A STUDY ON CONSUMER AWARENESS TO PURCHASING GREY MARKET PRODUCTS

B VENU KUMAR
Research Scholar
Dept of Management
Osmania University

Dr. R Sampath kumar
Associate Professor,
Dept of business management, UCC & BM, OU.
drrsampath@gmail.com

Abstract:

A channel of unauthorized distribution of genuine brand-name goods is known as a gray market. Gray markets around the world compete with authorized channels of distribution for branded products and pose significant management challenges for global supply chains for brand owners. In order to better address this threat, brand owners must comprehend the behavior of sellers and buyers in gray markets. Online gray markets, a form of gray marketing that is expanding rapidly, have seen significant growth in recent years and provide us with an unprecedented opportunity to empirically investigate this phenomenon. The research paper examines the consumer's awareness of the benefits of purchasing goods from gray markets.

Introduction

New products that are sold legally but not through authorized distribution channels are known as gray market goods. Software and pharmaceuticals, in addition to automobiles and shoes, fall under this category. The gray market has existed for a long time. Let's talk about a simplified retail model to help you understand it.

A distributor is the first customer a manufacturer or brand will sell a product to. The product will then be sold by the distributor to authorized retail outlets, which will then sell it to end users. In an ideal world, the public would purchase the entire quantity of the product that was manufactured and sent to retail.

This isn't always the case, though. Distributors and retailers have the option of selling surplus or old stock to other dealers at discounted prices. The product is then offered to the general public at reduced prices by these dealers. Unauthorized dealers frequently resemble authorized dealers to customers, despite the mental image that the term may evoke. Lower prices would be the only discernible distinction. However, they are unable to provide manufacturer warranties, and some products may not conform to the regulations of the nation in which they are sold.

Gray market goods can be distributed by third parties further down the distribution chain (by retailers or distributors selling off unsold stock) or by brands themselves (by the brand selling old stock).

Beyond national borders, there is also a gray market. Products manufactured by multinational corporations frequently target specific markets in terms of price and design. However, it might be financially advantageous for resellers to purchase a product in one nation and then sell it in another. Parallel importing is the name for this occurrence. For instance, let's say a brand sells cell phones to countries A and B. Comparable phones in country A are cheaper than comparable phones in country B. After the phones have been sold to distributors in both countries, retailers in country B might be able to buy phones from country A and return them to their own country to sell them to customers there.

Common gray market examples

- Nikon cameras meant for Japan but resold in the US—instructions may be in Japanese
- Swiss and other watches on Jomashop.com—these watches are sold to Jomashop by dealers who need to clear out their inventory
- Car models sold in another country—these cars most likely don't pass emissions or safety standards in the gray market country
- gray market sellers on eBay and Amazon sell new products at steep discounts

What Causes the Problem?

What factors enable illegal resellers to thrive? It is challenging to draw generalizations across industries due to the diversity of the responses. However, certain patterns do emerge, and comprehending these patterns is necessary for coming up with a suitable response.

The most frequently cited factor is probably the pricing policies of suppliers. However, there are good reasons for pricing in favor of large orders for many manufacturers. This policy in disk drives partly reflects the strategic significance of large customers for the company's cost structure, product development plans, and after-market replacement sales, as well as the scale and learning-curve economies inherent in large orders. Pricing that is competitive based on order size is essential because of the fierce competition among drive vendors for large customers. A supplier that does not offer volume discounts will be left out in the cold.

Especially for large orders, negotiated or "bid" prices that are lower than the manufacturer's book price are common in most industrial markets. Gray marketers sell some of the goods to bid customers, who then sell them to other customers who would normally buy the book at a higher price. This is yet another way that gray markets benefit from price differentials that are established for competitive reasons for various classes of accounts.

Price differentials and arbitrage opportunities for gray marketers can be brought about by fluctuations in the international exchange rate. During the years 1984 and 1985, when the dollar was strong against most other currencies and getting stronger, many products that were originally sold in one country ended up being "parallel imported" by agents to other countries. For instance, gray marketers frequently imported Caterpillar excavators and loaders made in Japan, Belgium, or Scotland and priced to sell in local currencies into the United States. Even after paying for shipping and insurance, these resellers were able to attract a large number of customers from Caterpillar dealers in the United States, who were paying 15% more for the same equipment made in Cat's domestic plants. A thriving gray market was sustained by these price discrepancies at prices exceeding $200,000 per excavator.

