Fall 2014

MarkMonitor® Shopping Report

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Executive Summary

In the last few years, the digital world and the apparel and luxury spheres have become firmly enmeshed, with consumers enthusiastically browsing, shopping and engaging with brands and fellow fashion fans across a wide spectrum of digital channels. Fashion has been a long-time favorite target for counterfeiters, too, who have followed consumers online to masquerade as legitimate purveyors of desirable goods. As savvy shoppers increasingly seek deals online, these two forces have collided, changing the rules of the game in brand protection.

The digital world allows brands to draw detailed maps of consumer motivation and purchasing patterns, generating reams of big data to provide well-informed insights in an increasingly omni-channel consumer journey. However, there is little information about consumer motivation and demographics of those who shop at sites selling counterfeit goods, or "rogue" sites. Is the purchase a deliberate, informed purchase or an inadvertent one? Are the demographics different for shoppers who frequent sites selling legitimate goods and those who shop at rogue sites?

Conducted between October 2012 and June 2013, the study builds upon our previous examination of these factors. In this recent study, we analyzed the relationship between online shoppers, the search terms they use and the sites that they visit when seeking apparel and luxury goods as well as the demographics of those visiting sites selling legitimate goods and those visiting rogue sites. Using traffic and keyword search data generated during the study period, we scrutinized traffic to sites visited by shoppers, including more than 1,000 websites selling legitimate goods and more than 7,700 sites identified by MarkMonitor® as rogue sites.

We worked with Nielsen, a leading global provider of information and insights into what consumers watch and buy, to analyze anonymized privacy-protected data from more than 285,000 of Nielsen's permissioned online panelists in five European countries.

Our findings? Bargain-hunting behavior outstripped searches for counterfeit goods during the study period, with 28 bargain hunters prowling the Web in search of deals for every shopper searching for fake goods. In contrast, our earlier study found a ratio of 20 bargain hunters to every one seeker of counterfeit goods.

While consumers' bargain hunting behavior in digital channels continues, the panelists in the current study appeared to be less likely to stumble upon a rogue site, with one in ten bargain hunters visiting a rogue site versus a one in five ratio in our earlier study.

In counterpoint, as a continuing testament to the increasing professionalism of rogue sites, we found that one in six bargain hunters were duped by the perceived "quality" of the rogue sites by demonstrating intent to purchase goods when they visited a rogue site. This is a similar ratio to our earlier study.

We also discovered some demographic differences between shoppers who visit rogue sites and those who shop at sites selling legitimate goods.

Overall, these findings have important implications at all points on the price spectrum as brands continue to extend their presence and preserve consumer trust in the digital world.

Price Conscious Shoppers Find Fakes While Looking for Bargains

We surveyed almost nine million shopping sessions during the study period and focused on the search terms employed to understand the motivation for these shoppers. We classified terms like “cheap,” “discount” or “outlet” as bargain-hunting terms and terms like “counterfeit,” “fake” or “replica” as fake-seeking terms. We then examined the aggregated traffic for shoppers using both sets of terms to see if they visited sites selling legitimate merchandise or rogue sites.

We found that the number of bargain hunters had grown substantially, with a ratio of 28 deal-seekers to one fake-seeker. This was a dramatic increase, as our previous study found a ratio of 20 deal-seekers to every one fake-seeker. Whether that increase is a function of economic conditions, a propensity to use the Web to find great deals or a combination of factors is up for debate.

In contrast to our earlier study, one in 10 bargain hunters visited a rogue site versus a one in five ratio in the previous period. More study will be needed to determine whether this is a function of savvier consumers or the effects of brands’ efforts to combat rogue sites resulting in these sites being pushed to the shadows.

We saw no change in purchase intent from our earlier study. As in the earlier study, one in six bargain hunters who stumbled upon a rogue site demonstrated intent to buy, as evidenced by placing an item in the shopping cart. The increasing sophistication of online counterfeiters in pricing their goods may provide a partial explanation, although further study is warranted to fully understand this phenomenon.

Most counterfeit goods are priced to appear as legitimate goods on sale. Discounts are often offered at 25 to 50 percent, which, while steep, are comparable to end-of-season or “blowout” sale rates. Because these prices are plausible, bargain hunters are lured into snatching up counterfeit goods thinking they’re purchasing legitimate goods.

