Increasingly sophisticated Chinese counterfeiters are now replicating the look, feel and service of successful Western retail concepts, undermining brands from Ikea to Apple and Disney.
NESTLED in the sleepy southern district of Kunming city in southwest China, is a 10,000 square metre, four-storey building that may make Swedish furniture giant IKEA a little uneasy.

11 Furniture, as the store is known, copies IKEA’s blue and yellow colour scheme, mock-up rooms, miniature pencils, signage and even its rocking chair designs.

Its cafeteria-style restaurant, complete with minimalist wooden tables, has a familiar look, although the menu features Chinese-style braised minced pork and eggs instead of IKEA’s Swedish meatballs and salmon.

This knock-off IKEA store is emblematic of a new wave of piracy sweeping through China.

Increasingly sophisticated counterfeitors no longer just pump out fake luxury handbags, DVDs and sports shoes but replicate the look, feel and service of successful Western retail concepts --- in essence, pirating the entire brand experience.

“This is a new phenomenon,” said Adam Xu, retail analyst with Booz&Co. “Typically there are a lot of fake products, now we see more fakes in the service aspect in terms of (faking) the retail formats.”

Brands are much more than a logo on a handbag or some half-eaten pipfruit on a computer.

Many of the most successful consumer companies have invested millions in promoting and building brands which encapsulate ideals, values and aspirations, creating valuable and loyal customer bases that sometimes border on cults.

Last month, an American blogger set off a media storm after she posted pictures of an elaborate fake Apple Store in Kunming, selling genuine if unauthorized iPhones, Macbooks and other widely popular Apple products.

DESIRABLE BRANDS

The presence of the fake stores in Kunming highlights China’s seemingly insatiable appetite for western brands in some consumer segments that have not been tapped, particularly in smaller cities far from the affluent eastern seaboard.

“What these fake stores indicate is that there is demand for the types of products and concepts that these brands sell,” said Hong Kong-based Torsten Stocker, a China retail analyst.

By Melanie Lee
KUNMING, China, Aug. 1
analyst with Monitor Group.

The problem for companies that have been faked is that even if the fake stores sell genuine products, the brands have no control over how customers experience their brands.

Zhang Yunping, 22, a customer service representative at 11 Furniture, is used to the questions about Ikea.

“If two people are wearing the same clothes, you are bound to say that one copied the other,” Zhang said,shrugging her shoulders.

“Customers have told me we look like Ikea. But for me that’s not my problem. I just look after customers’ welfare. Things like copyrights, that is for the big bosses to manage,” she said.

11 Furniture’s owner could not be reached for comment.

Ikea said it has teams working at both the country and global level to handle intellectual property protection issues.

“Ikea as one of the biggest home furnishing companies in the world, protecting Ikea’s intellectual property rights is crucial,” Ikea China said in a statement to Reuters.

At 11 Furniture -- its Chinese name “Shi Yi Jia Ju” sounds very much like Ikea’s Chinese name “Yi Jia Jia Ju” -- furniture is made to order, not flat-packed as it as is at Ikea.

THE PROBLEM FOR COMPANIES THAT HAVE BEEN FAKED IS THAT EVEN IF THE FAKE STORES SELL GENUINE PRODUCTS, THE BRANDS HAVE NO CONTROL OVER HOW CUSTOMERS EXPERIENCE THEIR BRANDS

Customers also notice other differences.

Ikea has nine stores in China, most of them in the wealthier coastal and southern cities. Xiao Lee, a Kunming resident who was shopping at 11 Furniture for a bedroom wardrobe with her husband, had visited Ikea stores in Beijing and Shanghai.

“I thought of shipping their products from the real Ikea store by cargo, but I thought that would be too troublesome so I came here,” Lee said.

“At the real Ikea, the layout is much neater and the decorations are laid out properly, you really can’t compare them,” she said.

LOVING MICKEY, COURTING NIKE

Sometimes telling the difference between fake and real is not so easy.

“My favorite character is Mickey Mouse,” said Ling Xiao, a six year-old girl walking out of a Disney Store along Kunming’s popular pedestrian-only shopping street Zhengyi Road.

Ling Xiao and her mother shop at the Disney store about once a month and they have been going there for the past few years to browse for Mickey Mouse handbags and accessories.

“It should be real; it has been here a long time. I prefer coming to this store because it sells a big variety of toys,”
said Ling Xiao’s mother, who declined to be named. Apart from Disney products, the store sells poorly made Angry Bird soft toys of dubious origin.