On the other hand, during the weakening of the dollar and the strengthening of the yen in 1987 and 1988, a thriving gray market developed in Japan as a result of distributors' unauthorized reimportation of Japanese goods from the United States and other nations, such as Canon cameras and Panasonic cordless phones.

International gray markets for many goods may have a bright future as more manufacturers adopt global product strategies with uniform goods and even multilingual packaging for global markets. Examples include devices like batteries.

There are two types of price differences between resellers: differences between the costs of running a full-service, full-line franchised reseller and a low-service, narrow-line discounter; and the price differences caused by the position of a product line in a reseller's strategy.

Post-sale and important services like advertising, product demonstrations, and point-of-sale services are typically provided by franchised resellers. Naturally, the franchised reseller must pay for these functions. These services are free to gray marketers; To avoid reaping the benefits of the regular channel's marketing efforts, many even honor manufacturer discount coupons and coordinate their activities with manufacturer promotions.

Ironically, sometimes a manufacturer's dedication to providing excellent customer service makes the situation worse. IBM imposed stringent requirements on its authorized PC dealers at the beginning of the 1980s; In order to maintain an acceptable level of customer service, they were required to reserve a certain amount of the store's space for product demonstrations, keep a certain number of store employees trained on the equipment, and maintain sufficient stock of parts. Through value-added services, IBM wanted to create a store of value within its product franchise, encourage brand preference, and win repeat business.

However, retailers like 47th Street Photo in New York City did not meet IBM's requirements, and other unsanctioned resellers of IBM products mostly operated as cash-and-carry businesses. They devalued the franchise for authorized distributors by appropriating a significant portion of the value IBM and its dealers had built through their low-service/low-price selling strategy. “It's tough to compete with someone whose major selling expense is a phone bill,” complained one dealer.

A gray market can also be sustained by divergent selling strategies employed by distributors. When pricing a product, a reseller who views it as an incremental addition to its line may not allocate overhead, whereas a reseller who views the product as a staple of its line is likely to include a popularnt for such costs. Loss leaders are a particularly extreme case of this. Customers may be more likely to enter a store if the brand is heavily advertised. They will be tempted by regularly marked-up, frequently unbranded merchandise there. Gray marketers frequently employ loss-leader strategies to increase traffic, if only because they cannot always rely on the particular brand's availability.

Situation in Flux

As this article was being written, developments in Washington had come to light that could have an impact on a manufacturer's ability to... Supplier franchise practices can also encourage gray markets. Suppliers frequently discourage intrabrand price competition among their accredited resellers when demand is strong. Unlicensed dealers will likely enter the market as a result of this price umbrella.

Suppliers may permit "block" franchising, in which a franchisor franchises all dealers in a chain, of their products. However, the manufacturer is obligated to honor the agreement with the parent and refuse the larger franchisees' requests to buy directly from them. The larger franchisees may purchase on the gray market in order to avoid the typical markup that the parent receives when selling products to its dealers. In PCs, this issue has been encountered by IBM and other computer manufacturers.

Gray markets can be sustained by contract terms that allow manufacturers to manage inventory levels or rationalize production scheduling. A returns penalty is a common feature of industrial contracts. Contracts with disk drive manufacturers, for instance, typically stipulate delivery of a predetermined quantity of drives over a predetermined period (typically one to two years) and a cancellation fee of 40% of the order price for cancellations made less than 45 days before the scheduled shipment date or 15% for cancellations made between 46 and 90 days before shipment.

Because lot size has a significant impact on production costs in this industry, the company imposes stringent requirements to maintain efficient scheduling and competitive production costs. However, demand for disk drives fluctuates significantly from quarter to quarter, and new products are frequently introduced. Therefore, it can be challenging for customers to accurately forecast over a one- to two-year period. In order to avoid cancellation fees, some customers send "excess" drives to gray marketers.

