

COUNTERFEIT AS A CHALLENGE TO CHINESE E-COMMERCE PLATFORM

– THE CASE OF ALIBABA

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Ke Chen

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Author: Ke Chen

Supervisor: Rolf Appelkvist

Abstract

With the development of Internet technology, e-commerce is becoming more and more popular nowadays. A tremendous number of small and medium size enterprises have emerged, selling goods in e-commerce platforms. However, the transactions of counterfeit products on e-commerce platforms are becoming more severe in global electronic commerce, particularly in Chinese online markets. Not only are consumers and brand-owners suffering the loss of money, but also the whole ecosystem of e-commerce is being damaged by counterfeit issues. Accordingly, e-commerce platforms, which serve as the third party of online businesses, have a significant role to play in this serious situation. How e-commerce platforms handle counterfeit problems can be quite urgent.

This thesis chooses Alibaba as a special case to study, considering its e-commerce platform Taobao, which has a large market share or e-commerce market place and always suffers a bad reputation of counterfeits distribution, as the most suitable and representative e-commerce platform in China. The research uses both interviewing and documental data as different resources to study the case. Learning from the perspective of e-commerce platforms, combined with mechanism theory, principle-agent theory, trust system, reputation theory, and contestable market theory, this research wants to reach a deeper understanding of the challenge counterfeits have made in Taobao. What measures Alibaba has done and how these measures are going on are the research questions in this case.

The results of this investigation shows that Alibaba did try several ways to combat against counterfeit problems such as building some specific mechanisms like “return-back system”, “Xiaoe” and “Mantianxing plan”, considering trust, reputation and information asymmetry factors. Many people show their appreciations and supports to Alibaba’s measures and the current situation of counterfeit in Taobao is eased by these measures. But there is still a long way to go and many more things could be done to face the counterfeit challenge.

Keywords: E-commerce platform, counterfeit problem, Alibaba Group, Taobao

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Ke Chen
Borås, Sweden
March 8, 2016

Foreword

My hometown, Putian, a city located in Fujian province, one of the southeastern regions in China, has suffered a bad name of “fake-shoes-producers” for a few years. It is related to the time when some of the original brands industries like Adidas, Nike, and New Balance chose to establish factories in Putian. However, in course of time, some workers found it was profitable to copy the genuine goods and produced and sold them with a much lower price on Taobao. As a matter of fact, the fake market is so huge in China that almost everyone who decided to sell counterfeits in the early times made a fortune overnight, which caused more and more people eager to take the risk of selling illegal goods on Taobao. There can be no denial that Taobao created lots of employment opportunities for my fellow countrymen and helped them earn their livings. Yet, it is obvious that this kind of business model cannot last long. Besides, the local government has already put their eyes on counterfeiting, which means these illegal transactions can be banned and punished in the near future. The reasons why I am so concerned about the counterfeits problem are not only because I am one of the consumers who will put my money shopping online, but also due to the future reputation and economy of my own hometown. The deeper I look into this issue, the more I am in the line with Alibaba’s combat against counterfeiting. I wish Alibaba a good reputation in the global market just as I hope our own hometown will get a good name as well.

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1 Chapter 1—Introduction

This chapter describes the current phenomenon in e-commerce and the counterfeit as a challenge to the development of e-commerce platform. Regarding the importance and results counterfeit has made, this chapter provides a detailed background description in order to represent the newest situation of this problem. The chapter ends with describing the purpose and questions of this thesis.

1.1 Introduction

The rise of Internet provides a global distribution channel of low cost and easy availability to billions of people. Mobile and Internet commerce, with the advantage of convenient ways for shopping, stand in the forefront of the era of e-commerce. E-commerce is developing so rapidly that it is becoming one of the largest trends in future businesses. Accordingly, due to the continuous development and improvement of technology, followed by the profit-seeking entrepreneurs, e-commerce platforms help a tremendous number of sellers to sell goods online.

According to Evans (2013) that consumers nowadays are gradually getting used to buying products on e-commerce platforms, the number of online shoppers will continue to grow (approximately grow 50% by 2018 from 2013). It seems that online markets are booming and making people's lives more colorful than ever before. However, problems also appear at the same time. The counterfeit problem, as one of the most serious problems in e-commerce platforms, deeply influence or does harm to the life of some online shoppers. In the short term, counterfeits will damage the interests of consumers and brand manufactures directly; in the long run, fakes will harm the establishment of social trust and lead to immeasurable negative impact on the healthy development of e-commerce and its platforms (Zhang, 2013). "The catalytic growth of counterfeiting can be attributed to the increase in world trade and emerging new markets, fast paced technology advancement, and also the increase in goods that are worth counterfeiting "(Phau & Teah, 2009, p.15). Fake-product sellers relied on street vendors or night markets, yet now, many have shifted their way to online webs. Also, consumer demand is increasing due to the pursuit of status goods and the desire of being in tune with fashions and fads which has caused a rampant fake market. Furthermore, the flaws and loopholes in China's copyright and intellectual property legislation, and the lack of serious penalties have lead China to a more serious situation, which allows offenders to be increasingly brazen in their illegal transactions in e-commerce platforms (Phau & Teach, 2009). It is claimed that China has been in the position as the largest e-commerce market in the world (KPMG, 2014) but also as the global leading counterfeiting superpower (Turnage, 2013). Ironically, China is noted as the famous "made in" for counterfeit products (Bian and Veloutsou, 2007).

As the counterfeit market is "flourishing" in China, it is reasonable to worry about the online shopping environment and the healthy development of e-commerce platforms. In order to get depth knowledge and understanding of the challenge counterfeiting is causing to e-commerce platforms, this research chooses Alibaba as a specific case to study. One of Alibaba's e-commerce platforms, named Taobao, is one of the biggest and best representative e-commerce platforms in China, but always suffers the bad reputation as counterfeits distribution channel (Schuman, 2015). Since Alibaba went IPO (Initial Public Offerings) in 2014, more and more people have put their eyes on Taobao's counterfeit problems too. Accordingly, Alibaba makes its minds to combat against counterfeit problems more seriously,

and it is said that Taobao's attitude toward counterfeit is "zero-tolerance". Then, some measures must have been taken to deal with this challenge.

1.2 Research Background

1.2.1 E- Commerce current situations in China

According to a report from CECRC (Chinese Electronic Commerce Research Center) from 2015, in the first half of 2015, China's e-commerce turnover is 7.63 trillion RMB, 30.4% higher than previous year. The B2B trading volume is 5.8 trillion RMB, 28.8% higher than 2014. Network retail trade scale is 1.61 trillion RMB, 48.7% higher than previous year. By June 2015, the number of direct employees of Chinese e-commerce service enterprises is more than 2.55 million, while the number of indirect employee is 18.35 million(CECRC, 2015). From one side, it is obvious that e-commerce has become one of the most important economy kingpins in China. Fakes transactions have made certain contribution to domestic economic growth and national employment (Chow, 2006). Counterfeiting, in a sense, does do a good thing to the growth of the economy and the increase of employment. However, from the other side, this kind of phenomenon is not healthy and legal, and as a matter of fact, does harm to the future development of both e-commerce and e-commerce platforms. To seek a sustainable development for Chinese online economy and to find a suitable mechanism for e-commerce platforms, learning and studying e-commerce counterfeit problems could be necessary.

1.2.2 E-commerce

The E-commerce concept consists of two basic elements: electronic technology and business activities. Electronic technology is the foundation and the means of e-commerce, while business activities are the core roles, the key part, and the purpose (Zhang, 2013).

There are various definitions of e-commerce. This research draws on the one adopted by OECD in the Information Economy Report (2015, p.3) that: "the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders. The goods or services are ordered by those methods, but the payment and the ultimate delivery of the goods or services do not have to be conducted online. An e-commerce transaction can be between enterprises, households, individuals, governments, and other public or private organizations. To be included are orders made over the web, extranet or electronic data interchange. The type is defined by the method of placing the order. To be excluded are orders made by telephone calls, facsimile or manually typed e-mail". The types of e-commerce can be seen as follows.

B2B

It accounts for the bulk of e-commerce. It involves transactions between businesses, such as between a manufacturer and a wholesaler, or between a wholesaler and a retailer. Some studies suggest that B2B offers great potential benefits for smaller businesses than other forms of e-commerce. From the perspective of a small enterprise, engaging in B2B e-commerce may be a requirement for participating in national or global value chains. There are various specialized B2B platforms, typically catering to certain industries or value chains.

B2C

It involves sales by “pure-play” e-commerce enterprises to consumers and by traditional bricks-and-mortar retail or manufacturing firms that add an online sales channel. Selling directly to consumers via ICT networks can help micro and small businesses to reach new markets, both domestically and internationally. There is a wide range of channels to reach consumers, including social networks, crowdsourcing platforms, dedicated e-commerce websites, mobile applications and more.

C2C

This can be seen as the modern version of using the classified advertising section in a local newspaper or going to an auction. It covers online auction platforms (such as eBay or Taobao) and sales within online communities. C2C platforms offer possibilities for informal enterprises to engage in e-commerce.

B2G

These transactions are similar to B2B, except that the buyer in this case is a government entity, such as in the case of public e-procurement.