A Walt Disney spokeswoman said there are over 6,000 points of sale for Disney branded goods in China. Disney confirmed the store is legitimate, declining to elaborate further.

Outside a Nike store on the same retail strip, Han Zhimei, a 17-year-old student, looks longingly at a “Help Wanted” sign posted in the store’s window.

“I feel their stores have a spirit of teamwork and I really like the Nike brand,” said Han, who sports a trendy asymmetrical haircut. Han stopped by to apply for a job at Nike.

When asked how she knows the store is a legitimate reseller and that the goods are real, she pauses before answering.

“Well, it’s a Nike store, so the things in there should be real. I think people will be honest about these things and we should have brand loyalty,” Han said.

On Zhengyi Road alone, there are four Nike stores, all claiming to be legitimate. A check with Nike’s store locator brought up three stores in that street, meaning at least one is fake.

A Nike spokesman said the issue of unlicensed stores was part of the broader challenge of combating counterfeiting in China.

“We take the protection of our brand very seriously and have a variety of protocols in place,” a Nike spokesman said.

The jumble of real and fake stores in lower tier cities across China makes it hard for companies such as Nike, Adidas, and Li Ning, which have been in China for many years, are the leading fashion choice for those residing in less wealthy cities like Kunming, said a Boston Consulting Group report last month.

As the world’s second-largest economy races forward, the number of middle-class affluent households is expected to hit 130 million by 2020 from 50 million in 2010, BCG said.

These factors are fueling the race for brands like Nike and Adidas to open stores in less wealthy Chinese cities. Ikea has said it will open an average of one to two stores a year in China.

“Many foreign brands are already aware of the importance of lower tier cities but they are trying to figure out a way to go to market in these cities,” said Xu of Booz&Co.

In some cases, beating them to the punch are the Chinese pirates who, once established, may be hard for foreign companies to get shut.

Chinese law prohibits firms from copying the “look and feel” of other companies’ stores, but foreign companies must register their trademarks with China and enforcement is often spotty.

The United States and other Western countries have often complained China is woefully behind in its effort to stamp out intellectual property (IP) theft.

“Foreign companies often expect the Chinese government to handle their enforcement for them and though they sometimes will, they also sometimes will not,” said Dan Harris, a lawyer with Harris & Moure and co-author of China Law Blog.

“The problems often arise from the fact that the damages are often quite low and the Chinese courts do not have a lot of power to make sure their own judgments are enforced,” Harris said.

WHO PROTECTS YOUR IPR?

For those setting up the fake, unauthorized or pirated goods stores, the attraction is obvious.

“We don’t need to advertise, everyone has heard of Disney,” said Dong, a 23-year-old store supervisor at a Walt Disney retail store a stone’s throw from where Ling Xiao and her mother were shopping.

That brand recognition has far outstripped the ability of companies to expand fast enough to tap demand exploding in inland China.

Sportswear brands such as Nike, Adidas and Li Ning, which have been in China for many years, are the leading fashion choice for those residing in less wealthy cities like Kunming, said a Boston Consulting Group report last month.

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Back at 11 Furniture, it is apparent that copying Ikea’s ideas may not be enough to win over all consumers.

Examining cushion covers at 11 Furniture, Ms. Zhang, a woman in her fifties, sniffs derisively.

“The designs don’t look like typical Chinese designs. It’s not what everyday Chinese people would use,” Zhang said, pointing to a checkered cushion cover.

“It looks too fancy.”

Additional reporting by Jane Lee in SHANGHAI and Alistair Barr in SAN FRANCISCO

Editing by Lincoln Feast
FAKE APPLE STORE CUTS TO CORE OF CHINA RISK TO BRANDS

By Jason Subler
Shanghai, July 22

A fake Apple store in China, made famous by a blog that said even the staff working there didn’t realise it was a bogus outlet, is probably the most audacious example to date of the risks Western companies face in the booming Chinese market.

Few products have captured the imagination of Chinese consumers quite like Apple’s iPhones and iPads. Demand is surging across the country of 1.3 billion people, even hundreds of miles away from the tech giant’s official stores in Beijing and Shanghai.

That marks a huge opportunity for Apple to sell its iconic products, but it also leaves the most valuable brand name in the world vulnerable to the sort of scam perpetrated by the fake store in Kunming, in southwestern Yunnan province.