Dynamic product performance enhancements and price drops caused by fierce supplier competition go hand in hand in some industries, such as disk drives. Customers and distributors become more price-sensitive as a result of falling prices as they attempt to defend their cost structures from competition. As a result, they willingly sign contracts for large orders in order to receive the greatest discounts. The risk of perceived product obsolescence over the one- or two-year lives of the purchase contracts is also rising as a result of the rapid pace of product introduction. Therefore, customers attempt to avoid cancellation fees through gray marketers or other means.

The situation puts pressure on the manufacturer's product management, operations staff, and sales staff to move the factory's output quickly. As a consequence of this, they might be inclined to allow sales to gray marketers, which can lead to a vicious cycle. However, it is important to keep in mind that sound business practices and a distribution strategy created to meet the needs and opportunities of manufacturers lead to gray markets: rationalization of production schedules, selective distribution to keep the sales network's value and integrity, block franchising to get access to powerful distributors, and quantity discount schedules are all examples of rationalization.

It is helpful to recognize the irony of the situation when the sparring between manufacturer and distributor becomes intense—the pages of trade publications frequently ring with accusations and counteraccusations. When the manufacturer is weighing the various options for resolving the issue, good business practices should not necessarily be abandoned, even though they can result in a very undesirable outcome.

What Can You Do?

Every option has costs and risks for the manufacturer, but the status quo is also unacceptable. What should I do then?

Get timely and accurate information first. We discovered in our research that managers were frequently woefully ignorant of the size or channel dynamics of their goods' gray markets. As we have seen, the usual sources of market information—distributors and field salespeople—can be suspect. Remember when the disk drive manufacturer's district sales manager said that salespeople in the same branch office told him different stories? Furthermore, as has been demonstrated, distributors frequently operate on both sides of the street.

As a result, the supplier frequently needs to develop or support alternative data sources. The movement of a product to unsanctioned resellers can be tracked with the help of product serial numbers, warranty cards, and factory rebate programs. This information can be used to estimate the size of these sales. The timely collection of such data can become costly as transaction volume increases. However, the cost of gathering the data should be considered in light of the likelihood that it will be beneficial to the company's other marketing initiatives.

Re-examine the distribution agreements and policies of the business is another thing to do. A distributor is not the same as a distributor, as opposed to Gertrude Stein's unchanging rose. Distributors in the networks of the majority of suppliers carry out a variety of tasks, which results in distinct operating expenses for the distributor and distinct opportunities for adding value to a particular product line.

Using criteria like level of sales performance, share of the local market, number of the supplier's product lines carried, services provided, and proportion of the reseller's total sales attributable to the supplier's product (a rough measure of the distributor's stake in providing needed support services), some manufacturers classify their distributors into "A," "B," and "C" categories.

In turn, the suppliers create franchise agreements that provide their full-service, broad-line distributors with higher levels of support in the form of product allocation, merchandising assistance, lead referrals from the suppliers' salespeople, and discounts that reflect the distributor's various levels of value addition. These suppliers rely on low-service distributors for those market segments that are primarily concerned with price, while full-service distributors support product introductions and service the high end of the market.

Additionally, block franchising is generally avoided by these manufacturers due to the risk that what they initially gain in lower selling costs—typically for a new product line—can soon be lost in the form of gray market activity and diminished channel effectiveness. Electrical equipment manufacturer Square D will not enter into block franchising agreements with significant retail chains or industrial distributors. Even when working with large, multilocation distributors, it instead franchises distributors location-by-location. Square D emphasizes large inventory commitments made by a select number of channel elements and pull-through sales efforts made by its own sales force to generate end-user demand for a specific distributor to service. With one-outlet franchises, carrying out this strategy is simpler.

Additionally, the manufacturer ought to reevaluate the sections of its franchise agreements that deal with support for reseller service. There are two related inquiries that require responses: When the reseller provides the agreement-required point-of-sale or postsale services, what additional operating costs does it incur? If these services were moved to other points in the channel, what are the options and costs? Because these services require large parts inventories and specially trained personnel, the manufacturer may discover, following analysis, that after-sale maintenance and repair service can be performed more effectively at locations it owns or by third-party service providers, as opposed to dealer locations.

Another area that requires close attention is pricing. The design of quantity discount schedules that do not encourage customers to overorder and then sell on the gray market should be the goal. While paying attention to quantity schedules can be helpful, this is harder to do than it sounds. When a schedule's pricing brackets are wide, for instance, meaning that a single price applies to a wide range of order quantities, manufacturers provide gray marketers with a welcome opening.