(UNCTAD.org, 22 January 2016)

1.2.3 E-commerce platform

E-commerce platform appears along with the development of internet and the needs of enterprises provide an online trading place for consumers/individuals. It is a virtual network for buyers and sellers, using computer programming technology to integrate resources online and achieve the goal of collaborative efficiency (Zhang, 2013).

E-commerce platforms provide all participants with equal and public information places of several services. Sellers can release commodity information in e-commerce platforms, while buyers can get all kinds of information without going outside. As a new trend mode of economic development and a new trend of future business development, e-commerce platforms play a significant role with several characteristics: third party, service nature, neutrality and integration (ibid.).The characteristics can be seen as follow.

Third party

It means that the platform, compared to customers and sellers, is serving as a third party. E-commerce requires a lot of manpower, material resources, and financial resources in reality but this is a big challenge to small and medium-sized enterprises. However, the e-commerce platform can offer sufficient conditions for small and medium-sized enterprises as well as for individuals and makes it possible for them to do business in e-commerce.

Service Nature

It means that the e-commerce platform itself is not involved in commodity trading; it only provides sellers and buyers a virtual online trading platform with information service, financial service, technology service, promotion service and so on. In the meantime, these services bring the revenue to e-commerce platforms' owners.

Neutrality

It refers to that the platform providers in e-commerce transactions must maintain a neutral attitude. That is to say, in the operation of online trading, platform owners have no bias neither in favor of buyers nor sellers. Only in this way, can e-commerce market have a fair, just, and open business environment, and earn trust from all participants.

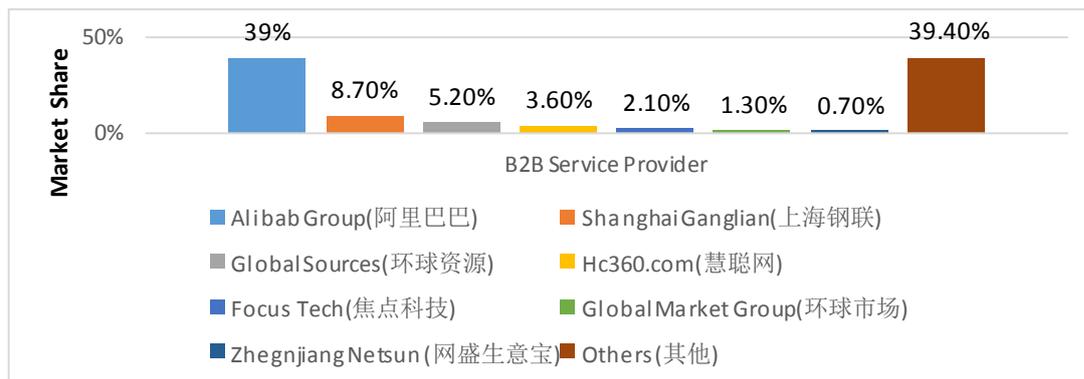
Integration

It refers to the scale benefits of e-commerce platforms. Buyers and sellers cooperating with a third party can magnify the scale benefit of the third party platforms. The scale is the result of the e-commerce platform's network externalities, which means that when the number of a kind of product's consumers increases, the utility for any users among buyers, sellers and third party will increase too. For any e-commerce platform, more sellers will attract more buyers and vice versa.

1.2.4 B2B and B2C market share in China

Business-to-Business e-commerce platform mode is a kind of business mode that serves small and medium-sized enterprises (SMEs) with purchase, information, and sale etc. Both buyers and sellers are mostly SMEs. With B2B e-commerce platform, enterprises can complete their trades without meetings. It can not only help SMEs reduce transaction cost, but also help them develop international trade. Because half of the transactions among enterprises in B2B e-commerce platforms are block trading, which refers to a large amount of big deals, the conditions are mature for enterprises to develop (Zhang, 2013). As a result, the B2B e-commerce platform is becoming the mainstream of e-commerce (ibid.). SMEs are the most ardent promoters and practitioners of B2B e-commerce. The mainly Chinese B2B e-commerce platforms are: Alibaba, Global Sources, HC360, and Focus Tech. The B2B market share in China during the first half year of 2015 is shown in Graph 1.

Graph 1 The year 2015 (the first half year) Chinese B2B market share

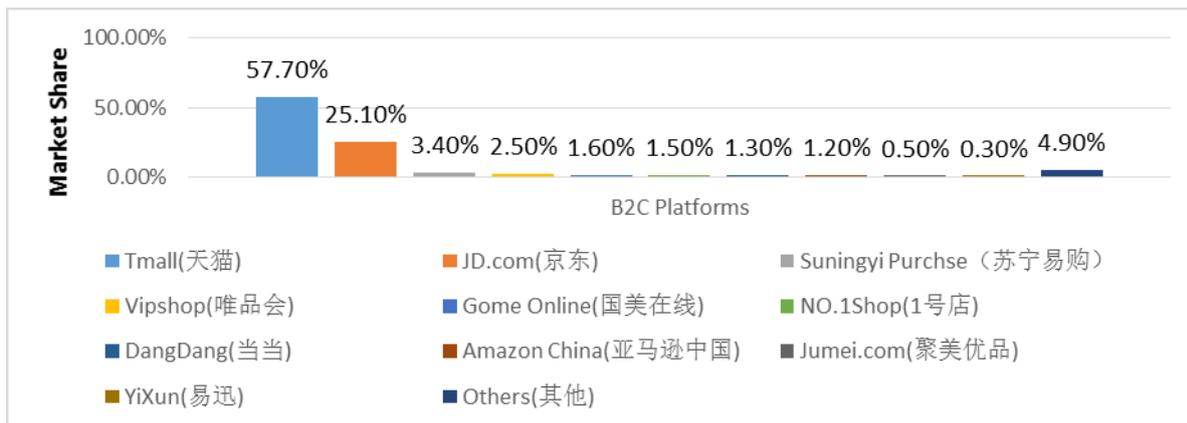


(Resource from: www.100ec.cn)

From this graph, we can see that the Alibaba group take account of a big role (39%) in B2B marketplace; Zhengjiang Netsun takes about 0.7% of the market share, and there are many small platforms that represent 39.4% market share in total, but each of them account for less than 0.7% in market share.

Business-to-Consumer e-commerce platform mode, usually called B2C e-commerce platform mode, covers mostly the needs of small and medium-sized enterprises and individual consumers, providing product information and purchase services. It has developed rapidly with the emergence of Internet and can be seen as a kind of electronic retailing. In China, the main representatives of B2C e-commerce platforms are Tmall (Alibaba), JD.com, GOME, and so on. The Chinese B2C market share during the first half year of 2015 is shown in Graph 2.

Graph 2 The year 2015(the first half year) Chinese B2C market share



(Resource from: www.100ec.cn)

From this graph, it is noticed that Tmall, which belongs to the Alibaba group, accounts for over half of the B2C market share (57.7%) in China. It is not hard to guess that the other platforms could have difficulties to survive and the competition could be extremely fierce for those who all together accounts for only 4.9% in market share.

1.2.5 Counterfeit Products

Furnham and Vakgeirsson (2007) claimed that counterfeit products have many advantages compared to authentic goods, such as lower price, easier accessible and available. In fact, many people seek out and purchase counterfeit goods causing a serious economic problem. Counterfeiting is not only responsible for the declining of employ rate, economy growth, but also related to some criminals or even terrorism (ibid.).

According to Phau and etc. (2009), counterfeiting does harm to legitimate producers and to society as well. Legitimate producers suffer the loss of goodwill, brand reputation, and so on. There are quite a few of people stating that as long as counterfeit products do not put buyers at risk, they will voluntarily purchasing counterfeit products (ibid.).

With the fast development of e-commerce, counterfeit problem is becoming more and more severe than ever before. Fake dealers find their new opportunities selling counterfeit products online. The growing use of mobile devices attributes the rapid growth of e-commerce. Due to the continuing improvements on online credibility, payment services and express delivery methods, some market places like China, has a more mature environment for e-commerce. However the legal framework is still far from comprehensive. There are still many flaws in the applicable laws and regulations (Lu and etc., 2013).

1.2.6 Counterfeits trading behavior and classification of the platforms

Fake products trading behavior existed before the Internet appeared (Zhang, 2015). E-commerce platforms merely serve as channels for fake producers and sellers to sell their goods to consumers. However, the unfairness in the situation is more serious than in the traditional model. In tradition, fake products trading relied on street vendors or night markets, and people could see the real commodities personally. Nowadays, counterfeit trading behaviors are shifting their way into online channels, which provide a faster and more private virtual platform for transactions, resulting in an even worse situation for the consumer who wants to evaluate the quality and eventually the authenticity of the goods/services he/she

buys, but also for police to track and catch illegal dealers. Also, with the characteristic of information asymmetry, consumers can be deceived even easier than before (Zhang, 2013).

For one thing, consumers are usually the victims of counterfeit trading in e-commerce, but some of them voluntarily buy fake products for some purposes. The transactions that relate to consumers, who have no awareness of the authenticity of products and purchase the piracy goods, can be called fraudulent trading. However, illegal trading and undeceived trading of fakes behaviors are exist as well. For those consumers who are aware of the fake products but still voluntarily purchase fake goods online, “not having the financial means to buy the original in the first place”, can be the main reason for them (Cesareo & Stottinger, 2015, p.531).

