



# THE ROLE OF E-COMMERCE IN THE PROMOTION OF GREY MARKETING

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## Abstract

**Grey market products are defined as goods that are sold through unauthorized distributors. With the advent of Globalisation, Liberalisation and Privatisation the need and want for products irrespective of trade restrictions has increased exponentially, what follows is many products have found their way into markets that they were not meant for. There are various types of grey market sellers/resellers also known as the unauthorized dealers. Of the lot the role of the online market dealers in the promotion and sale of Grey Markets product is explored in the following paper.**

**Keywords: Grey Marketing, Parallel Markets, Online Grey Markets, e-commerce. Changing Scope of Global Business**

As a species humankind has always been driven by needs and wants, the penchant for something better has been the pillar on which rests the house of innovations. This want for something better has for many eons of years been the key driver of International Business, though today the text books of marketing otherwise state it as the LPG phenomena of Liberalization, Privatization and Globalisation.

According to Hill (2019), International Business and the phenomena globalization, liberalization, and privatization are intricately linked to each other. Ohmae (1990) argues that traditional borders and boundaries are losing their importance and businesses must adapt to the new reality.

Before International Business actually became a mainstay subject, it was called exporting and importing which came to passé. If one were to

delve on the subject of exporting and importing; why would a country export and why would one country want to import a product, economics explains this trade among nations on the basis of many theories such as Absolute Advantage, Comparative Advantage, National Advantage, Factors of Production and so on.

The theories of absolute advantage, comparative advantage, and national advantage are all relevant to international business, as they help explain the patterns of trade and investment among countries and the strategies adopted by firms operating in the global economy (Krugman & Obstfeld, 2018; Porter, 1990; Ricardo, 2018). Overall, these theories provide a useful framework for understanding the complex interactions between countries, firms, and markets in the international business environment.

The crux of the matter is that the consumers of goods and services always have aspired to buy and consume a product that in his/her perspective is of the best value. When assessing value from a consumer perspective it could be an innovative product, it could be a product that is of better quality, it could be a product that is cheaper. Different consumers; Different perceptions.

According to research conducted by Gao, Zhou, and Yim's (2007), Mishra and Mishra (2016), Peterson and Jolibert's (1995), consumers evaluation of the products country of origin shaped the consumers perception regarding the product quality.

In the melee of choosing the product that offers the best value a niche consumer segment came into existence, the consumers of imported products/customs notified products, these

consumers who were very few in number were an educated lot who genuinely believed that imported products/goods of foreign origin were of a better make than the local products and since their pockets permitted them they were willing to consume these foreign products. That need for a foreign product i.e., a product not manufactured by locals would later become the foundation stone for the beginnings of what we know as “Grey Marketing or Parallel Importing”.

### **Grey Markets and Unauthorized Dealers**

Thanks to LPG, and a consequence of the exponential growth of International Business is “Grey Marketing”; the grey market products are defined as “goods that are sold through unauthorised distributors”, and the term grey is attributed to such type of products since they are not counterfeit products, rather there is nothing illegal about the manufacturing of these products. What is questionable though is the channel through which it is sold. Buying a grey market product as mentioned earlier is not illegal but it does not seem all legal also, there is this thin line that demarcates its purchase from being a black purchase. So why is there this doubt- it could be since there are no concrete answers to these questions: Did the product while being imported infringe on the original manufacturers distribution territory, was the product meant for the market that it is being sold in? Did the original manufacturer permit selling the product through that particular distributor, herein the importer in question?

When answers to the above raised questions are tweaked then we know that the product that one is dealing with is a grey market product. With the advent of globalisation the need and want for products irrespective of trade restrictions has increased exponentially, what follows is many products have found their way into markets that they were not meant for.

According to Lee and Tai (2012), there is a link between globalization and the growth of grey markets, globalization facilitates the spread of grey markets as parallel imports can be sold at lower prices than authorized distributors.

So who is this unsolicited distribution channel through which products are being sold? The grey market products distributors are also known as the unauthorised dealers. Who comprise the unauthorised dealers list?

Unauthorised dealers of grey market products can include individuals or organizations that obtain products through unauthorized means, such as parallel imports. These individuals or organisations involved in grey marketing become what is known as an unauthorised distribution channel. They can include small or large-scale distributors, online marketplaces, or even individuals selling products out of their homes or at flea markets. These dealers may not have an official relationship with the manufacturer or authorized distributor.

Dharwadkar and Gurusurthy's (2012), Chang's (2013), Ramakrishnan and Kapoor's (2016) articles provide insights into the types of unauthorized dealers of grey market products. The various types of unauthorised dealers of grey market products identified by them include the following:

1. Parallel importers: These are dealers who obtain genuine products from one country and then sell them in another country where they are not authorized to do so.
2. Counterfeiters: These are dealers who manufacture and sell fake products that are designed to look like genuine products. These products can often be difficult to distinguish from the genuine ones, and may not meet the same quality standards.
3. Diverters: These are dealers who obtain genuine products through authorized channels but then sell them through unauthorised channels.
4. Online marketplaces: These are websites where individuals or businesses can sell products, including grey market products. These marketplaces may not always have mechanisms in place to prevent the sale of counterfeit or grey market products.
5. Individual sellers: These are people who sell grey market products through informal channels, such as flea markets, garage sales, or social media platforms.

Of all the unauthorised dealers it is the online sellers who are the interesting lot, since they go unnoticed.

