

## **A REVIEW OF GRAY MARKETS , IMPLICATIONS FOR BRAND OWNERS, GOVERNMENT, INTERNATIONAL BUSINESS AND MITIGATION STRATEGIES BY INTERNATIONAL MARKETERS AND OTHER RELEVANT AUTHORITIES**

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### **ABSTRACT**

*The review examined Grey markets , their implications on international marketers , brand owners international business and government as well as mitigation strategies. Definations of grey , concepts of grey and marketing, causes and nature of grey markets as well as popular grey market goods, implications for brand owners, international business and government and also mitigation strategies were highlighted. To achieve the above literature on the above were assembled and collated from journals, conference papers , bulletins, books and frm the internet, they were then reviewed and discussed. It was concluded that the volume of grey marketing the world over was huge, and that it takes place both physically and online, further more grey marketing was said to have far reaching effects on brand owners , international business, government and international relations. It was recommended that concerted multi disciplinary and multisectoral approach be engaged in tackling the menace of grey markets and also that consumer education, stock and goods inventories, realistic employee sales targets , monitoring and evaluation by relevant authorities be stepped up .*

**Keyword: Gray Markets, Implications, Brand Owners, Mitigation, International Marketers**

### **1.0**

### **INTRODUCTION**

In our world today, globalization has helped to develop international trade making it possible to access all kinds of goods across international borders. “The development of the international trade and

the increase in number of organizations around the world has created a huge value chain formed by numerous distribution channels that increase many times the price of goods without any changes in the product. It became possible for the small entrepreneurs companies to purchase the goods legitimately in one part of the world, move them to the other part of the world, sell them at the regular mark up and still have the price well below the one set through the distribution chain thus forming a gray market”(Pustynnick,2010). The gray market is defined as “the flow of goods through a distribution channel that is unauthorized, unintended, and unofficial” This goods could be genuine or fake. It can also be defined as “a marketplace where goods and/or financial securities are traded in an unofficial way”. It may not be an illegal market but rather an unofficial market. According to(Aulrey and Bova, (2009) “Gray market is the selling of a good away from the authorized marketing channels by an authorized seller of the good. Gray markets can arise when transactions and search costs are low enough to allow products to “leak” from one market segment back into another. ”Referring to the goods market, this market churn out goods that are not authorized but from authorized manufacturers through illegal delivery channels. For the financial securities market, all unauthorized securities are traded in this market. The transactions in Gray Market are always in cash and there is no body to regulate or govern its activities.

In the Gray Market, the financial securities are traded over the counter .The orders are executed by the dealers. In the goods market, the goods are imported or made in the country and sold by using another delivery system .Products are able to be sold at cheaper prices because of difference in price of the same products in different markets. The unofficial dealers in this market take advantage of price difference. They get in bulk and are able to sell below the market price after factoring in their margins. Gray Market are also called Parallel Market.

According KPMG/AGMA report “The value of gray market products in 2007 averaged \$58 billion, placing the gray market between 5 and 30% of total IT sales and impacting profits by \$8-10billion”(KPMG/AGMA).

Activity of Gray market is largely driven by difference in price between local markets. A number of IT vendors set regional prices so as to compete in the local markets. Thus even at the smallest price there exist incentive to take products to other regions.with prices being the major driver of gray marketing, programs that give legal chance for licensed distributors to compete in local markets

provide a leverage for unscrupulous distributors to take undue advantage

Products can find its way into the gray market in a number of ways and affect the performance of the brand. Given the negative effects of grey markets on brands , international marketing, governments as well as international relations , this reviews examines negative effects of gray markets and mitigation strategies by international marketers and other relevant authorities.

## **2.0 LITERATURE REVIEW**

### **2.1 Concept of Grey.**

According to the Longman dictionary of contemporary English, (1995) Grey is a colour of black mixed with white , like the colour of ash . Grey is used in British English , gray is used in American english . Grey Area is an area of law or science that cannot be dealt with in a definat way because it is outside those areas that have clear cut rules and limits . (Scribber, 2023) Grey area is a phrase used to describe an unclear area , situation that is open to interpretation and or that has no clear cut rules , it is often used to refer to legal or moral questions (Ryan, 2023) Gray finance is a platform that provides digital foreign accounts for digital nomads , remote workers and fraudsters allowing businesses to receive money from abroad internally with virtual IBANS and account details Strategies for Production.

### **2.2 The Marketing Concept.**

According to Kotler (2000) marketing and sales efforts should be guided by a philosophy and should infact assign weights to the interests of the organisation, the customers and society, these interests often clash however organizations marketing and selling activities should be carried out under a well thought out philosophyof efficiency , effectiveness and social responsibility. FIVE orientations (philosophical concepts ) to the market place have guided and continue to guide organizational activities. The production concept , the product concept, the selling concept, the marketing concept and the social marketing concepts.