The manufacturer of disk drives sets the same unit price (approximately $500) for orders ranging from 1,000 to 2,500 units and contracts ranging from $525,000 to $1.3 million, pricing primarily on the basis of production costs. Because of the wide price breaks, some customers can buy a lot of drives, use many of them legally, and still sell a lot of them on the gray market at prices higher than the purchase price but lower than the prices offered by authorized distributors. In such a circumstance, tighter pricing brackets that more closely tie unit prices to order volumes can alleviate the issue.

In order to avoid arbitrage opportunities, coordinated administration of bid and book pricing is also essential. This necessitates the ability to effectively deal with price-exception requests, as well as accurate, up-to-date information regarding the pricing of rivals and resellers' market (rather than list) prices. 30 to 40 price requests a day are received by a major electrical equipment manufacturer, typically for materials for large construction projects. Since most orders are filled through distributors, pricing in this highly competitive market necessitates quick responses and coordination between bid and list prices. With the help of computer programs, the company's headquarters telemarketing team calculates job requirements, monitors prices in various markets, and sends quotes to field salespeople or distributors bidding on projects.

Pay attention to the group's director's words: We keep current records of all pricing actions by trading area, including the price we received (if we know it) and whether we won or lost each order. We check to see who the rivals are. We determine whether the order size's price multiplier is out of whack. We conclude by taking a look at the product mix, which is particularly significant. We are likely to be aggressive if it includes products for which we have additional plant capacity and a low cost position. Additionally, we always quote the same price to two or more distributors bidding on the same project when responding to price-exception requests made by our distributors.

The company coordinates bid and book prices, reduces opportunities for arbitrage for large distributors or customers, and monitors activity on large orders (those most susceptible to gray market activity) through this procedure. The company is able to protect its full-line, full-service distributors on large, price-sensitive orders by tailoring the price-exception requests of distributors to the level of value-added support they are expected to provide.

In light of the gray market issue, management can also reevaluate its marketing priorities. If the reevaluation demonstrates, for instance, that gaining a larger share of the market is a primary objective, then the degree to which the gray market makes the product more accessible and increases volume becomes an important factor in deciding whether or not to respond to distributors' complaints.

Despite the substantial volume represented by gray market sales, one company decided to adjust its pricing for dealers in order to emphasize the importance of maintaining positive dealer relations as it prepared to introduce several new products through its usual channels.

It should go without saying that the manufacturer's internal measures for assessing employee performance should encourage the pursuit of the organization's goals. The measurement system, on the other hand, has the potential to sow internal discord when a gray market enters normal channels. Sales bonuses at the disk drive company are contingent on meeting quotas. The gray market can help or hinder a salesperson's ability to meet quotas, depending on whether they sold to pseudo-OEMs. District sales managers receive bonuses based on total district volume in a similar manner. Gray market sales frequently represent desirable incremental volume for manufacturing managers, who measure plant efficiency. When setting priorities and choosing a course of action, all of these functions should be represented because sales, marketing, and manufacturing are all affected.

What Are Customers Saying?

A manufacturer may lose sight of the ultimate arbitrator in this situation because a gray market causes internal and distribution channel turmoil: the client. What are customers saying to the manufacturer about the product when a significant gray market develops? Management may be forced to alter its marketing and distribution strategy as a result of the response.

A product's maturation throughout its life cycle is frequently reflected in a gray market. Customers typically place less value on the manufacturer's or distributor's support programs as they become more familiar with a product category. They become increasingly price-sensitive in their purchasing. A gray market frequently signifies the emergence of this group of customers. What they initially purchased as a system, they may unbundle into discrete purchases and seek out channels that sell on price while providing little product support1. The gray market gains additional momentum if authorized resellers require customers to purchase a package of product and support features.

The manufacturer is attempting to preserve its distribution network at this time. Exclusive or highly selective distribution arrangements have been advantageous for both producers and distributors, with the former receiving support services—often crucial for technical products like disk drives—and the latter enjoying limited competition. It's not surprising that shifts in distribution arrangements lag behind shifts in customer behavior and demographics.