For another thing, when counterfeit products have made an infringement to intellectual property rights, the goods can be divided into shoddy-commodities and fake commodities. Shoddy commodities trading behavior is an illegal trading behavior by which sellers sell inferior goods to buyers (Zhang, 2013). Although these shoddy goods do not infringe on the intellectual property rights their characteristics are not in consistence with the description of products. According to this distinction, all fake commodities sold online are infringing intellectual property rights and trademark rights (ibid.). Fake products can be indiscernible, especially if consumers lack relevant shopping experience or knowledge of genuine products. But in this thesis, the meaning of the word “fakes” includes both of the counterfeit products. In order to solve the counterfeit problems, e-commerce platforms can also take different measures against different types of fakes, but that is not specifically related here.

1.2.7 Small and medium-sized enterprises

Studying the main participants of e-commerce platforms is also a vital part to understand or reflect on the measures e-commerce platforms have taken to handle counterfeit problems. Small and medium-sized enterprises, usually called SMEs, have been playing a significant role in e-commerce since the 1990s (Wei et al., 2007). According to Zhang et al. (2014), the number of SMEs has increased approximately 3 million from 1990 to 2012. During this time, many SMEs started their businesses in online platforms and made a large contribution to the growth of China’s domestic economy. According to IResearch (2011), the number of SMEs taking part in e-Commerce exceeded 48 million in 2011 and will increase at a rate of 8 percent every year. With such a huge number of SMEs, the competitions between them are extremely fierce. However, not all of the SMEs have enough money or resources to start up or maintain their living in fierce competitions. Therefore, some of the SMEs would try to take the risks of doing illegal trading, such as selling counterfeits online, which cost a lower price but receive a higher profit. E-commerce platforms’ high speed and low cost channels also add the credits for SMEs to do such things. What’s worse, the lack of supervision or regulation in e-commerce platforms cause the SMEs being more intensified to break the law by not only producing the counterfeits but also selling them, which aggravates the serious situation.

1.3 Research problem

Recent years, due to the lack of a set of effective management and legal supervision mechanisms, the counterfeit problem is rampant in China’s e-commerce platform (Lu, 2013). After reviewing previous research, I found that there are a lot mentioned about the importance and development of e-commerce people’s attitudes toward counterfeiting (Furnham & Valgeirsson, 2007), the growing damage of counterfeits (Lerner, 2010) and others related to the e-commerce field, such as cultural issues (Efendioglu and etc., 2005). However, research

referring to e-commerce platform, especially research about the counterfeits trading problem in Chinese e-commerce platforms is rare. The discussions around the effects of counterfeit-product trade are plenty (Grossman & Shapiro, 1986), but the discussions of how to manage the counterfeits problems are few. Even though there are a few articles mentioning methods of facing e-commerce counterfeiting problems, the pertinences are not strong and these methods for example change to a new kind of label, improve goods classification technology or educate consumers, cannot solve the problem fundamentally (Zhang, 2013). What's more, most of the topics related to counterfeits problems are written from the perspective of consumers or consumer behaviors, such as: network fraud, consumers who bought online products even though they noticed these products are fakes or trading information asymmetry problems etc. But this thesis tries to look deep into the counterfeit problems from the perspective of e-commerce platforms. Studying and discussing what measures e-commerce platform owners have carried out and how they made these decisions or relied on what factors.

1.4 Research Purpose and Question

This research chooses Alibaba's e-commerce platform—Taobao, as a specific case to study the counterfeit problems in China's online market. As a case study, the purpose of this research is to understand how Alibaba deal with the counterfeit problem in its e-commerce platforms in order to create a better online shopping environment for buyers and sellers and achieve its company's (domestic and global) strategies and goals without maintaining the bad reputation of “counterfeit-selling company”. By analyzing the effectiveness of these measures to make conclusions as experience or advice to other e-commerce platforms in China, the research questions can be generated as: *What measures do e-commerce platform do to handle counterfeit problems? What do platform users think about these measures?*

Specifically, the first question is mainly used for studying the measures Alibaba has carried out or is going to take to handle counterfeit problems in Taobao; while the second is aimed at understanding the platform users' attitudes and opinions toward the measures taken by Alibaba. Users, in this respect, in this study, mean businesses selling on Taobao.

1.5 Delimitations

This research is based on Alibaba as a case to study how Alibaba handle counterfeit problems in its e-commerce platforms. Keep in mind that Alibaba cannot represent all e-commerce platform owners, accordingly, the conclusions cannot all be applied to other e-commerce platforms but the results can be used as a reference experience even though they still have limits.

2 Chapter 2—Theoretical Background

This chapter mainly introduces some relevant theories for researchers to further understand the challenge of counterfeits and the measurement of Alibaba anti-counterfeits activities to reach the research questions and problems. Using these theories can help the researchers well understanding the necessity and importance of some measures.

2.1 Mechanism Design Theory

Mechanism design theory originates from the discussion of social goals and mechanism design by Hurwitz in 1960 and 1972. This theory mainly uses game theory and social choice theory to construct a game which makes its goals and social goals consistent. The use of mechanism design theory in the economic field is to design an economic mechanism in order to meet the goals of some conditions such as: freedom to choose, voluntary exchange, incomplete information, and decision-making diversity (Shu & Guan, 2011). Whether resources are allocated efficiently, whether information is used effectively, whether the incentives and constraints are compatible, are the evaluation standard of choosing the optimal economic mechanisms. Efficient allocation of resources usually adopt Pareto Optimality Standard, an effective use of information, requires the cost of mechanism to be as low as possible, and incentive compatibility requires individual rationality and collective rationality to be consistent (Zhang, 2013).

Information efficiency and incentive compatibility are the two most important factors in designing a mechanism. Information efficiency determines the system running costs, while the incentive compatibility is the necessary condition for mechanism operation (ibid.).

Information intermediary mechanism can be an incentive for the seller, but also a restriction. It encourages sellers who sell high quality services and products to further improve their services and products, but also crack down sellers who sell inferior or fake goods. If e-commerce platforms can act as good information intermediaries, platforms and merchants can meet the incentive compatibility conditions (ibid.).

2.2 Principle-agent Theory

Principle-agent theory is one of the most important concepts in the last 30 years' development of contract theory. The core of principle-agent theory is to solve the incentive problems between principle and agent under the situation of interest confliction and information asymmetry, also named as the question of agency.

The principle-agent theory use “economic man” as its hypothesis and the two basic assumptions are:

1. The interests of principle and agent are in conflict.
2. Information asymmetry exists between principle and agent.

The basic logic of principle-agent theory is: in order to realize the principle's own effectiveness maximization, principles award certain decision rights of all their (manipulative) resources to agents, and ask them to provide beneficial services or behaviors to principles. Agents are also a kind of economic man who pursuit their own utility maximization. In the condition of inconsistency interest and asymmetry information, agents may be tempted while exercising entrusted awarded resource rights to put their own interests above principles. Thus,

this behavior will damage the principles' interests, and will result in agency problems. Principles must set up an effective balance mechanism (contract) to regulate, constrain, and motivate agents' behaviors, reduce agency problems, decline agency costs, and improve agency efficiency to better satisfy their own interests (Liu & Jiang, 2006).

In some senses, principle is to agent as the consumer to the seller, the consumer to the platform, and the platform to the seller. For counterfeits transactions in e-commerce platforms, the buyers, as principles, pay the commodities at the normal price, while the sellers, as the agents, provide genuine goods to them. While in order to pursue their own profit maximization, the sellers may sell fake products to buyers with asymmetry information. As a result, the buyers' interests are damaged and then agency problems emerge.

2.3 Reputation Theory

Reputation appears due to the development of history and reflects the quality of subject information as a signal in reality. This kind of signal spreads in public form the reputation mechanism and sometime related to the concept of brand. The main body of reputation mechanism can be either collective or individual. When the reputation body is collective/individual, then it represents the collective/individual reputation. Reputation is a valuable resource, and this resource should be well managed in order to play its biggest role (Harvey, 2002). The reputation body of sellers, first of all, represents individual perspectives, but when the reputation of more and more sellers challenges, they could represent the reputation of the whole platform.

Individual reputation is a kind of objective and comprehensive evaluation, which comes from the collection of individual information from the public. Now, individual reputation has been a special signal, which can deliver and show individual intrinsic characteristics in a certain range. Although individual behaviors in economy are hard to be observed with certainty, expanding the extension of time can help researchers to find the stability of them. Evaluation subjects then can make a forecast based on the stability of individual behaviors. Such processes, other subjects forecast further behaviors by learning from individual behaviors, is the formation process of reputation (Li and et. al., 2010).

Reputation is the soft-power of enterprise, the enterprise's brand card in markets, and an important factor for enterprises to attract customers (Zhang, 2013). The reputation on the market can even be used as an alternative factor for incentive contracts (Pi, 2009). Consumers can forecast the value of the goods based on the reputation of the stores in e-commerce platforms. Investors, too, will keep their concerns in the reputation of the platform itself and its users.