### **2.3 Definations of Grey Markets**

A grey market is an unauthorized distribution channel, of genuine branded products , world wide grey markets compete with authourized distribution channels of branded products and pose significant challenge to to brand owners on the management of global supply chains. It is important for brand owners to understand sellers and buyers behaviour in gray markets in order to better address this threat.(Finansial Management , 2022)

A grey market is an unofficial market in goods that have not been obtained from an official supplier e.g you can easily get these phones from the grey market. Stock market – the buying and selling of securities before before they are officially issued on the stock market . The company recently sold the 2.75 dollar a share in the grey market .

A grey market also refers to the import and sales of goods by unauthorised dealers .

According to Adams Hayes (2022) a grey market is an unofficial market for securities . It generally occurs when a stock that has been suspended from trade off the market or when new securities are bought and sold before official trading begins , the grey market enables issuers and underwritewrs to guauge demand in a new offering because it is a ‘when issued ‘ market ie it trade securities that will be offered in the very near future , it is an unofficial one but not illegal

### **2.4 Adverse Impact of Grey Markets on Businesses**

The size of some grey markets is substantial, businesses outside official channels posses challenges for the manufacturers of goods , aside from the loss of sales that a company can book directly , the grey markets produces a risk to brand quality and damages relationships in formal sales channels made up of whole sellers , distributors and retailers exclusivity for sought after goods is weakened (Indeed, 2022).

### **2.5 Grey Market Goods and Services**

The grey market for goods thrive when there is a significant price discrepancy for popular products in different nations . In many nations there is substantial grey market for popular consumer devices and

electronics because these can easily be purchased online and shipped to any location . Other popular grey market products include luxury cars , high end apparels , hand bags and shoes , cigarettes , pharmaceuticals and cosmetics .Unauthorised dealers may import such items in bulk and despite adding a healthy mark up , sell them at a price still well below the local cost . Consumers who buy such products for the discount price may face problem in the future and should ensure that they meet local safety and certification standards . Post sale services and support is another key as authorised dealers may be unwilling to service goods bought in the grey market . Consumers may also occasionally unwittingly buy a grey market . Some indications that a product is likely to be from a grey market are lower prices than that offered by local retailers , user manual in a different market , photo copied manual or duplicated software CD

Zhao *et al.*, (2021a) in their study provided an overview of literature on grey markets businesses using data driven approach and provided future research direction , like cooperation oriented , behavior oriented , , technology oriented, and research method oriented agenda.

Zhao (2021b) in an empirical investigation of online grey markets reported that large volumes of grey marketing take place online, with their attendant negative impact on international businesses

### **3.0 METHODOLOGY**

Literature on grey markets , negative effects on brand owners international marketing , international relations as well as mitigation strategies by international marketers and other relevant authorities were assembled and collated , from Journals , conference papers , magazines internet etc, they were thereafter discussed and reviewed

## **4.0 DISCUSSION AND REVIEW**

### **3.1 Sources of Gray Markets**

- When products are purchased in very large quantity instead of agreed smaller quantity it attracts discount. If this extra is resold without the vendor knowing.
- Developing nations are characterized by low income and low purchasing power .Products sold in these markets are sold at lower prices. These are most of the times sold to middle men who

import them back to developed markets in America and Europe and favorably compete with the licensed distributors.

- When export bound products through transport services don't get to intended point.
- When software licenses for clients in developing market or for institutions, that was sufficiently discounted or not even charged are used at other places unknown to the OEM.
- Through stock of excess, expired, old or producer –discounted products sold by OEMs or distributors on the open market These are often sold as lower product category and also discounted. They are usually sold as new products to uninformed buyers.(Indeed, 2022)

### **3.2 Characteristics of Grey Markets**

Too much competition, too little competition, rejected distribution, high sale targets , lower prices, fake products at times, lower quality services, absence of users manuals on goods, at times they occur in other languages or are photocopies or duplicated copies .

### **3.3 The Causes of Gray Markets.**

The Gray market gives much value to the unauthorized retailers therefore encouraging the system. The following are the reasons behind gray markets.

#### **3.3.1. Low Price Competition**

A lot of product manufacturers do their distribution through the use of large distributors so as to rake up sales, and they like to sell in big bulk. The implication of this is a competition in selling amongst licensed distributors in the market .This makes them to cut rates of their goods by giving discounts so that they can sell. This action brings down profit of individual product.

#### **3.3.2. Difference in Price Across Countries**

The difference in production experience, especially in terms of cost lead to the offering of different prices or cost for a particular product in different countries. This is a technique to get the highest profit on the basis of the demand for the product in that country. This information is known to the gray marketers who buy goods from countries where it is cheaper and sell them at

lower price in the country of operation. This result in different prices for one particular product in the country of operation –where they are hosted.(Zhao *et al* .,2021a)

### **3.3.3 Restricted Distribution**

It is in the habit of some manufacturers to restrict some distributors from marketing their goods. This distributors want to market the goods, however; so they get the goods from the gray market. They get the goods at a lower price and distribute through an illegal channel.