It is risky for the manufacturer to move at this point. It will run headlong into the interests of its existing channels if, for instance, it wishes to increase direct sales to large, price-sensitive buyers or reach new market segments that purchase differently. If a manufacturer's product portfolio is distributed by the same distributors, any action taken to deal with a gray market in one product line may have an impact on the entire portfolio.

In this way, gray markets frequently point to a bigger problem: the restrictive commitments that underpin numerous distribution strategies. Parts of a company's distribution strategy typically align with the company's current goals and market conditions when a new product or market entry occurs. New distribution strategies are needed as markets change. However, the manufacturer finds it challenging to alter its channel strategy due to the fact that each aspect of the existing arrangement tends to reinforce established patterns.

However, as the disk drive company was discovering at the time of our investigation, inaction can be even worse for the manufacturer. To address the underlying causes of a gray market, it is frequently necessary to fundamentally alter distribution strategy. An organization can gain the managerial tools necessary to distinguish symptom from cause and encourage efforts to make the difficult choices implied by a gray market by providing timely information about gray market activity, paying close attention to franchising and pricing policies, and coherent internal measurement systems.

Conclusion

Customers who purchase multiple units of the same Coach handbag style may be questioned about their purchases or prohibited from doing so in the future at a specific retail location. The reason for this is that Coach, like a lot of luxury brands, has a quantity limit policy that limits how many similar items a single customer can buy. Given that a single customer would rarely want to purchase multiple units of the same handbag style, it is odd that retailers see the need for such a policy restricting purchases of designer handbags. Brand owners actually came up with this policy to keep gray market incidents under control. "The sale of genuine trademarked products through distribution channels unauthorized by the manufacturer or brand owner" is the term used to describe gray markets. Customers' attitudes toward gray market goods may be affected by channel authorization, according to studies. For instance, the majority of customers are wary of the dangers posed by unauthorized channels. From a demand perspective, interventions could be implemented to control gray market incidents. As we explain in greater detail later in the hypotheses section, we anticipate that product availability in the local authorized channel can reduce risks that consumers perceive in the online gray market.

References:

1. *Ahmadi, R., and Yang, R. 2000. "Parallel Imports: Challenges from Unauthorized Distribution Channels," Marketing Science (19:3), pp. 279-294*
2. *Bandyopadhyay, S. 2010. "The Internet and Gray Marketing," International Business & Economics Research Journal (9:6), pp. 95-101*
3. *Cespedes, F.V., Corey, E.R., and Rangan, V.K. 1988. "Gray Markets: Causes and Cures," Harvard Business Review 66(4), pp. 75-83.*
4. *Fung, J., MacAusland, C., and Mazza, G. C. 2012. "Louis Vuitton and the Traveling Chinese Consumer," Knowledge @ Wharton.*
5. *Ghose, A. 2009. "Internet Exchanges for Used Goods: An Empirical Analysis of Trade Patterns and Adverse Selection," MIS Quarterly, (33:2), pp. 263-291.*

6. *Han, H.T. 2005. "Taiwanese Consumers' Perceptions of Luxury Handbags: The Country-ofOrigin Effect," Dissertation, Lynn University.*
7. *Phau, I., and Prendergast, G. 2000. "Consuming Luxury Brands: The Relevance of the 'Rarity Principle'," The Journal of Brand Management (8:2), pp. 122-138.*
8. *Wiedmann, K.P., Hennigs, N., and Siebels, A. 2007. "Measuring Consumers' Luxury Value Perception: A Cross-Cultural Framework," Academy of Marketing Science, (7), pp.1-21*
9. *Xiao, Y., Palekar, U., and Liu, Y.C. 2011. "Shades of Gray-The Impact of Gray Markets on Authorized Distribution Channels," Quantitative Marketing and Economics (9), pp. 155-178.*
10. *Zhou, L., and Wong, A. 2008. "Exploring the Influence of Product Conspicuousness and Social Compliance on Purchasing Motives of Young Chinese Consumers for Foreign Brands," Journal of Consumer Behavior (7), pp. 470-483.*
11. *Szymanski, D.M., Bharadwaj, S.G., and Varadarajan, P.R. 1993. "An Analysis of the Market Share-Profitability Relationship," Journal of Marketing (57), July, pp. 1-18.*
12. *https://hbr.org/1988/07/gray-markets-causes-and-cures*