E-commerce platforms owners sometimes design reputation evaluation systems to stimulate merchants to improve their products or services (Zhang, 2013). This kind of reputation evaluation, in long-term perspective, can form a kind of restriction to the businessman. Considering the brand and the reputation of online shop owners—the platform users, they too, will take much care of selling genuine goods instead of fake products. In order to avoid punishments for selling counterfeits, online shop owners need to protect the platform's reputation as well. That is to say, the reputation of platform owners is in line with the companies using the platform. Current situations have shown that there are many platform companies suffering a bad reputation in China. It is really bad for their future development, especially for their global market strategy—because many western countries have more strict

rules and limits for e-commerce platform companies to expand regarding the factor of reputation.

2.4 System Trust

One of the top concerns of web consumers is related to trust. Tan and Thoen (2001) described that trust in the conduct of transactions on websites can be influenced by objective and subjective trust in the vendor. Zucker (1986) also indicated that institutional trust is a manufactured community by individuals, firms, and industries. When trust is built and protected, the whole community could operate well. However, if the trust is challenged or damaged, the community could also suffer huge bad effects. E-commerce platform, as an online community, needs customer's trust as well as the manufactures' and investors' and so on, to maintain its operation. The platform serves not only for delivering commodities, but also for connecting and showing trust with all community members.

Pennington et al. (2003, p.6) stated system trust as "a belief that the proper impersonal structures have been put into place enabling one party to anticipate successful transactions with another party", and described it in two ways: "structural assurances" - which include "safeguards", such as regulations, laws, guarantees and contracts, that make the party feel safe depending on the other party, hence enabling trust ; "situational normality"-which makes the situation appear normal and reduces uncertainty in the transaction. It is said that a well-designed mechanism could enhance system trust which reflects competence, integrity and reliability (Mishra et al., 1996). And according to Pennington (2003), trust mechanisms can be identified as ways of encouraging system trust in e-Commerce. The main three types of trust mechanisms are certifications, rating and guarantees. It helps platform owners to design a better trust mechanism and avoid sellers selling fake products through e-commerce platforms.

2.5 Contestable Market Theory

Contestable market theory, also named as the competition markets has some potential menace, such as "hit-and-run". These potential competitions can generate the desired market performance. Even in oligopolistic and natural monopoly market, competitive property can make sure the markets have no excess profits, no inefficient manufacturers, and no cross subsidy, marginal cost pricing, and Ramsey pricing (if prices are to be increased, it is a good strategy to increase the markup on goods with the most inelastic demand, because consumers or users will buy them anyway). A competitive market is a generalization of a completely competitive market, and it can replace completely competitive market performance. In contestable market theory, government rules are not necessary. For instance, in the early 1980s, the United States and other western countries relaxed rules mainly based on the contestable market theory (Yan, 2009).

The contestable market theory is based on three strict conditions. First of all, it is completely free for entrance. Each potential competitor and incumbent has the same production technology, product quality, cost and demand and there are no barriers for them to entry. Second, few cost for exit. There are no/few "sunk costs" (a cost that has already been incurred and cannot be recovered) for entrants in the market. So, there are no obstacles for entrants' markets withdrawal. If these two conditions exist, potential entrants can decide whether to enter the market quickly or leave, namely the "hit-and-run" situation. Third, before potential entrants enter the markets, they can take the advantage of finding the current market price level to judge the potential profits (Zhang, 2013).

In China, the e-commerce has savage growth in the past several years. There are few laws or regulations to constrain the behavior of online sellers. Also, sellers could use the “hit-and-run” concept to sell counterfeit products without many risks. So, it is now necessary for e-commerce platform owners to reconsider the theory of contestable market theory. Maybe, a few more regulations and rules can change the current counterfeit problems in some senses.

3 Chapter 3—Methodology

This chapter demonstrates the scientific approach and choice of research methods and design, and two kinds of processing ways in order to fulfill the purpose of understanding the counterfeit problems in Alibaba's e-commerce platforms.

3.1 Methods used in this research

The purpose of this research is to study the counterfeit problems in e-commerce platforms, aiming to reach a deeper understanding of what e-commerce platform companies do to handle the challenge of counterfeits and analyze the result of these measures. This calls for a qualitative approach rather than a quantitative one. A qualitative research method, as a research strategy, focuses on the words rather than the numbers, and provides the researchers with rich and detailed answers (Bryman & Bell, 2011). Even though the number of e-commerce platforms is large, but due to the aim of the research purpose, this thesis just focuses on one of the most representative companies in China, named Alibaba, as a qualitative case to study. There might be more understandings to gain when studying other companies as well, but it is too time consuming. Taobao—the e-commerce platform of Alibaba group, will be the case in this qualitative research.

Case study, as an empirical inquiry and a valuable research tool, has its strengths in that it “measures and records behavior and collect data from a variety of sources” (Chetty, 1996), including documentation, archival records, interviews, direct observation. This research uses a sort of interviewing and documentation data as tools to help the researcher to study the case. So, these kinds of modes could thus be described as a qualitative mixed case study as well.

On one hand, it has been found suitable for this study to use a semi-structured interview to reach a deeper understanding of the phenomenon of counterfeit problems in e-commerce platforms. Specifically speaking, by interviewing the users of Taobao platforms (the online sellers), the purpose is to find out what opinions they have to counterfeit problems in e-commerce platforms; and what they think of the measures Alibaba has taken to handle the fake product challenges in Taobao. Firstly, according to Bryman and Bell (2011, p.466), qualitative interviewing is usually different from interviewing in quantitative research such as : less structured approach, greater generality in the formulation of initial research ideas, greater interest in the interviewee's point of view, and so on. Secondly, there are two major types of qualitative interviewing: unstructured and semi-structured. With a semi-structured interview, the researchers have a list of questions on fairly specific topics to be covered, but the interviewee has a great deal of leeway in how to reply and answer the questions, which is more convenient and flexible regardless of the time and distance limits (Bryman & Bell, 2011, p.467). In conclusion, this kind of interview is both qualitative and flexible.

On the other hand, adding the documental materials in this case study can make the research more comprehensive and non-prejudiced. In other words, just gaining the messages from the perspective of users in platforms cannot represent the whole issue accurately or thoroughly. According to Bryman and Bell (2011), a range of documentary sources can be used in qualitative business and management research. And the variety of documents includes: personal documents, public documents, official media outputs, and virtual outputs. Using a variety of documental resources aims to reduce bias and maintain neutrality, and refers to the method of triangulation. According to Kelle (2001), triangulation, is a process of cumulative validation, or is a means to produce a more complete picture of the investigated phenomena. This thesis prefers looking at some useful sources which can show the measurements Alibaba

has taken or will take to combat against counterfeits, and the criticisms and advices people has made to these measurements. In this way, researchers can reach a better view and understand what is going on about counterfeit problems in Taobao.

To sum up, this thesis starts with two lines, interviewing and documental data, to look into the counterfeit problems in e-commerce platform, while the interview might be the main part of the study. Accordingly, there will be two types of data results to be processed. The goal of a case study analysis is to concentrate on the uniqueness of the case and to develop a deep understanding of its complexity.

Generally speaking, qualitative content analysis is the main result analysis method in this research. Qualitative content analysis as a strategy for searching themes in one's data lies at the heart of the coding approaches that is used in the analysis of qualitative data (Bryman and Bell, 2011). It usually comprises a searching-out of underlying themes in the materials being analyzed. The process through which the theme of counterfeit problems in Taobao are extracted and left implicit, by collecting the answers from the interviewees and the data from documents (based on broad resources), the researcher can compare and examine the results with some theories, such as mechanism design theory, reputation theory, principle agent theory, and so on, testing or finding the information of the research questions and purposes.

3.2 Research Process

Two methods were used in this case study, and the research by both started almost simultaneously. In order to describe more clearly, the interviewing part is named as part 1, the documental data collecting as part 2.

Part 1:

Regarding some realistic factors such as time and distance, this interview was decided to be processed through mails instead of face-to-face interview. According to Bryman and Bell (2011), telephone interviewing and online interviewing are two possibilities of qualitative interview, so it is still one kind of qualitative interview in this research. Since Alibaba is started in China, the main markets and users are based on Chinese customers and culture. So, the target interviewees should be Chinese people who use primarily e-commerce platforms in their business.

With the help of snowball sampling method (see detailed description in 3.2.1 Snowball Sampling), researchers in the beginning ask their friends and relatives to introduce some merchants who sell products or have experience in e-commerce platforms, and then collect their email addresses for the first step. Then, the researchers would send these "collected" people an introduction letter telling them that this research is used for academic study and the purpose of the research is to have a deep understanding of counterfeit problems in e-commerce platforms. The most important thing is to ask them if they agreed to receive and answer further questions once the interviews are started. Then, after having the agreements with these people, they can be named as the interviewees and email interviewing questions would be sent to them at the agreed times (considering the time they are available and suitable). What is worth mentioning is that these interviews are not processed for only one time, but for several times if they are needed. Specifically, researchers would send some general questions to employees for the first time, and after receiving and analyzing their answers, researchers would then ask more specific and related questions according to their replies (which shows that this kind of interviewing is a qualitative one).

Since this qualitative research aims to generate an in-depth analysis, the issues of representativeness are less important (Bryman & Bell, 2011, p. 489). But for studying the counterfeit problems in Taobao e-commerce platform, one of the most important influencing factors when choosing an interviewee is that the interviewee must use Taobao or have experiences or knowledge about Taobao platform.

