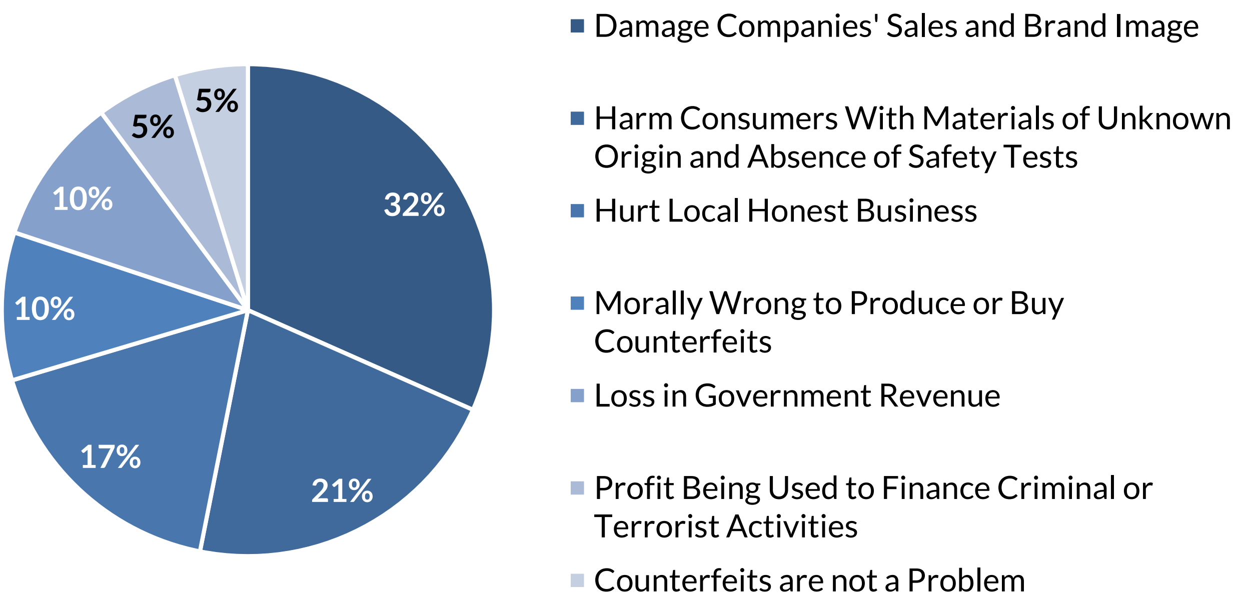

Demand for any type of product or service generates business opportunities. As long as the demand persists, actors will be willing to step in and serve the market. As the previous questions confirmed the demand for counterfeit products, this question was set out to discover the reason behind such demand.

More than half of the respondents pointed to the low price of counterfeit products as the main factor driving their purchasing decision. Out of the respondents that indicated to have experience buying counterfeit products, 60% expressed that consumers were attracted to the low price of counterfeit goods. This year's findings are consistent with the findings in surveys from the past five years, both in terms of order, as well as in terms of percentages.

The low price of counterfeit products was pointed to as the key driver for purchases across gender and age groups. Respondents in their teens to forties indicated unawareness of the counterfeit nature of products as the second driver of purchases (32%, 20%, 22% and 20% respectively), whereas respondents in their fifties and sixties selected the lack of quality difference as the secondary reason for purchases (26% and 23% respectively).

Compared to last year, a higher percentage of respondents expressed the view that it was socially acceptable to carry counterfeit products (2% vis-à-vis 6%). An average of 11% of respondents in their forties to sixties indicated that carrying counterfeit goods was socially acceptable, compared to an average of 5% of respondents in their teens to thirties.

## 7. “Do you think counterfeit goods are a problem? If yes, what is the reason?”



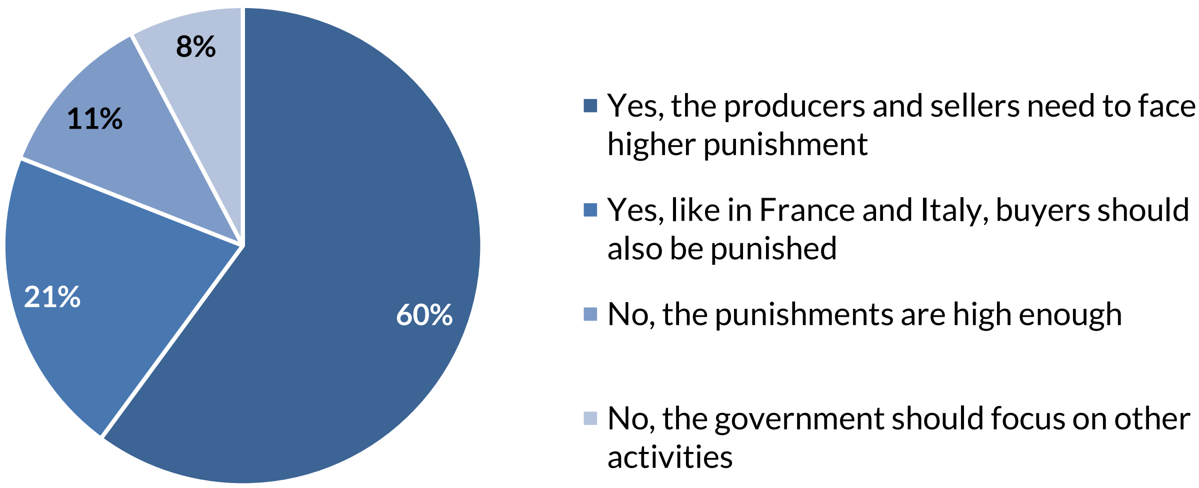

Echoing responses from previous years, an overwhelming majority (95%) of respondents stated that counterfeit goods are a problem. Respondents in their teens and fifties showed highest deviation from the aforementioned average (with 8% and 2% respectively perceiving counterfeit products not to be a problem).

