

How Can Foreign Multinationals Respond to the Complexity of Design Piracy in China?

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Abstract

Design piracy is potentially lethal for foreign multinationals making products in China, as high cost designs gets pirated with low manufacturing costs at acceptable quality for low priced sales in China and abroad. Two common options of dealing with piracy are *protect* and *encourage* but neither effectively resolve this issue. We therefore suggest two distinct market options. The first option (labelled *product enhancement*) is to convert products through locally relevant redesign into significantly higher value products that address the small but high potential upper class Chinese who are less likely to seek pirated goods. The second option (labelled *service enhancement*) is to leverage local low cost services available in China to enhance their products by creating bespoke ethnic Chinese embellishments that appeal to upper-middle class Chinese customers and by creating stronger product-service combinations that lock in the customer. While these options do not prevent piracy, they lead to more China specific products that are less likely to be pirated into international markets. We illustrate how European furniture firm IKEA, can potentially adopt both these modes in combination to create a distinct market space in China, without compromising on their product designs or low cost business processes that are effective worldwide.

Introduction

There is potential for multinationals to make high quality physical products in China for the world market. China is also a large and rapidly growing market for high quality and well designed products. Avoiding China due to the threat of design piracy is not a suitable response from the foreign firms' shareholder perspective. While Chinese authorities do try to deal with design piracy, it is difficult to trace the infringing small firms spread in China. We offer potential ways for multinational firms to deal with this issue without giving up on this market.

Design Piracy in China

- Design piracy is a serious deterrent and concern for foreign multinationals making physical products in China.
- Design piracy results in high cost design work being pirated and replicated by infringing Chinese firms at a lower cost.
- Such pirated products are sold in both the Chinese and the international markets at significantly lower prices.

Design Piracy in China

- Impact of design piracy is worse when combined with lower cost and higher quality of Chinese manufacturing firms.
- Design piracy is lethal for foreign multinationals as the infringers can capture their potential China market.
- The undervalued Chinese currency makes the issue worse as cost of making goods with good quality is far lower in China.

Two Generic Options on Design Piracy

Protect Option (most common option):

View design piracy as a threat to all forms of creative work that should be combated legislatively as a matter of principle – punitive action at any cost!

This option is potentially ineffective and can often be financially unviable in China given the high cost of control.

Two Generic Options on Design Piracy

Encourage Option (by Microsoft [1]):

To deliberately ignore design piracy or even passively encourage it, as a cost effective means of growing the gross market demand over time for the class of pirated goods, so that a significant and increasing number of customers in the larger market eventually begin to buy non-pirated goods for its value.

Can Encourage Option Work in China?

- It may be more effective for multinationals in China who are unable to control design piracy of their goods on their own.
- This approach will however severely test the credibility of any manager who dares to propose this risky option!
- An approach that requires precautions and enormous patience from the foreign multinational that is operating in China.

Additional Ways to Deal with Design Piracy

Product enhancement:

- Convert physical product offerings through locally relevant redesign into significantly higher value products that address the small high potential upper class Chinese customers and upwardly mobile customers who are naturally less likely to seek pirated goods over the original branded goods over time.

Additional Ways to Deal with Design Piracy

Service enhancement:

- Leverage local low cost services to enhance their product offerings by creating bespoke ethnic Chinese product embellishments that appeal to the upper class or middle Chinese customers with a lock in created through effective product-service combinations.

Combining Encourage Option with both Product and Service Enhancements

Both Product Enhancement and Service Enhancement leads to products that are China specific and are therefore less likely to be pirated without any change into the western and other international markets. Enhancements attract the growing upper class Chinese customer with bespoke products that suit their higher aspirations.

Combining Encourage Option with both Product and Service Enhancements

Ignoring or passively *encouraging piracy* is thus an effective strategy in a fast growing economy like China if it is combined with *product* and *service* enhancements [4]. Product plus service combinations reduce the commoditization of the product and increase their perceived value over pirated goods and thus creates willingness to pay.

Case of IKEA in China

IKEA has had poor results in China for over a decade – China is the only country where the largest furniture firm in the world loses money [3][5]. IKEA's product mix in China is only its lower price range products that are targeted at the middle class which finds their designs suitable but they cannot afford them! They therefore prefer getting local furniture makers to pirate the most suitable IKEA's designs at even lower costs!

What should IKEA do in China?

IKEA's has so far ignored the upper class and upper middle class market in China. By creating bespoke artistic renderings as *Product Enhancements* provided by local Chinese artists ratified by them, they can urge upper class Chinese customers to buy such unique product creations from IKEA. Such bespoke products being China specific artistic renderings are very unlikely to be pirated to western nations without change.

What should IKEA do in China?

In addition to such Product Enhancements IKEA can provide *Service Enhancements* such as interior design advice and living space makeover packs to upper class China customers. When this is combined with assembly and door delivery services, IKEA can reach the upper class customers who cannot currently see how IKEA products can fit well in their homes. Of course the product display should be the higher range.

Footnote: Design Altruism over Piracy!

The Jaipur Foot organization in India has developed an artificial foot that has the lowest cost and is the most effective design for mobility with a lower limb loss.

In an act of altruism, the Jaipur Foot is not patented. They provide design details on the website and train anyone who wishes to replicate it worldwide [2].

Jaipur Foot replications have enhanced the lives of many amputees worldwide and has helped Jaipur Foot access donations to make their Foot free for the poor.

Improvements elsewhere come back to the Jaipur Foot. So design altruism has a payback if the cause is good!

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