The interview started from December 25, 2015 and ended January 4, 2016. At the beginning, only 5 people replied to the introduction letter and agreed to accept the interview. But with their help and introduction (just like snowball sampling), 7 more people agreed to be interviewed in the first round (they were asked about the general questions) but at last, only 8 interviewees completed the full procession. As for the other 4 interviewees, 2 were not familiar with Taobao or just sell their product in other e-commerce platforms, 2 refused to reply or did not reply the further questions. So, the “valid” interviewee sample is 8. Also, during the process of interviewing, semi-structured questions were used in order to have a more flexible experience and the interviewer just need to know the area they are interested in. Each interview lasted between thirty minutes to one hour, and all with further and different kind of questions related to counterfeit problems in Taobao or Alibaba’s measurements to handle counterfeit problems.

Snowball Sampling

Snowball sampling, within a qualitative strategy, is a type of non-probability sampling and a form of convenience sampling. With this approach to sampling, the researcher makes initial contact with a small group of people who are relevant to the research topic and then uses these to establish contacts with others (Bryman & Bell, 2011). “A snowball sample is in no sense random, because there is no way of knowing the precise extent of the population from which it would have to be drawn” (Bryman & Bell, 2011, p. 193). In other words, there is no accessible sampling frame for the population from which the sample is to be taken, and the difficulty of creating such a sampling frame means that such an approach is the only feasible one. Due to the difficulty of reaching specific platform users, this thesis uses snowball sampling method to target on a small group of people who sell products on e-commerce platforms, and then use these sellers to establish contacts with other sellers, who are usually their business cooperate partners, relatives, or friends who are also using or are familiar with Taobao e-commerce platform.

Part 2:

By looking at a broad range of materials, researchers can have a deeper understanding of counterfeit problems to Alibaba Company in different perspectives. That is to say, with the method of triangulation, the study could be more neutral and unbiased.

First of all, regarding the authenticity, credibility, representativeness, and meaning, four types of documents are used during the process of gathering the related data of counterfeit problems in Taobao, including public documents, organizational documents, mass media outputs, and visual documents. The mainly resource can be derived from some organizations, data bases or websites which have a more authoritative and a wider range of audience, such as Alibaba official website, Google Scholar, Reuters and so on.

Then, the key questions such as “What measures do Alibaba make to combat with counterfeit problems?”; “How’s the measurement to counterfeit problems going on in Taobao?” and so on, are to find out the actions Alibaba are taking and the opinions people are criticizing.

Next, according to the answers the interviewees replied in the interviewing part, researchers can search some related articles to get a deeper knowledge. What is worth mentioning in this part is that the focus is “counterfeit problems in Taobao platform”, so the key is the measurements Alibaba has taken to its e-commerce platforms and the effectiveness or results of its actions.

Also, with the background and theories mentioned above, researchers would incline to find more materials related to them in order to have a better analysis later on. During documental data collecting processes, some Chinese websites (or materials written in Chinese characters) are also used because they are more concerned about and closer to the news happening in China. Once the researchers found the useful information, they would keep the record and translate them into English as well.

3.3 Alternative Methods and Reflections

When doing the interview, it is preferable to get in touch with the senior executives or top managers in order to gain the newest information. But it is really hard to get a chance to talk to them; so instead, this research chose sellers on e-commerce platforms as the interviewees. Of course, it is an alternative way to interview the employees who work for Alibaba or other e-commerce platform owners.

The same thing happens to the documental work. Without the access to get in touch with the inner materials of Alibaba, this research chooses to find resources through other documents, which requires a check and review of the authority and neutrality of the material. In order to avoid the situation that “some documents are written in order to convey an impression, one that will be favorable to the author and those whom they represent” (Bryman & Bell, 2011, p. 559), triangulation method is needed for this research to find different perspectives to represent the truths. “Any document should be viewed as linked to other documents, because invariably they refer to and/or are a response to other documents, which form part of the context or background to the writing of a document” (Bryman & Bell, 2011, p. 559).

The problem with snowball sampling is that it is very unlikely that the sample will be representative of the population, though; the very notion of a population may be problematic anyway.

When designing the interview questions, unstructured method can also be used as well. However, in using email interviewing, you cannot communicate with interviewees, semi-structured interview can serve as a more appropriate method. Also, with the help of an interview, the dependability of the research is strengthened. And the questionnaire allows interviewers to collect the ways in which research participants view their social world and that there is flexibility in the conduct of the interview.

4 Chapter 4—Result and Analysis

After collecting data, this part focuses on the result analysis. Regarding the theories mentioned above, both interview and documental data will be analyzed independently, with all focus on the research questions in order to have a better understanding of the counterfeit problems in Taobao in which area what and how Alibaba Company face this challenge.

4.1 Document Data and Analysis

In this part, the documental data will be analyzed and illustrated with the theories mentioned above in the same order as the theories have been presented.

First of all, **Mechanism Design Theory** can be applied very often in Alibaba's actions and mainly refers to resources allocation, information usage, goal consistency and so on.

Alibaba group has designed a website where all brand owners can submit the request of deleting fake products once they have found that the goods sold online are counterfeits (Forbes News, 2015). According to mechanism design theory, by doing this, Alibaba can reduce cost of tracking and managing counterfeits, letting all resources be used and allocated efficiently and the information be used effectively. In order to fully use the resources and reduce the cost, Alibaba also have employed 2000 full-time employees to anti-counterfeiting jobs, cooperated with more than 5000 social volunteers and employed another 200 employees to cooperate with the government combating counterfeits problems (Caixin.com, 2015).

What's more, Alibaba Group claims that brand owners should stop suing them, which could cost more problems to Alibaba and hinder the actions Alibaba is taken to combat counterfeits. Alibaba have upgraded the Taobao platform registration system of intellectual property protection, joined forces with UBM, a global events-led marketing and communications services business and one of the world's leading trade exhibition organizers to create new B2B trading experience (Ebrun.com, 2013). According to mechanism design theory, by doing this, Alibaba can make full use of the information and use incentive compatibility which sellers have registered when opening shops in Taobao and track every shop in order to put more pressure to those sellers who try to sell counterfeits online.

From April 2015, Alibaba carries out the "integrity program", which aims at allowing brand owners, who have a good record to find fake products, to take part in, and shortcut the procedure to be more simplified from three to five days to one to three days. This article also claims that Jack Ma as the chairman of Alibaba group is not going to take down those alleged shops immediately, and says that it is not fair for the sellers. "You need to care about all perspectives and protect their rights", said Jack Ma to Forbes (Forbes News, 2015). Alibaba's goal is to maintain a good shopping environment in Taobao at the same time considering the living or SMEs and brand owners' interests and profits. That is to make its business goal—maintaining a lean online shopping environment and entering into the global market, and social goal—keeping an harmonious relationships with platform users as well as brand owners consistent, which is the purpose and function of mechanism design theory.

Alibaba group wants to carry out "Entire network report system" for people to report counterfeiting issues with real-name authentication and within 8 days, the reported events would be processed (Lin, Wall Street News, 2015). This makes the incentive and collective rationality consistent according to mechanism design theory, which means that reporters cannot deliberately report some innocent sellers, and some real reports can be tracked with the

help of the real-name reporters. By doing this, consumers may feel free to report the issues and sellers receive constraints and be more aware of the cost for selling fakes.

Alibaba group has hired Apple's former executive Matthew Bassiur, who is known as well-knowledgeable and rich-experienced person, regarding anti-counterfeiting and copyright issues, to be the group vice president and executive director of the global intellectual property rights (ibid.). Choosing the best professional and suitable person to get in charge of the counterfeit issues refers to the Pareto optimality in mechanism design theory. Hiring Matthew Bassiur to manage the counterfeit problems in e-commerce platforms helps to allocate the resource more efficiently.

Alibaba claims that they "follow good procedure to verify the nature of complaints and relevant fact before re-listing items" when they receive complaints and allegations regarding infringement or counterfeit goods. Generally, they would give sellers who have been accused of posting or selling counterfeit products up to three days to refute the allegations and provide evidence of authenticity of the product. If allegations of posting or selling counterfeit products have not been refuted or fictitious activities have been confirmed, they penalize the parties involved through a number of means (Alibaba.com, 2015). It refers to one of the standards of mechanism design theory, which claims that the decision making should be based on complete information, it is freedom for consumers to complain and vendors to refute, but the final decision need to be more thoughtful in order to keep the whole organization on an even keel.

Next, **the Principle-agent Theory** is used mainly about the information asymmetry problems, and there are a few interesting confliction problems in this area.

Alibaba group is opening one kind of SNS products called "Aitao", which serve as information channel to convey information between sellers and buyers. Currently, only official "Xiaoer", Alibaba's own official online server, which is used by Alibaba's employees, is available to join in and publish information. But in a near future, it will be available for all sellers or vendors to join in and publish or promote information to their target consumers in order to set up connections with them. And once the buyers or consumers are linked with sellers, the information channel and connections are set and they can communicate with each other (Ebrun.com, 2013). It is clear to see that a direct channel is opened to buyers and sellers. Then, with a good communication with each other, the problem of information asymmetry could be alleviated or solved. Especially, this gives autonomy to sellers to publish information or connect with consumers actively instead of passively.