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Complete with the white Apple logo, wooden tables and cheery staff characteristic of real Apple stores worldwide, the Kunming copy left even regular industry watchers startled at the elaborate fake.

“I’m not aware that there have been actual fake stores like that before,” said Bob Poole, vice president of the China operations of the U.S.-China Business Council in Beijing.

“If your products are being sold as fakes, then your reputation goes down and people are going to be less willing to buy. We have to maintain active vigilance.”

Apple has authorised close to a thousand resellers in China to sell its goods. They are required to comply with certain standards and rules on store layout and customer service to get the rights to sell such items as Apple’s iPhones and iPad tablet computers.

The Cupertino, California-based company, which global brands agency Millward Brown says has the world’s most valuable brand worth some $153 billion, has just four official stores in China, two of them in Beijing and two in Shanghai.

In spite of the number of resell outlets, many more copycats have popped up. They often sell real Apple products, obtained from illicit channels, such as smuggling, or through the grey market via Apple agents and distributors.

The blogger who made the store an overnight online sensation said the Kunming store was a “beautiful rip-off” and the salespeople “all genuinely think they work for Apple.”

The bogus store, where staff admitted to Reuters was not an authorised reseller, cuts to the core of the risk big brands take in China.

The widespread unauthorised reselling even of real consumer goods means it is more difficult for companies like Apple to manage their brands and risks undermining their longer-term plans to make inroads into the country.

“It’s becoming more of a problem I think,” said James Roy, a senior analyst with retail consultancy China Market Research in Shanghai.

“A lot of foreign brands are increasingly really seeking to set up a real retail presence in China, not just selling to resellers or through franchisees,” he said.

DIFFERENT FROM PIRACY

That China is a hotbed for piracy is nothing new. Multinational companies have long seen problems such as intellectual property theft and unclear regulations as the price of doing business in the world’s fastest-growing major economy.

The United States and Europe have persistently pressed Beijing to do a better job...
of enforcing intellectual property rights and stamp out the production of everything from fake DVDs to medicine.

An increasing number of U.S. companies in China say the enforcement of intellectual property rights has deteriorated in the last year, an annual survey by the American Chamber of Commerce in Shanghai released in January showed.

China has said it is cracking down, particularly on piracy, and Western companies have claimed some victories.

Baidu Inc, China’s biggest search engine, agreed recently with top music studios to distribute licensed songs through its mp3 search service, ending a legal dispute over accusations the company encouraged piracy.

The less-publicised phenomenon of unauthorised vendors setting up shop to peddle real products has grown alongside China’s manufacturing prowess. Many of the factories that produce brand-name goods on contract have been known to do extra runs of the goods to make extra cash, analysts say.

Paul French, chief China analyst at retail consultancy Access Asia, said Apple had two choices to clamp down on fake stores.

“One is they either have to police their operations better, or two, they have to sell everything through their own stores and cancel their reseller agreements,” he said.

China’s high import duties on many goods have also encouraged the likes of the fake Apple store in Kunming, analysts suggest.

Shop owners can buy everything from computers to cosmetics at significantly lower prices overseas, smuggle them into the country, and undercut the prices of official Chinese retailers.

Vendors often turn to Chinese students studying abroad to buy products in the United States, Hong Kong, Australia and other countries.

Internet “bulletin boards” are full of advertisements soliciting interested parties, who can earn 100-200 yuan ($15-30) in fees per iPhone or iPad they manage to sneak past customs agents when returning home for the summer or winter break.

LOSS OF CONTROL

At first glance, it might appear that companies would not mind having their products bought in other countries or obtained through other means and resold in China through resellers, as it helps drive sales but with less expense and hassle over customer service.

After all, building up a retail presence in a country as vast as China takes time and is expensive. That’s why many companies
have sought to expand their presence through licensees. The problem is, any negative experiences customers have with service at unauthorised resellers can backfire on the brand because customers relate their disappointment with the product. “People might have a bad experience, they might blame the brand,” said Roy. Many Western brands are now opting to take back control of their operations. It may mean a more measured pace of expansion, but it gives a company greater control.

Starbucks in June took back control of its retail stores in southern China, having worked in the past through a joint venture. While the issue of unauthorised retailers has not yet garnered the same attention as piracy, China has made efforts to crack down on such activities, stepping up screening to try to catch smugglers. But if Beijing’s track record with combating piracy is any guide, analysts say, it is unlikely that fake stores -- Apple or otherwise -- will be stamped out anytime soon.