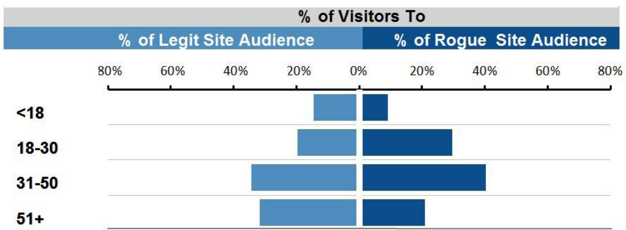
> “What brands are most concerned about are not the cheap knock-offs of their product. Instead, the closer in quality – and price – the knockoffs are to the genuine products, the more the counterfeit goods chip away at the company’s sales…”
>
> “Foreign Brands Battle Counterfeiters in China,” The Wall Street Journal Corporate Intelligence Blog, April 29, 2014[1]

Rogue and Legitimate Site Shoppers: The Demographics

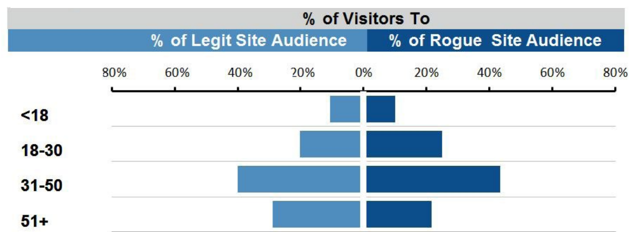
As part of the study, we examined the demographics of shoppers at rogue sites and those at legitimate sites and found some similarities between shoppers in the U.S. and in Europe.

In both markets, rogue site shoppers were more likely to be older, with 40 percent (U.S.) and 43 percent (Europe) in the 31-50 age range, followed by 30 percent (U.S.) and 25 percent (Europe) in the 18-30 age range. The trend to older shoppers was reflected in the composition of legitimate site shoppers too, with 34 percent (U.S.) and 40 percent (Europe) in the 31-50 age range, followed by 32 percent (U.S.) and 29 percent (Europe) in the 51+ range.

Age | U.S.

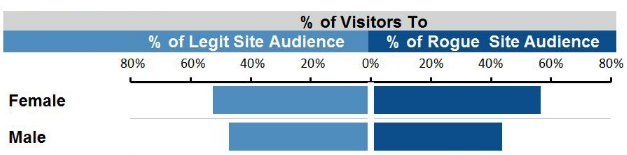


Age | Europe

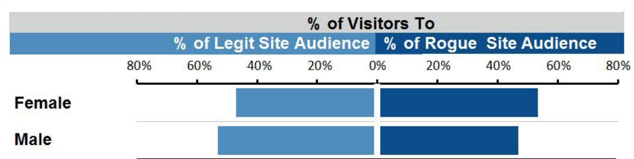


We saw another similarity in the two regions when examining shoppers' gender, rogue site shoppers were more heavily weighted to females than males, with 56 percent in the U.S. and 53 percent in Europe. Females comprised a larger percentage of shoppers at legitimate sites, too, in the U.S. with 53 percent while males comprised the bulk of legitimate site shoppers in Europe at 53 percent.

Gender | U.S.

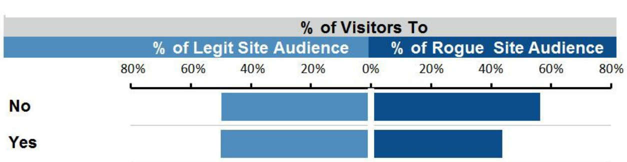


Gender | Europe

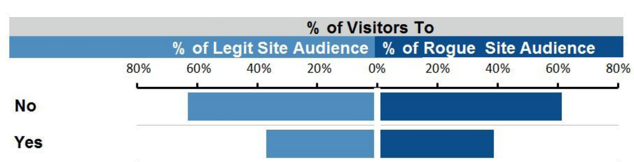


The presence of children in the household was another area where we saw similarities in the two regions. In the U.S., 56 percent of the rogue site shoppers did not have children present in the household while 61 percent of European rogue site shoppers did not have children present. Households without children comprised the bulk of legitimate site shoppers in Europe, too, with 63 percent while legitimate site shoppers in the U.S. were split evenly between the presence and absence of children in the household.

Children Present | U.S.