What's more, it is claimed that Alibaba group also connects "Xiaoer" with report mailboxes in order to avoid the phenomenon of corruption and graft of "Xiaoer" employees. The reports sent to mailboxes will be received by another group of employees in Alibaba (Ebrun.com, 2013). This refers to the incentives and constraints for sellers, but also make the use of information more effectively. Due to the role of "Xiaoer", sellers are encouraged to change their traditional behaviors in order to improve their services and products and avoid selling fake products for the sake of not being cracked down or being punished. It helps to solve the conflict interests between buyers (principle) and sellers (agent) and to create a good channel for information exchanges.

By setting up consumer protection fund, Alibaba cooperates with more than 1800 intellectual property rights holders to operate the "good faith grading" mechanism and sets up the

product-return system (Alibaba.com, 2015). With this protection fund, consumers can report the counterfeit behaviors and win their money back without worrying that their interests will be damaged. It guarantees the right of consumers purchasing genuine goods on Taobao and solves the incentive problems between buyers and sellers, which means buyers have their right to fight against sellers if they receive counterfeit goods, while sellers need to constrain their selling behaviors avoiding cheating consumers with fake products.

To cooperate with manufacturers, Alibaba is carrying out the “Mantianxing” tracking plan, which is a patent product designed by Alibaba for coding products or commodities with specific sequence numbers. With this new technology, consumers can use Taobao and Tmall apps (Alibaba’s e-commerce platform apps) in their phones to scan the specific QR-code of each commodity to define whether the product is genuine or not (Alibaba.com, 2015). With this “Mantianxing”, consumers can get a full knowledge of the products sold in Taobao and have the freedom to choose which products they want to purchase, voluntarily to exchange information and make their decision-making more diversely and wisely and receive information more accurately and directly. So, the goals among sellers, buyers and Taobao are consistent according to mechanism design theory and principle-agent theory. What’s more, both manufacturers and Taobao can pursuit their own utility maximization without conflicting interests with each other, just like the “economic man” does.

Reputation Theory and **Trust Theory** are sometimes mentioned together, when Alibaba makes some decisions to combat counterfeit problems in Taobao.

It is reported that Alibaba is cooperating with manufactures to cultivate home-grown brands online to “revitalize a flagging” (Reuters, 2015). Alibaba group cooperates with traditional OEMs (Original Equipment manufacturers), helping the transformations of small-and-medium size companies, who has original design and brand, to produce higher value-added products and sell these products in a special platform named 9.taobao.com. Alibaba wants to change people’s traditional thinking by using the word “quality” instead of “quantity” to name Chinese products (Alibaba.com). This activity begins in Putian, which is “the epicenter of China’s high-quality fake sneaker business, a byproduct of a legitimate footwear industry that employs a tenth of the city’s 3 million people” (Ruwitch, Reuters, 2015), and will spread to other cities and other areas including bags, electronic goods and so on. Obviously, the reputation body in this case is those new-brand enterprises and Taobao. Considering the current bad reputation in Taobao, this action serves as a “signal” that Alibaba is cultivating some high-quality brands instead of only wipeout or hit counterfeit producers. According to reputation theory, by setting a good example and rebuilding the good reputation of Putian, people could make a forecast of the future reputation of Taobao based on the effect of Putian. And accordingly, the reputation body could be transformed from the individual to the collective, which means that all enterprises in Taobao e-commerce platform share the same reputation in a sense. The goals will be consistent and the trust will be built with “structural assurance” and “situational normality” according to trust theory and reputation theory. By doing this, Alibaba can get rid of bad reputation step by step rebuild a new image of reputation and trust to consumers and vendors and show people their new “brand-card” (reputation) in the globe.

Finally, there are both advantages and disadvantages of **Contestable Market Theory**.

For one thing, there were no obstacle opening stores in Taobao in the past (entering to the market), no exit cost (leaving the market), no hard punishments or strict rules (without

governing rules), and sellers could take the advantage of lower price comparing to genuine goods. So it is important and urgent for Alibaba to break the situation and take more regulations and constrains to online sellers. Actually, Alibaba is actively cooperating with governments and international organizations such as the UK-China trade association, assisting police officers in internet governance and helping hitting counterfeiting vendors on line and off line (Ebrun.com, 2013). Also, Alibaba group has set up a professional management department to make rules and regulations for electronic business platforms, to protect intellectual property, to combat counterfeiting and to crack down on credit hype (Caixin.com, 2015). These could also help to build trust mechanism on Taobao and help to manage the whole e-commerce environment. Firstly, it refers to the problem that counterfeits flourished on Taobao in the initiate stage because there are lack of government control and Alibaba's regulations. Secondly, just like "hit-and-run" ideas in contestable market theory, fake product producers and sellers bear low risks without worrying about the costs and obstacles when doing business online. So, the theory could be used to explain the measurements Alibaba has taken to handle counterfeit problems.

4.2 Interviewing Results and Analysis

These interviews were conducted between December 29, 2015 and January 4, 2016. Over 12 interviewees have been interviewed while the valid interviewing number is 8 (see in 3.2 research process).

The average age of the interviewees is 22 years and there are 2 females and 6 males. Each of the interviewees received and replied at least two turns of email interviewing questions, including eleven general questions lead by the interview guide and several other specific questions according to interviewees' own answers.

When referring to the counterfeits problems in e-commerce platforms, most of the interviewees agreed with the opinions that current e-commerce platforms need to be improved and there need to be a more efficient mechanism for buyers and sellers doing business online.

Some wrote in the mails that it is due to the Chinese national conditions that counterfeits are flooding in e-commerce platforms. Without making clear regulations or laws to ban or punish counterfeits, counterfeit trading behaviors will still exist, which also means that the contestable market theory is not suitable in e-commerce platforms or need to be improved (especially the government rules are needed in this market place).

A few pointed out that some brand owners and consumers should also be accused of causing counterfeit problems appearing online because brand owners set their products with unreasonable prices and consumers prefer famous brands but covet cheap products. Considering the contestable market theory, counterfeit producers may take the advantage of these problems of the huge price gap between fake and genuine goods, grasp the opportunity and use the "hit-and-run" ideas to sell counterfeit products in Taobao as long as there is a demand for their goods and a lack of regulation.

Now, Alibaba has come up with some strict rules to regulate the trading behaviors between buyers and sellers, and has cooperated with some official organizations to monitor and track the counterfeiting vendors. The costs and risks are now much higher for "hit-and-run" situations.

Among the 8 interviewees, two of them admitted that they had sometimes sold counterfeit products. According to these two, the reasons why they sell fakes online are related to the higher profits, the huge demand of counterfeits, and the fuzzy definition of counterfeits. In their opinions, counterfeit products do more good to e-commerce platforms because fake goods can satisfy consumers' demands and maintain a large number of active buyers, which makes the platform prosper. It is really a Chinese specific condition that consumers are willing to buy fake products and sellers are willing to sell and gain some profit through these trades. Another kind of "trust" is built on the belief that buyers can purchase some lower cheap fakes in Taobao, while sellers do not have to be afraid of being accused of selling fakes (because some consumers want to buy). Regarding this situation, Alibaba can do nothing but just leave the issue behind and claim that they would not shut down all the fake stores immediately without accurate information. But ironically, if there is a tacit agreement existing between buyers and sellers, Taobao can receive few reports of counterfeit stores.

Also, according to these two interviewees, by selling fakes online, sellers like them help to form the contestable market situation between fake and genuine products. Brand owners have to lower their products' sky-high prices in order to compete against fake and inferior products. Actually, it also makes sense when referring to mechanism design theory. First of all, there is a large demand of "low price but high quality products" (which have a high potential to be considered as fakes) of consumers. In the meantime, there are a lot of SMEs that desire to survive or make a living depending on selling fakes. It is just like the "Game" in Mechanism design theory which aims to make the goal of sellers and SMEs consistent, in one sense, like the social choice.

Interviews show that most interviewees would like to do their businesses on: Taobao, WeChat micro store, and Weibo. (Most of them have more than 2 years' experience in electronic commerce). In their words, Taobao (Alibaba) is the most famous and biggest online market place for consumers, even though there are several competitors to capture market shares from Taobao (Alibaba). "Taobao (Alibaba) nearly monopolized the e-commerce market in China" said one interviewee. As long as the counterfeits do no harm to consumers, said the other interviewee, it is a good choice to allocate the resources more efficiently. It seems that the incentives and constraints are compatible, and the goal of consumers (having the products), the goal of sellers (selling their goods) and the goal of Taobao (developing more prosperously) are consistent in this sense.

On the contrary, six of the other interviewees said that they never sell counterfeit products on e-commerce platforms. Some of them mentioned about conscience and ethics to do legal business. Some argued that once they sell fake goods to their customers, they could get a bad reputation or name, which could do harm to their future businesses. They insisted on selling genuine goods not only can they save the cost of advertisement with the word-of-mouth of buyers, but also gain the trust of consumers (in their minds, trust is one of the most important factor when doing business). They also illustrated that some of the buyers are recommended by their friends or relatives, and do not want to fail them or cause any trouble by selling fakes. It is related to the reputation theory that once a small group of consumer receives the "signal" (the shop sold counterfeit goods), all consumers may have a forecast that the seller could sell fakes to them as well. And for those sellers who sell genuine goods, the situation could be vice versa. It is also very smart for sellers to consider the trust factors when they sell commodities. The trust is built in the transactions which form the "structure assurance" and "situational normality" and consumers could feel safe when they purchase online.