### **3.3.4 Setting of Sales Target**

When companies fix heavy sales target on sales staff, the resultant multiplier is undue pressure to deliver. To meet up this target sales staff are moved to take these products to the gray market. Product of a good legal business now becomes a grey market product.

### **3.3.5 Setting High Prices for Products**

When some companies set high prices for their products they are inadvertently made to sell in the gray market, this is done to ensure their product is selling and moving.

## **3.4 Implications of Grey Market on Brands , international Business and Government**

The adverse effect of gray markets or parallel market on brand owners cannot be over emphasized. Even the effects that seem to directly affect the economy or government like issue of selling/buying in gray market without tax when looked at closely portends danger for the brand owners.

### **3.4.1. Profitability**

When goods are sold in the gray market it affects profit. This is because in the gray market goods are sold below their calculated selling price. The company fixed the price based on production cost.

### **3.4.2. Brand Name**

Gray market products do not have company backed guarantee .In the face of challenge in how well or bad the product is doing in the market the name will be affected. This will spoil the reputation of the brand.

### **3.4.3 Product Cannot be Guaranteed.**

In the gray market there is difficulty in differentiating the products (new and used). What the gray market might sell out whether original or used can hardly be guessed. It is difficult to have confidence in the gray market.(Scribber, 2022)

### **3.4.4. Different Market Prices**

In gray markets the products comes with different prices. It is a source of controversy for the consumer. The genuine product is sold at a higher price by the licensed dealer while the gray marketers sell the same product at a lower price than the official market price. This results in multiple prices for one particular product produced by same manufacturer.

### **3.4.5 Effect on Government**

Loss in the area of taxes from a product in the gray market puts the manufacturers business at risk. Increase in transactions in gray market bring loss to government in the area on unpaid taxes.

## **3.5 Importance of Preventing Grey Market Goods and Services**

Improved brand reputation, better distribution relationships , fulfilling regulatory requirements when unauthorized distributors sell a brand , products and services , people might sell products that don't meet their countries regulatory requirements . If brands prevents the selling they can ensure that their company meets all regulatory requirements and follows the law of the countries in which they operate . This can create strong relationships with local governments and prevent any unnecessary legal risks..



### **3.6 Measures to Eliminate or Reduce Gray Market Emergence by International Marketers and other Relevant Authorities**

International marketers and other relevant authorities can take care of the problem of gray market by working out ways to stabilize or sort these problems. The following are some of the measures that can be taken;

1. The company or brands can adopt a policy of one cost for products.
2. Gray marketing can be reduced by ensuring companies operating in the industry have increased distribution channel. This can prevent Gray marketing.
3. Stringent terms and conditions should be put in place for distributors.
4. International marketers can ensure the tracking of distribution channel, distributors and the stock sent.
5. International marketers should try to ensure monitoring of cost of production so as to stabilize the cost of products and less the selling cost in relation the competitors.
6. There should be control on the product supply market by the company and the distributor.
7. International marketers should be realistic about their goals. Goals should be easily realizable to avoid case of employees or sales persons selling the same in the gray market..

A number of brands should have legal trademark cover, however legal enforcement of these policies cannot work if the owner of the trademark does not have data to track and follow up to trace supply chain to get to illicit marketers. Compliance expectation in the distributor system can be encouraged by setting a channel policy. To promote certain positive character. Brands should introduce incentives based on unique matrices. (Zhao *et al.*, 2021a)

International marketers of brands should set up systems that can produce increased visibility of supply-chain. This makes it possible to be able to monitor the location and movement of products at any point in time from manufacturer to retailer. This system should be time and process effective. This can be facilitated by use of technology

International marketers should know and ensure that to avoid gray marketing they should buy from and sell strictly to bodies that are licensed by the brand owners. By so doing, end warranties will be reliable and customers will get new, authentic branded products. AGMA suggests that businesses should set up strong internal control to prevent gray markets activities and protect brands.(Indeed, 2022)

International marketers can educate their customers on the importance and benefits of buying the legitimate product and how and where to find the product. Also, a list of vital information on unauthorized products in the market, how to distinguish them from the good product, how to report fake products from fake sources. They should get customers to recommend products by leaving online reviews since buyers depend on this review in making informed buying decisions.

## **5.0 CONCLUSION AND RECOMMENDATIONS**

### **5.1 Conclusion**

A large volume of gray marketing takes place world wide, it is a global phenomenon which is carried out online and physically and has far reaching effects on brand owners, Governments , international business, and international relations.

### **5.2 Recommendations**

Concerted efforts as well as multidisciplinary and multisectoral approach should be engaged to tackle the menace of gray marketing

Consumer education, stock and inventory tracking , setting realistic goals for employees, , increasing distribution channels and putting in place strategies for Production should be stepped up.

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