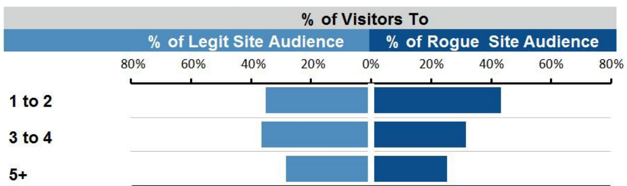


Children Present | Europe

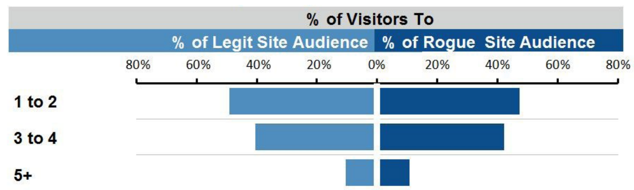


In terms of the household size demographic, households comprised of one-to-two people formed a larger segment of rogue site shoppers at 47 percent in Europe and 43 percent in the U.S. However, when examining shoppers at legitimate sites, the largest segment in the U.S. was comprised of three-to-four person households with 37 percent while in Europe, the largest percentage of legitimate site shoppers were also from the one-to-two person household segment at 49 percent.

Size of Household | U.S.



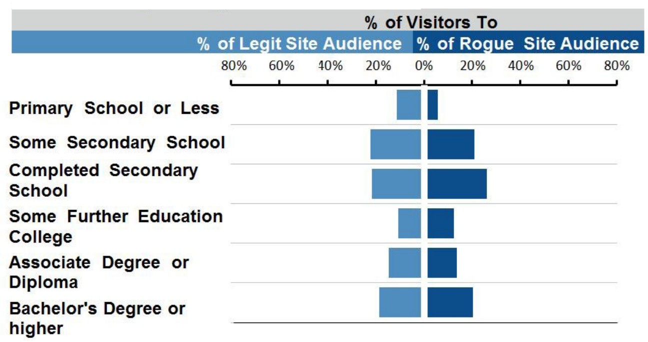
Size of Household | Europe



Differences or similarities in the educational demographic need to be weighed through the prism of variations in each market for the educational segments tracked by the panel. We saw that the largest percentage of rogue site shoppers in Europe was the “Completed Secondary School” segment at 26 percent, followed by “Some Secondary School” at 21 percent. “Bachelor’s Degree” brought up a close third place with 20 percent.

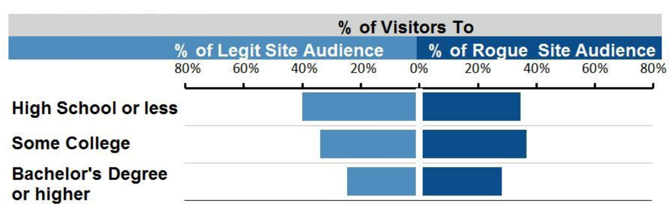
Rankings for legitimate site shoppers in Europe were evenly split between “Completed Secondary School” and “Some Secondary School” at 22 percent each, followed by “Bachelor’s Degree” at 18 percent.

Education | Europe



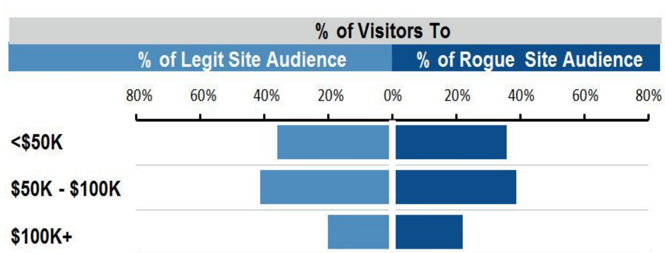
In the U.S., we saw the highest percentage of rogue site shoppers in the “Some College” segment at 37 percent followed by “High School or Less” at 35 percent. These rankings reversed when examining shoppers at legitimate sites with “High School or Less” in the top position at 40 percent, followed by “Some College” at 34 percent.

Education | U.S.