When referring to “trust” in the following questions of 5 and 6, one interviewee claimed that Alibaba had improved the “return mechanism” (which offer the chance for consumers to return the goods when they found what they had bought was not the same as the online descriptions) and connected the system with Alipay (an online payment system designed by Alibaba, just like PayPal in western countries), but it also need to take care of sellers’ profits, in case that buyers return goods deliberately or randomly even though the goods are genuine. Just like the mechanism design theory shows that the cost of the mechanism should be low and the changes should suit the Pareto Optimality Standard. In other words, Alibaba should consider the costs of returning goods, such as the damages of goods, the delivery costs, the side effects caused to sellers. If most of the goods were returned back to sellers regardless of being genuine or fake, it could become a big problem for Taobao and its users.

But there are also some problems such as that some sellers refuse to receive the turning-backs only if they are related to quality problems. It is certain that Alibaba is trying to build a more trusty system regarding the mainly three types of trust factors: certification, rating and guarantee. The illustration and introduction of goods are certifications; the “points” system adopted a better rating method avoiding the phenomenon of “brushing” the high praises (some sellers can hire some persons whose jobs are to give rates to online stores); the deposit money and return mechanism are the guarantees for consumers to have trust in the mechanism.

When asking how will buyers and sellers react when consumers found their goods were counterfeits, most interviewees replied that buyers require the return of goods and ask for refunding through Taobao’s “Xiaoer” or return system, but some sellers will agree while others may not. However, some consumers would “let it go”, according to interviewees, because some consumers thought asking for changes or refund would be time consuming or troublesome. When answering how Alibaba deal with the problems, some interviewees mentioned that, first of all, Alibaba had special “checkers” to review the products sellers were selling online. Once they find that some prices of the products are abnormal such as much lower than genuine goods, they would look deep into the specific shops. If these shops sell fakes, they would be shut down immediately. Ironically, one interviewee also mentioned that Alibaba Chairman Jack Ma once said that it is ridiculous to believe most of the consumers are deceived because if you want to buy a Rolex watch on Taobao, and you found that the price is just 200RMB, then you realizing that it is obviously fake-product. What’s more, Jack Ma also claimed that he would rather lose money than shut down all stores in Taobao, and said he could win respect (of the sellers). Regarding this, Alibaba’s attitude toward suspect fake-selling stores seems very ambiguous. Secondly, Alibaba would require the sellers to offer the purchase invoice to buyers and show them a valid business license. Also, Alibaba designed a system for consumers to put their feedbacks to sellers and let other consumers to have references before they purchase goods. These feedbacks include the shop ranks, valuations, and recommendations and so on. Sellers in Alibaba like these interviewees, have much concerns about these feedbacks because these feedback refer to their reputation.

The goal of mechanism design theory is to achieve the possibilities: freedom to choose, voluntary exchange, incomplete information, and decision-making diversity. It is of course the rights for consumers to decide whether or not to return back counterfeit goods, but if they require turning back and asking for refunds, Alibaba has certain ways to guarantee their rights such as “Xiaoer” or return system. The “checker” is used for the information checking procedure considering asymmetry conditions. Also, by analyzing feedbacks from consumers, Taobao is able to adopt the reputation and trust system such as ranking sellers’ shops ranking or shutting down bad shops. On the other hand, if the seller does a good job, he/she could

receive a high rank of rating and earn a good reputation for his/her shop, which means that those feedbacks serve both as incentive and constrain according to principle-agent theory.

Two of the interviewees mentioned about one measure which Alibaba had taken a few months ago that it cooperated with some self-owned brand owners to sale low price but high quality products to boycott counterfeits on Taobao. One of them agree with the action for it not only help consumers to notice the “zero tolerance” attitude Alibaba had shown, but also find a way to help SMEs to produce and sale products in a better way, which is avoiding “piracy” but advocating “self-owned brand”. However, the other interviewee thought this measure cannot truly solve the problem. He argued that some producers just changed the logos and sold the similar goods online. Actually, it did promote the brand and increase the sale volumes in the short run, but it cannot last long if not carefully develop the brands. What’s more, there is still lack of evidence that this action can reduce the selling of fake products in Taobao. It is reasonable for Alibaba to consider its brand and reputation by cultivating some good brands to change people’s opinions of Taobao and earn their trust in order to maintain the prosperity of the platforms, especially for the investors’ trusts after Alibaba went public. Even though the trust and reputation theory give a reasonable explanations for Alibaba to take these measurements, it still needs time to form the trust (relationship) and reputation (name). According to reputation and trust theory, only after the situation remains stable and normal, can Taobao send an acceptable “signal” to people and make them believe that Alibaba’s e-commerce platform environments have been improved.

In question 7:” Generally speaking, do your consumers notice what they bought are genuine goods or fakes?” that half of the interviewees thought that consumers were not aware of or not well understand the commodities they had bought or would like to buy. According to their answers, most of the consumers just listen to sellers’ introduction and have no idea whether these products showed online are genuine or fake (the information asymmetry exists between principle and agent). “They have no way to see real things online but pictures” one interviewee replied. But some consumers also realize some of the products are fakes, “the price are quite lower comparing to genuine ones”, another interviewee replied. Nearly all of the interviewees agreed that e-commerce platforms including Alibaba, has the problem of information asymmetry. In order to solve this problem, Alibaba required sellers to afford cash deposit when they register their stores in Taobao, and once the sellers were reported and confirmed selling fakes, their cash deposit can be confiscated as a punishment and their store “points” (one rating system in Taobao showing the rank of reputation of the shop) can be degraded. Some interviewees said that Taobao will ask them to put more illustrations or introductions such as invoices, video, certifications of their products in order to let the consumers grasp more information so the individual “goal” could be better achieved, and called this action as “Gold Shop” activity. With more information of the goods shown in Taobao, the information mediation mechanism in principle-agent theory is replied, which will help to solve the information asymmetry problems.

Some interviewees stated that Alibaba hold a large scale of quality feedback activity after Taobao’s Double Eleven Shopping day, on which day most of the commodities would have a discount like Eastern countries’ Christmas price, return and refund mechanism, ranking and valuation system relating to reputation of online shops, checking and judging system like Taobao’s “Xiaoer” which serve as an online judge to guarantee both side of sellers and buyers about counterfeits problems. All of the interviewees thought that what Alibaba had done was necessary for dealing with counterfeit problems, but most of them also replied that those measures were not good enough and needs improvement, which means these measures are not

so efficient in some concern. One interviewee recommended that Alibaba should learn from the experience of JD.com Company, whose “direct marketing mode”, which help to create a channel to combine the sellers and manufactures to sell things together, so consumers can book the order online and go to pick up goods themselves in a physical store offline, is a big success referring to e-commerce problems. According to these eight interviewees in the email answers, in the future, Alibaba still need to cooperate with the police, design better mechanisms and create a better online e-commerce platform environment for buyers and sellers, such as setting regulations, continuing using deposit system, educating consumers not to buy counterfeits, in order to continuously prosper in the future e-commerce competition.

5 Chapter 5—Conclusion and Discussion

In this chapter, I would like to introduce the research conclusions, discussions and further research of the counterfeit problems in e-commerce platform. It could be useful to learn from the specific case—Alibaba, and get some knowledge of counterfeits handling methods or skills to face the challenge that counterfeits have caused to e-commerce platforms.

5.1 Conclusion

We use theories to understand the measures Alibaba has taken to handle counterfeit problem in order to achieve the aim of research purpose and the answer of research question. The conclusion can be generalized like this:

1. Alibaba builds up some specific mechanism in order to change its bad reputation and keep its platform ecosystem healthy.
2. Alibaba sets more strict rules and regulations and cooperates with government officers, police, international organization and brand owners and so on with the aim to avoid sellers trying to sell fake products on Taobao.
3. Alibaba opens more channels and designs more product or functions for the sake of well-delivered information between buyers and sellers.
4. Alibaba creates some funds and systems to protect buyers and sellers interest without worrying too much about the influences counterfeits have caused or will cause to them.
5. Alibaba comes up with some new methods to face the challenge of counterfeiting problems. Instead of shutting down all suspect stores, Alibaba swifts to find more ways cooperate with some SMEs.

The details can be seen as follows:

First of all, Alibaba do try some ways to solve the counterfeit problems in Taobao. It is not just a slogan of “zero tolerance”, but actual actions. For a better online shopping environment, Alibaba have hired professional people to take care of counterfeit problems. For the sake of cost minimization and resources efficiency, Alibaba not only cooperate with social volunteers, but also combine its force with brand owners, international organizations and Chinese official organizations and polices. It carries out some programs such as “integrity program”, “Mantianxing program”, “self-brand cultivation program” and so on to avoid bad reputation caused by counterfeits in the past several years. It is obviously to see that Alibaba not only cares about the profits of brand owners, manufacturers and consumers, but also worries about the fates of those hundred and thousands of small-and-medium sized enterprises who do their businesses on Taobao.

