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Combating Supplier-Copycatting With Intellectual Property Agreements

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Abstract : When a manufacturer outsources the production of a product, it distributes its intellectual property (IP) into a supply chain that it may not be able to fully control. An IP agreement between a manufacturer and its suppliers is a popular solution to address the challenge of supplier-copycatting. The goal of this paper is to examine the impact of copycatting, from both the supplier and third-party firms, and the effectiveness of an IP agreement. Specifically, we use a game-theoretic approach to examine a system where a manufacturer outsources to a supplier. The supplier and a third-party firm decide whether or not to enter the market with copycat products while the manufacturer selects the level of marketing investment. The manufacturer can reduce the threat of supplier-copycatting by signing an IP agreement. We find that the manufacturer can be worse off from signing an IP agreement with its supplier, even if the IP agreement is costless and perfectly enforceable. We show that a manufacturer can deter copycat products through vertical integration and IP agreements and we outline the instances where each method is preferred. Furthermore, we find that the manufacturer may choose not to invest in quality improvements as a copycat deterrence strategy. We show that the supplier can benefit from the manufacturer's decision to sign an IP agreement and that the supplier and the consumers can benefit from government regulations against copycat products. Our paper demonstrates the strengths and limitations of various copycat deterrence strategies when a supplier and third-party may produce copycat products.

Keywords : coopetitive supply chain, copycat, government regulation, intellectual property
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