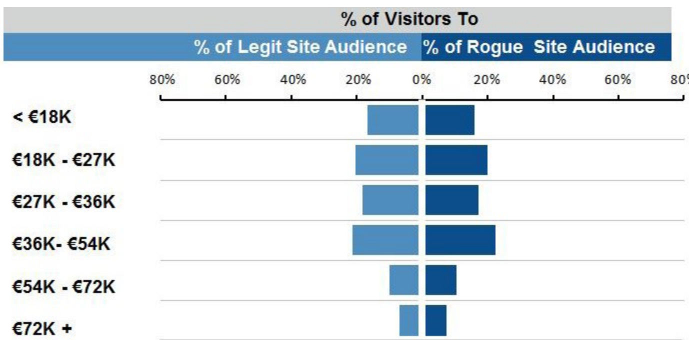
As with the educational demographic, differences in currency between the U.S., the Eurozone and the U.K. need to be taken into account when examining the Household Income demographic. In the U.S., the majority of rogue site shoppers fell into the $50,000-$100,000 segment with 39 percent, followed closely by the $0-$50,000 segment at 36 percent. Legitimate site shoppers in the U.S. mirrored this pattern with the $50,000-$100,000 in the lead position with 41 percent followed by 36 percent in the $0-$50,000 segment.

Household Income |



In the Eurozone, the majority of rogue site shoppers fell into the €36,001-54,000 segment with 22 percent followed closely by the €18,001-27,000 segment at 20 percent and the €27,001-36,000 at 17 percent. These rankings were mirrored among legitimate site shoppers in the Eurozone with the top ranking, 21 percent, in the €36,001 – 54,000 segment, followed by the €18,001-27,000 segment at 20 percent, and the €27,001-36,000 segment in the third position at 18 percent.

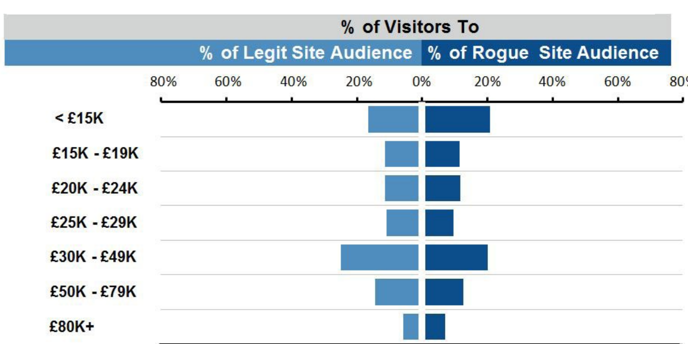
Household Income | Eurozone



In the U.K., in contrast, the highest percentage of rogue site shoppers were in the £15,000 or less segment at 21 percent, followed closely by the £30,000-49,999 segment at 20 percent. At 13 percent, U.K. panelists with £50,000-79,999 in household income rounded out the top three segments of rogue site shoppers.

Among legitimate site shoppers in the U.K., the highest percentage of shoppers was the £30,000-49,999 segment at 25 percent, followed by the £15,000 and under segment at 17 percent and the £50,000-79,999 segment at 14 percent.

Household Income | United Kingdom



According to Forrester, the Web in 2018 will account for 11 percent of total retail sales, up from 8 percent in 2013. U.S. e-retail sales are expected to grow from $263 billion in 2013 to $414 billion in 2018, a compound annual growth rate of 9.5 percent.

U.S. E-commerce Forecast, 2013 To 2018, Forrester Research, Inc., May 12, 2014[2]

"In the EU 28 in 2012, 75 percent of individuals aged 16 to 74 had used the Internet in the previous 12 months, and nearly 60 percent of these Internet users reported that they had shopped online."

Eurostat News Release, October 15, 2013[3]

Recommendations for Brands

Digital channels play a crucial role in today's omni-channel world and are a crucial stop in every consumer's buying journey. The look and feel of rogue sites can fool even the savviest of shoppers, whether an aspirational consumer or a brand loyalist, as counterfeiters use brands' latest photography, logos and advertising campaigns to lend credence to their sites.

An effective online brand protection strategy is critical to ensure that brand integrity, marketing investments and customer trust are not being undermined by unauthorized digital activities.

In addition to implementing a brand protection strategy, MarkMonitor recommends that brand marketing and e-commerce professionals in all product categories, including luxury brands, consider three simple steps:

- Buy terms like "discount," "outlet" and other bargain-related terms, even if you are a luxury brand. Then design landing pages to point brand-seekers to sale items or appropriate retailers. If your brand does not discount as a matter of policy, educate these shoppers on the brand's philosophy.
- Register domain names with these bargain-related terms to ensure potential customers find your site or your channel partners' sites when searching. Do not let the counterfeiters and other brandjackers use domain names like "brandoutletstore.com" or "discountbrand.com" and steal away your customers. Today's aspirational customer may be tomorrow's loyal buyer.
- Consider the effect that the expanded Internet namespace will have on the retail and apparel categories as new generic top-level domains such as dot-discount or dot-clothing continue to roll out.