For the past five years, the following three concerns were consistently underscored: damage to companies’ sales and brand image, damage to local honest businesses, and harm to consumers. In this year’s edition, these three issues jointly accounted for 70% of the responses, which is in line with percentages from previous years.

In this year’s edition, respondents showed a significant increase in concern for losses in government revenue caused by the counterfeit industry. Whereas this accounted for 3% of the responses last year and 4% in 2017, 10% of the respondents in this year’s survey indicated it to be a problem.

The views of respondents in their twenties and forties aligned with the overall order. Respondents in their fifties and sixties indicated damage to local honest businesses as the second most critical issue (20%, respectively 19%), followed by decrease in government revenue as the third biggest concern (18%, respectively 16%).

## 8. “The rate of repeat offences in manufacturing and selling counterfeit goods is very high. Do you think actions against counterfeits should be strengthened?”




Since the 2015 survey, an overall positive sentiment towards enhanced enforcement activities has been displayed. In line with such, a vast majority of respondents in this year’s survey (81%) called for strengthened enforcement actions by the Korean government against the counterfeit industry. This exceeds the figures in last year’s survey (77%) and is 10 percentage points higher than 2017. Views of respondents that indicated to have previously purchased counterfeit goods aligned with the aforementioned wish for strengthened enforcement.

Opinions of both male and female respondents were almost identical to the order and percentages exhibited above. Variations could be observed amongst age groups however, as an average of 89% of respondents in their forties to sixties expressed strong support for increased enforcement, compared to the average of 77% of respondents in their teens to thirties.

# QUESTIONNAIRE

This survey is used to analyze the public awareness and consumption pattern of counterfeit (fake) products. There are no right or wrong answers, so your honest answers will be very helpful. We will treat all responses confidentially.
Thank you.

| | |
|---|---|
| Age range: 10 / 20 / 30 / 40 / 50 / 60 / 70 | Gender: M / F |

**1. Have you ever purchased any counterfeit goods? (if not, please move on to question 4)**

① Yes ② No

**2. Where did you purchase these goods?**

① Internet or mobile shopping

② At a street stall (Dongdaemun, Namdaemun, Itaewon, Busan International market, etc.)

③ At a regular shop

④ At a secret shop

⑤ Abroad

⑥ Somewhere else, namely ……………………………………………………………………………………

**3. If you have purchased counterfeits online, which platform did you purchase it from? (You may choose more than 1 answer)**

① Open Markets (ex. G-market, Auction, 11$^{th}$ Street, Naver Smartstore, Interpark, Alibaba, etc.)

② Social Commerce (ex. Coupang, T-Mon, WeMakePrice…)

③ SNS (ex. Naver/Daum Blog/Café, Kakao, Band, Line, Instagram, Facebook)

④ Individual Shopping Malls

**3-1. How did you know that you could purchase counterfeit goods from the platform answered above? (You may choose more than 1 answer)**

① Open Market search

② Social Commerce search

③ SNS search

④ Search portals (ex. Naver, Daum, Google etc.)

⑤ Online advertisement banners

⑥ Promotional e-mails

<u>**PLEASE ALSO COMPLETE THE OTHER SIDE**</u>

**4. What kind of products have you purchased, or would you consider purchasing? (You may choose more than 1 answer)**

① Jewellery or watches

② Bags or wallets

③ Clothing or shoes

④ Cosmetics or perfume

⑤ Pharmaceuticals

⑥ Electronics

⑦ Toys or stationary

⑧ Alcohol

⑨ Tobacco

⑩ Others, namely ………………………………………………………………………………………

**5. What do you think is the main reason people buy counterfeit goods?**

① People believe there is no difference in quality between counterfeit and authentic goods

② The low price of counterfeits is attractive to people

③ People are unaware the products are counterfeits

④ It is socially acceptable to carry counterfeits

**6. Do you think counterfeit goods are problem? If yes, what is the reason?**

① The profit of counterfeit sales could be used to finance criminal syndicates or terrorist activities

② Companies lose sales and they damage companies' brand image

③ They can harm consumers due to use of materials of unknown origin and absence of safety tests

④ It is morally wrong to produce or buy counterfeits

⑤ Counterfeit sellers make a huge profit but do not pay tax, causing a loss in government revenue

⑥ They hurt local honest businesses that try to develop quality products

⑦ No, counterfeits are not a problem

**7. The rate of repeat offenses in manufacturing and selling counterfeit goods is very high. Do you think actions against counterfeits should be strengthened?**

① Yes, the producers and sellers of counterfeit goods need to face higher punishment

② Yes, like in France and Italy, people that buy counterfeits should also be punished in Korea

③ No, the crackdowns and punishment levels are high enough

④ No, the government should focus on other activities

**Thank you for your time and efforts!**

**PLEASE ALSO COMPLETE THE OTHER SIDE**

# DISCLAIMER

The statistical information provided in this report was drawn from all responses that have been received during the Busan Global Gathering 2019. Where respondents did not properly indicate certain fields of the survey (such as age, gender, or particular questions itself), we have eliminated their input where relevant. This has resulted in certain discrepancies between the number of responses to certain questions.

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