

Grey market

[Sociology](#), [Social Issues](#)



A grey market or gray market also known as parallel market is the trade of a commodity through distribution channels which, while legal, are unofficial, unauthorized, or unintended by the original manufacturer. Unlike black market goods, grey-market goods are legal. However, they are sold outside normal distribution channels by companies which may have no relationship with the producer of the goods. Frequently this form of parallel import occurs when the price of an item is significantly higher in one country than another. This situation commonly occurs with electronic equipment such as cameras. Entrepreneurs buy the product where it is available cheaply, often at retail but sometimes at wholesale, and import it legally to the target market. They then sell it at a price high enough to provide a profit but under the normal market price. International efforts to promote free trade, including reduced tariffs and harmonized national standards, facilitate this form of arbitrage whenever manufacturers attempt to preserve highly disparate pricing. Because of the nature of grey markets, it is difficult or impossible to track the precise numbers of grey-market sales.

Grey-market goods are often new, but some grey market goods are used goods. A market in used goods is sometimes nicknamed a Green Market. The parties most concerned with the grey market are usually the authorized agents or importers, or the retailers of the item in the target market. Often this is the national subsidiary of the manufacturer, or a related company. In response to the resultant damage to their profits and reputation, manufacturers and their official distribution chain will often seek to restrict the grey market. Such responses can breach competition law, particularly in the European Union.

<https://assignbuster.com/grey-market/>

Manufacturers or their licensees often seek to enforce trademark or other intellectual-property rights against the grey market. Such rights may be exercised against the import, sale and/or advertisement of grey imports. In 2002, Levi Strauss, after a 4-year legal fight, prevented UK supermarket Tesco from selling grey market jeans. However, such rights can be limited. Examples of such limitations include the first-sale doctrine in the United States and the doctrine of the exhaustion of rights in the European Union.

Manufactures power towards the Grey Market When grey-market products are advertised on Google, eBay or other legitimate web sites, it is possible to petition for removal of any advertisements that violate trademark or copyright laws. This can be done directly, without the involvement of legal professionals. eBay, for example, will remove listings of such products even in countries where their purchase and use is not against the law. *

Manufacturers may refuse to supply distributors and retailers (and with commercial products, customers) that trade in grey-market goods. * They may also more broadly limit supplies in markets where prices are low.

Manufacturers may refuse to honour the warranty of an item purchased from grey-market sources, on the grounds that the higher price on the non-grey market reflects a higher level of service even though the manufacturer does of course control their own prices to distributors. * Alternatively, they may provide the warranty service only from the manufacturer's subsidiary in the intended country of import, not the diverted third country where the grey goods are ultimately sold by the distributor or retailer. This response to the grey market is especially evident in electronics goods.

Identifying the Grey Market Product * Manufacturers may give the same item different model numbers in different countries, even though the functions of the item are identical, so that they can identify grey imports. *

Manufacturers can also use batch codes to enable similar tracing of grey imports. Parallel market importers often de-code the product in order to avoid the identification of the supplier. In the United States, courts have decided that decoding which blemishes the product is a material alteration, rendering the product infringed.

Parallel market importers have worked around this limitation by developing new removal techniques. * The development of DVD region codes, and equivalent regional-lockout techniques in other media, are examples of technological features designed to limit the flow of goods between national markets, effectively fighting the grey market that would otherwise develop. This enables movie studios and other content creators to charge more for the same product in one market than in another or alternatively withhold the product from some markets for a particular time.

Five reasons for not buying a grey market product

----- The grey market holds a lot of attraction for a number of people looking for tech products. In many cases, it provides people with products that have not been officially released in their countries (consider the iPad) and in others, allows them to buy a product at a much lower rate - a grey market iPhone 3GS for

instance comes for around Rs 28, 000 as compared to its prim and proper counterpart, which costs in the vicinity of Rs 35, 000.

However, making a purchase from the grey market comes with its own set of pitfalls, some of which can be significant. Here's a look at five of the biggest ones. 1. No assurance of authenticity: No matter how well you know the dealer from whom you have bought the product, you have virtually any way of knowing that what you have got is a genuine, first-hand article. There is a chance that you might end up with a second-hand product that has been repackaged. 2. Absence of warranty and support: Products purchased from the grey market are not covered by official warranty and support.

So the Lord help you if something goes wrong with it - you will have to head right back to the grey market to get it repaired, without any assurance whatsoever that things will be fine. 3. No updates: In the case of many grey market products, software updates are simply not possible. You therefore run the risk of not getting the latest improvements the company might have made to a product. Many people using pirated versions of Windows have been unable to install the special packages Microsoft released for the software. 4.

Limited functionality: A number of products will work only with limited functionality if you purchase them from "unofficial" sources. For example, those who have purchased their PS3 from the grey market might have trouble playing games online. 5. No receipt: A grey market purchase being not strictly legal, you are unlikely to get a proper receipt for your product, which effectively prevents you from showing it in your accounts, when you

head to the taxman to show your revenues and expenses. The Darker Shades of the Grey Market

The grey market has long been an issue for manufacturers and their retailers, but the problem has grown exponentially because of the Internet. The simple definition of the grey market is " the sale of products by unauthorized dealers, frequently at discounted prices. " Grey market worries go way beyond the scuba industry. It is a global issue for manufacturers as large as Sony, Hewlett-Packard and Xerox, and a major worry for retailers as sophisticated as Best Buy. It is also a problem within numerous industries, some of which you wouldn't guess. For example, broadcasting has its grey market resellers of Dish Network and DIRECTV.