For one thing, Alibaba sets many strict rules and mechanism such as “return mechanism”, “ranking system”, “report system”, and “deposit and refund system” to guarantee the rights and profit of consumers. For another thing, it creates some new channels and functions such as “Aitao”, “Xiaoer”, “double eleven festivals” for sellers to have a better way to communicate with consumers which serve as the information connection bridge between consumers and vendors and solve the agency problems at the same time. Then, for its own development strategy, especially the global market plan, Alibaba cooperate with many international organizations such as UK-China trade association and UBM, in order to earn the trust of consumers and investors from China and from abroad, and rebuilds its own reputation from “fakes-distribution platform” to “genuine trading platform”, from “quantity” goods to “quality”. The aims of all its actions or measurements are in the sake of consistent goals among its platforms, consumers, sellers, brand owners and even the whole society. Regarding

the theories mentioned above and analyzing data, this investigation has reached a deeper understanding of the counterfeit problems in Taobao. Of course there are still a lot more things that need to be done, but this research, hopefully, has come a little closer solve the counterfeit problems in Chinese e-commerce platforms.

5.2 Discussion

During the procedure of collecting and analyzing data, some interesting things also appeared related to the problems of counterfeit problems in Taobao.

First of all, not all people hate counterfeit even though it will do harm to the healthy development of e-commerce. In fact, counterfeit trading account for a large amount of Chinese GDP (also in Alibaba Group profits), and many SMEs relied on selling counterfeits. What's more, some interviewees (two in six) admitted that they had sometimes sold counterfeit products on Taobao or other e-commerce platforms. According to these two, the reasons why they sell fakes online are related to the higher profits, the fuzzy definition of counterfeits, and most importantly, the huge demand of counterfeit products. They claimed that there are a tremendous number of consumers voluntarily purchasing fakes on Taobao. That is to say, even though these consumers noticed that what they would purchase were fake products, they still want to buy them. And regarding the saying that Jack Ma, Alibaba's Chairman, would rather "lose money" than shout down all suspect stores, the attitudes Alibaba showed toward counterfeit trading behaviors or counterfeit selling stores are complicated, the decisions and measurements could be influenced by this ambiguous feeling, even though Alibaba claims that the company's attitude toward counterfeit is "zero tolerance".

Then, it is showed that cultivating home-grown brand activity could be hard to testify the effect it has had to solve counterfeit problems on Taobao. The campaign is good, but it could be just a show, which means that Alibaba may just want to remind people that they are doing their job of "zero tolerance" against counterfeits. It is reasonable to doubt the motivation of this campaign, but Alibaba certainly give us some enlightenment that "counterfeits" is a force that cannot be neglected. If we could find some ways to transfer this economic power into some legal routes or usage, there could be a win-win situation. For example, some commodities sold on Taobao are high-quality but much cheaper than some genuine but inferior quality goods sold in brand Outlets. Jack Ma also criticized that brand owners should also take responsibility for the flourish of counterfeits; because they set their products with sky-high prices and force consumers who cannot afford them to buy fakes instead. If there could be a way similar to Alibaba's cultivating home-grown brand activity, the challenge of counterfeit could be eased.

Furthermore, the report also mentions one opinion that if brand owners cooperate with Alibaba instead of suing them, it may be a better way to deal with the fake problem. But if they all stop suing Alibaba, whether the current situation could be better is still uncertain because it is just like principle and agent theory mentions, both incentives and constrains are needed in order to achieve the consistent goal of individual and collective even social goals. But the certainty is that, cooperation is better than fighting against each other. The counterfeit problem is not just Alibaba's problem, it is not just China's problem, and on the contrary, it is the whole global society's problem.

Next, “trust” is one of the most important factors regarding to the mechanisms of the “ecosystem” (said by Jack Ma, a metaphor used to describe the whole e-commerce environment) of e-commerce. It is clear to notice both from the documentary and interview result that Alibaba has taken many measures to build a trust system on Taobao. Some measures like “return mechanism”, “deposit and refund mechanism”, and “Alipay” do a good job to guarantee people’s rights and interests based on trust concern. However, there are still some problems such as the return of money could be delayed and great risk of online fraud referring to counterfeit issues. It is reported that Alibaba’s “Xiaoer”, one of the official third party to solve the problems between buyers and sellers, were been accused of corruption and fraud. Even though Jack Ma has fired the previous chief executives of “Xiaoer” and set strict rules forward corruption, there are more should be done to the trust issue.

Interviews also show that most interviewees would like to do their businesses on Taobao, due to the reason that it is the most famous and biggest online market place for consumers. But, if all of the venders do their business only in one place, problems would appear more serious, especially when the platform lacks regulation or management. And this is just the current situation of Taobao. No impeccable mechanism and regulation, it is easy for counterfeit problems to happen in online market place. It is really needed for government to take part in this issue by encouraging more enterprises to do their businesses in different platforms and even their own websites for the pursuing of just and fair trades.

Finally, when asking how online sellers make consumers believe what they sold online are genuine goods, interviewees replied that real pictures, reasonable prices, and valid invoices and certificates can make a big contribution. And Alibaba offers a system for sellers to show their “evidences”, and designs special mechanisms including credibility calculation system, deposit system, “Gold Shop” (highest rank of shops) activities, and valuation systems for sellers and buyers to enjoy a better e-commerce environment. But these may still not be enough. Just like one interviewee recommended that Alibaba needs to learn some from the experience of JD.com Company’s “direct marketing mode” that Alibaba should try harder and learn more from other competitors because there can be too much for useful methods to handle counterfeit problems.

5.3 Suggestion for further research

Firstly, the attitudes of interviewees toward counterfeit products are quite different. Some interviewees concern that counterfeits do more harm to e-commerce platforms than good. First of all, selling fakes could destroy the market order and damage the fairness of the market. Secondly, cheating consumers with asymmetric information of commodities could damage the interests of consumers and brand owners. Lastly, in the long run, it is not good for a sustainable development of Chinese e-commerce.

However, some of the interviewees are in favor of counterfeits, mentioned that not all counterfeit products are bad, instead, some of them are high quality with a much lower price than the genuine goods. For those people who have no ability to afford expensive genuine goods, buying counterfeits can satisfy their self-dignities. Maybe it is a good choice to find out the way to transfer “counterfeiting” into “new-market producing”. It is obvious that not all consumers are rich but most of them are smart, and buying something cheap but high quality goods can be common sense for these smart consumers. In fact, counterfeit products sales account for quite a large amount of national GDP in China, and a tremendous number of SMEs rely on counterfeits. Accordingly, a large population of workers is hired related to counterfeiting. If one day, there appears a way to make these “fakes” to be sold legally, it

could be good for all. The further research can study the transition for “fake” products (this research mainly refers to the good-quality and low-price but not authorized commodities or home-made brand goods) to sell in a suitable way.

Secondly, when asking the attitude of online sellers to counterfeit problems, some showed an ambiguous attitude to it. Some of them claimed that the definition of counterfeit products is hard to define. As long as the commodities do nothing bad to consumers, they are willing to sell those fake products. One of them even argued that, nowadays, it is hard to distinguish fakes from genuine products. And most importantly, some piracy products’ quality is better than some genuine goods. Also, there are many consumers voluntary to purchase counterfeits regarding the lower but high quality commodities. While some others mentioned that profits are their main concerns, sometimes they have no choice but to sell fakes in order to get better lives. So, with research of the attitudes of people (both consumers and sellers) to counterfeit problems, could help to give a deeper understanding of the challenge counterfeits have caused to e-commerce platforms, or maybe not only the e-commerce field, but the whole commerce.

Lastly, it is curious to find that most of the sellers choose to start their business on Taobao, but there are still other e-commerce platforms in China. Also, it is hard to say that Taobao is one of the best platform in China, especially nowadays, more and more star-up companies, also known as “the unicorn” are appearing. It is an interesting topic to study why Alibaba could take such a large scale of market share in e-commerce. And whether there is a possibility existing that the counterfeit problems could be solved by some new companies which have more suitable shopping environments and effective regulations for buyers and sellers to take part in could why be of interest for future research.

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Appendix

Interview, general questions (for the first round of interview):

- 1 What is your attitude toward counterfeits?
- 2 How do you look at the counterfeit problems in e-commerce platforms?
- 3 Which e-commerce platform are you selling your products?
- 4 How long have you taken part in e-commerce businesses?
- 5 Have you ever sold any fake products? If so, why? If not, why?
- 6 What is your opinion toward counterfeits in e-commerce? Is it do more good than harm or vice versa? And why?
- 7 Generally speaking, do your consumers notice what they bought are genuine goods or fakes?
- 8 If consumers realized purchasing counterfeits in e-commerce platform, what would they usually do in general? And how will sellers react to solve the problems?
- 9 How can you and other sell men make consumers believed what you sell online are genuine goods? Which method do you use?
- 10 Do you know Alibaba's online platforms such as *Taobao*, *Tmall*, and etc. have some measures to handle counterfeits? If so, how do they usually do?
- 11 How do you look at Alibaba group's measures to handle counterfeit problems? Do you think their measures are necessary and sufficient? Why?



UNIVERSITY OF BORÅS

Visiting address: Allégatan 1 · Postal address: 501 90 Borås · Phone: 033-435 40 00 · E-mail: registrator@hb.se · Webb: www.hb.se