“China has very low penalties. It’s almost considered a good business deal to get caught, then move and set up shop again,” said Poole of the U.S.-China Business Council.

Additional reporting by Jane Lee in Shanghai and Beijing newsroom Editing by Neil Fullick

APPLE FRENZY TRIGGERS WAVE OF SMUGGLING

BY LEE CHYEN YEE
KUNMING, CHINA, JULY 25

IN a crowded multi-storied marketplace in downtown Shenzhen, a store owner haggles with a cigarette-smoking customer over the price for a bulk sale. They are not bargaining over fake watches or counterfeit leather bags, but genuine Apple iPads and iPhones -- freshly smuggled from Hong Kong, a free port with zero duties for many electronics imports.

“This is real stuff that just arrived. We just got these off someone’s waist strap,” said the storeowner, whose surname is Xu, while the customer ran his fingers through a stash of cash upon closing the deal to buy a dozen iPhone 4s.

Xu’s store, with its glass display in a hall full of electronics sellers, is a far cry from Apple’s signature spacious, white outlets. But iPhones and iPads are flying off the shelf, thanks to discounts on the official price tag.

With Apple’s gadgets becoming a status symbol among rich Chinese, businessmen like Xu are meeting insatiable demand by smuggling from Hong Kong, where the currency is weaker than the yuan and tariffs are virtually zero. Storeowners such as Xu take advantage of the price difference of Apple products in Hong Kong and China.

For example, an iPad 2 costs HK$3,888 ($499), or the equivalent of 3,215 yuan, in an Apple retail store in Hong Kong, but its official price in China is 3,688 yuan ($572). Most unauthorised resellers set a price somewhere in between to attract buyers.

“When customers ask us about maintenance, we just tell them, don’t worry, these are all real from Hong Kong and they won’t go faulty,” said Xu, with about 5 iPads stacked beside him on his glass display filled with rows of phones from Nokia, Samsung Electronics and HTC.

Apple products are so popular in China that Morgan Stanley forecast its sales in the country, the world’s largest mobile phone market, could exceed $9 billion in the year ending September 2012. That will be up sharply from just $2.9 billion the previous fiscal year.

Apple only has four official retail outlets in Beijing and Shanghai, but fake stores that look like the real thing have also sprouted across Chinese cities, such as Kunming in southwestern China.

Chinese officials in Kunming ordered two fake Apple shops to close, a local newspaper reported on Monday, an apparent reaction to a storm of media attention about an unauthorised and elaborate hoax store in the southwestern city.

“The official supply in China is not sufficient yet,” said Dickie Chang, a senior market analyst of research firm IDC in Hong Kong.

“People might have a bad experience, they might blame the brand,” said Roy.

“The brand image of Apple is very good, especially in the media tablet market.”

STUDENT “MULES”

Media reports said in June customs authorities in the southern city of Shenzhen broke several smuggling rings that tried to illegally ship over 300 computers, including a large number of iPads, worth 1.5 billion yuan ($230 million).

Police arrested several ringleaders who had hoped to avoid paying 240 million yuan worth of taxes for the products, the reports said. Shenzhen authorities were unavailable for comment.

Some dealers engage so-called student “mules” to do the job. These are basically Chinese students living in Shenzhen who commute daily to schools in neighbouring Hong Kong to carry the Apple products across the border, while others smuggle in bigger quantities using logistics companies, industry sources said.

“I used to carry one brand new iPad or iPhone when I go back to China,” said Desmond, a university student from Shenzhen studying in Hong Kong, who declined to give his last name.

“I’m not afraid of being caught. At most I’ll just pay the taxes, let them strip off the plastic cover to convince them it’s for my own use.”

Desmond said he sold some of the iPhones and iPads on China’s largest online mall Taobao.com and earned as much as 300-400 yuan apiece.

Some students collect an iPad or iPhone a day from Hong Kong suppliers, put it in their schoolbags and pass through immigration to deliver it to stores like those in the multi-storied complex where Xu has set up shop, industry sources said.

Students who are willing to take a bigger chance sometimes strap several iPhones around their waists and wear an oversized jacket to escape the eyes of custom officials, they said.

“A video clip clandestinely filmed by a Hong Kong newspaper tracking the entire iPad smuggling process by students is available on YouTube.

Additional reporting by Xavier Ng and Zhang Yan Editing by Jacqueline Wong and Sugita Katyal