And consider the wine business -- for marketing purposes wine is sold for much less money in parts of Europe. Because of the price disparity it is possible to buy wine from an authorized distributor, say in France, and resell it in the United States, often for less than the wholesale price of a U. S. authorized distributor. No, the scuba equipment industry is not uniquely paranoid. You are not alone in your concerns. Grey market goods are not necessarily illegal, so some ask, " What is the harm, especially when consumers can benefit from lower prices? " The answer is that the grey market undermines normal distribution channels.

It does this in a number of ways. The most obvious is that products that are diverted to unauthorized resellers usually end up competing with a manufacturer's legitimate dealers with substantially lower prices. This devalues the products, reduces everyone's profits, and alienates the

manufacturers' dealers. It also puts the manufacturers' network of dealers, and thus the manufacturers' future distribution, at risk. Pricing is a big issue. The argument that lower prices benefit consumers is grossly incorrect. In a service business the grey market winds up hurting everyone, including the consumer.

As price cutting gets out of hand and retailers have to compete with price their margins suffer. Consider that, as a general rule, a 10 percent reduction in a retailer's gross profit requires the retailer to sell to 50 percent more customers to earn the same profit dollars. In a specialty business like scuba that increase is near impossible to achieve. The grey market puts the business of the legitimate dealers in jeopardy. That pressure goes up the line to the manufacturers who are forced to watch their dealer base dwindle, and/or make concessions to dealers to help them compete. Then manufacturer margins suffer.

In diving, many companies work on slim net margins, so when the gross margins suffer.... Let's put the price and margin factors aside for a moment. Another large issue is that since manufacturers have no control over unauthorized dealers, products and brands can be devalued not just from (the consumer's perception that results from the) low pricing, but because of negative issues surrounding consumer protection, product integrity, service and warranties, and recall notifications. In short, when a manufacturer loses control of its distribution, negative consumer experiences can damage the goodwill and reputation of a brand.

And finally, a manufacturer's product pricing structure includes its costs for marketing, promotion, product research and development, product liability and regulatory compliance. Although unauthorized resellers benefit from selling the products, they do not contribute to these expenses. It's a very important consideration that for consumers, the scuba business is as much about service as it is about equipment. The service component becomes such a tangible part of every product's retail price. The profit represents no less than your consumers' access to this sport.

And anyone who thinks that price is the pressing issue for our customers doesn't understand the importance of service in the consumer's perception of a product's value. In other words, in this business consumers expect retailers to supply them all of the other (including the social) aspects of the sport. Of course, there's a limit to that loyalty when it's tested by low grey market prices. In short, anyone who thinks that the grey market's lower prices are good for consumers is wrong. It's a Tactical Issue Unauthorized dealers acquire products in a number of ways.

In scuba, as in the wine example above, much of the product comes from overseas, where favorable exchange rates or pricing structures make America an attractive market. Unauthorized dealers also work to acquire product from sources within the authorized dealer network. I would like to emphasize again that people in the diving business tend to see their industry as paranoid, too provincial, too protective of retailers. But you are not. In fact, in all industries afflicted by the grey market, concerned manufacturers use a number of tactics to fight those sales.

In the electronics industry, for example, Sony and many others won't honor the warranty on products bought through the grey market. The U. S. division of Nikon goes further. They will only service products that are purchased through an authorized retailer. It declines grey-market repairs even if a customer is willing to pay for them. Another lever that manufacturers use is the threat of prosecution of trademark laws to restrict advertisements for the products. So when grey market products are advertised on Web sites it is possible to petition for removal of advertisements that violate trademark or copyright laws.

Our business, Net Enforcers, has been helping companies combat grey-market distribution of their wares. We understand the darker sides of the grey market because we work in a number of industries for some very large companies like Samsung and Sony as well as for many of the manufacturers in the scuba industry. The companies hire us as a private police force to monitor Web sites for illegal use of product photography, copyrighted product descriptions, trademark logos and branding material. We also look for false or fraudulent statements of warranty or statements to the effect that the manufacturer supports the product they sell.

We're the plumbers, finding leaks in the distribution pipes through sophisticated methods of investigation. When we find sites that we suspect are illegitimate, we issue takedown notices, a method of copyright enforcement that compels Internet service providers to pull suspected copyright infringements. The purpose of this piece is to explain the problem that the grey market has become in many industries and why you are right

to be concerned about it, and to encourage your industry to continue working to keep it in check. This is especially critical because the diving business is so safety- and service-oriented, and its retailers create diving's customers. It's why maintaining the integrity of brands, products and pricing requires an especially strong commitment to stay within the proper distribution channels. PRESENCE OF GREY MARKET: Grey Market is present in many industries. Some of them are: * Automobiles * Cell phones * Computer games * Pharmaceuticals * Pianos * Photographic equipment * Broadcasting * With securities * IPO * Electronics * Textbooks