Recently, many brands have carried out effective litigation efforts against counterfeiters, targeting the operators of rogue site networks and resulting in court orders directing that the rogue sites be turned over to the brandowner. What effect does this have on consumer traffic to rogue sites?

We examined the bargain-hunting traffic to rogue sites in our study, based upon the brands that the panelist clicked upon and divided those brands into "litigating" and "non-litigating" brands, based on public records of brands' litigation against rogue sites.

We found that brands that had not engaged in litigation attracted more clicks on rogue sites than brands that had litigated actively against counterfeiters. In other words, more bargain hunters visited rogue sites featuring brands that were not actively targeting online counterfeiters. Bargain hunters were less likely to click upon a rogue site when seeking brands that had litigated effectively against counterfeiters in digital channels.

While not definitive, this analysis indicates that active enforcement efforts, including litigation, can be highly effective in deterring consumers' ability to find fake goods online and deserves more study.

Summary

While some consumers opt for a counterfeit when the original proves too expensive, other consumers can be so intent on purchasing their brand of choice that they unknowingly shop at sites selling counterfeits while seeking a bargain. One in six consumers seeking a bargain online displayed intent to purchase on a rogue site. This is the same ratio as seen in our previous study, indicating disappointed consumers and a negative impact on brand equity.

This insight into consumer purchase intent is especially helpful when analyzing demographic data about shoppers who visit legitimate sites and those who visit rogue sites. While we were unable to develop a complete profile of each category of shopper, our study did uncover some demographic information about each category of shoppers. This information can be useful in forming more complete pictures of target markets as well as crafting consumer outreach or educational campaigns.

When considering the importance of aspirational shoppers who may be tomorrow's high end buyers, these findings are noteworthy. Brands that forge a close relationship with customers across a variety of channels reap the rewards in loyalty and repeat business. Taking steps to ensure that brandjackers do not come between the brand and the consumer translates into continued positive return on investment in the digital world.

Methodology and Background

Our study, conducted between October 2012 and June 2013, analyzed the relationship between online shoppers, the search terms they use and the sites that they visit when seeking apparel and luxury goods. Using Nielsen's anonymized, privacy-protected, permissioned panel data and keyword searches, we scrutinized traffic to sites visited by the panelists, including 1,000 websites selling legitimate goods and 7,700 sites identified by MarkMonitor as selling counterfeit goods.

The Shopping Report is produced by MarkMonitor using the company's proprietary algorithms and technology; none of this data contains proprietary customer information. Specifically, MarkMonitor analyzed representative samples based on Nielsen's privacy-protected data for traffic to counterfeit and brand sites and segmented according to keyword searches, including those based on the following in English, Spanish, German, Italian and French:

- Bargain-related terms, e.g. "cheap," "discount," "outlet," etc.
- Counterfeit-related terms, e.g. "knockoff," "fake," "replica," etc.

1 Chu, Kathy. "Foreign Brands Battle Counterfeiters in China." The Wall Street Journal. N.p. Web. 29 April 2014. http://blogs.wsj.com/corporate-intelligence/2014/04/29/foreign-brands-battle-counterfeiters-in-china/

2 U.S. E-commerce Forecast, 2013 To 2018, Forrester Research, Inc. N.p. Web. 12 May 2014. http://www.forrester.com/Forrester+Research+Online+Retail+Forecast+2013+To+2018+US/fulltext/-/E-RES115941

3 Eurostat. "Nearly 60% of EU Internet Users Shop Online." N.p. Web. 15 October 2013. http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/4-15102013-AP/EN/4-15102013-AP-EN.PDF

About MarkMonitor

MarkMonitor®, the world leader in enterprise brand protection and a Thomson Reuters Intellectual Property & Science business, provides advanced technology and expertise that protects the revenues and reputations of the world's leading brands. In the digital world, brands face new risks due to the Web's anonymity, global reach and shifting consumption patterns for digital content, goods and services. Customers choose MarkMonitor for its unique combination of industry-leading expertise, advanced technology and extensive industry relationships to preserve their marketing investments, revenues and customer trust.

To learn more about MarkMonitor, our solutions and services, please visit **markmonitor.com** or call us at **1-800-745-9229**.

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