### **The e-commerce Saga**

The turn of the 21<sup>st</sup> century saw e-commerce as one of the most disruptive technologies that forever changed how consumers bought their products, for the first time products were being

sold in a virtual market powered by the World Wide Web. Instantly, consumers had access to a wide spectrum of products. Whatever is it that one wished for and wanted, was available for consumption, and that was the mantra of e-commerce operators.

The e-commerce companies however had their own set of woes; they had to break-in the centuries old habituated mode of physical buying. For someone to accept the virtual way of buying without actually seeing the product physically, that was a tough barrier. Buying online had many issues attached to it, the primary issue was the essence of non-tangibility attached to the entire buying process, and the second issue was the trust issue; trust on whether the product is the same as the one being featured on the website, trust on the products performance, trust when it came to whether the product would actually be delivered, trust on the payment mode. According to authors; Köksal and Penez (2015), Khan et al (2015), Kaur and Madan (2013), Grabner-Kraeuter (2002), Lim et al (2006) who addressed issues regarding trust, key factors such as cash on delivery, easy return policies etc., could contribute to building trust in the online shopping environment.

The issues regarding trust were calmed on the basis of the moot point that only if the customer was satisfied then they could keep the product, if not they could return the product and money back is guaranteed. What followed is hesitant purchases by many opinion leaders, once these opinion leaders were satisfied with their purchases they became the advocates of online shopping. For the benefits that online shopping allows many switched to buying online rather than visiting an offline brick and mortar shop for their purchases.

Studying the consumer behavior towards online shopping most of the studies were directed towards identifying the demographics of the consumers, what motivated them to make online purchases, what was their preferred e-commerce platform for shopping, what were their preferred mode of payment used to make purchases, whether they were satisfied with the product performance, and whether the product was delivered on time. Literally all studies related to behaviour and online shopping were focused on the areas mentioned above some studies went a bit further and were testing behavioral models of trust, risk, attitude and

intention. But rarely, next to none were directed at studying the seller.

A common scenario that most of us get to witness at brick and mortar shops today is this; once the sales executive quotes the price for a product that we wish to buy, immediately out on the countertops are cell phones and one of the e-commerce sites are being checked to see if the price is the same. What none bother to check is: if the dealer from whom the product is being purchased is an authorised dealer or not. It is that simple for an unauthorised dealer to conduct trade in grey market products.

Research regarding the following was not being addressed; Did the consumer ever look up a seller, does the consumer know what kind of seller is he/she buying the product from, were they reviewing ratings regarding sellers or products, were product ratings being confused for seller ratings, was there any clear distinction regarding ratings of sellers and products. In what way were the e-commerce companies validating the authenticity of the seller and the product being sold?

When consumers become more involved in their purchases and able to move forward from issues of regarding product and payments to issues regarding the authenticity of the product and seller. Then the issue of grey market products will come to the fore. Till such time the internet will be a safe haven for grey market operators. Unbeknownst many consumers will continue purchasing grey market products.

### **Boon or Bane: Flourishing Online Grey Markets**

The greatest advantage that the internet as a channel of distribution offers is that it transcends the barriers of the traditional distribution channels; the online space is not bound by physical distances between trade regions or different time zones. It is a channel that offers seamless access to both the consumers and sellers.

So, how do online grey markets operate? Due to certain reasons the internet becomes a conducive environment that encourages grey markets existence. From a seller's perspective, the e-commerce websites operating on the World Wide Web platform offer unlimited access to consumers. There are two types of seller's: the local seller's/reseller's who would have sourced the products from different territories and are using the internet to sell their products, the second type are the non local

sellers/resellers who operate from their own territories but are selling the products on the internet. In both the cases the products sold are in all probability original, what motivates the consumer buying from these online platforms is that these seller's/retailers offer a competitive price; which is lesser than what is being quoted by authorized distributors, also some of the products sold on these online platforms may actually not be available for consumption in the market. But there is a catch-22 situation that entails buying products from these online sellers/resellers; unless there is some way the customer can authenticate the product purchase, there is a risk probability that the products purchased could be counterfeit products.

The products they sell may not come with the same warranties, support, or quality control as products sold through authorized channels. It is important for consumers to be aware of the potential risks associated with purchasing grey market products from unauthorised dealers.

The following observations (Kumar, 2019) are made weighing the advantages and disadvantages of operating grey markets on the internet, advantage vs disadvantage they vary depending on who is the stakeholder; the key stakeholders involved in the grey markets are the manufacturer, the authorised dealer, the unauthorised dealer (known as the seller/reseller), the government and finally the customers.

Disadvantages:

**1. Customers:** Motivated by the low prices offered on the online websites; many a time ignorant consumers may end up buying products that are obsolete, which has invalid or no warranties, the product designed for usage in some other country than where it is sold may not meet the technical specifications still worse it maybe a counterfeit product.

**2. Manufacturers:** Manufacturers invest a lot to build brand equity, when a branded product is sold in the grey market and it fails to satisfy consumers due reasons such as invalid warranties or products being obsolete the impact of such is felt on the brand equity. Corporate Image and Reputation of many organizations have taken a beating due to the ill effects of grey marketing.

Grey Marketing affects all aspects of planning be it pricing, inventory, and

positioning. The probability of well laid plans going awry due to grey marketing is high.

Products that are sold in the grey markets are unbundled from the after sales services, for many industrial goods manufacturers the grey markets have drained them of their main revenue source- after sales service.

**3. Channel Members:** The most aggrieved of all stakeholders are the authorised distributors; pricing instability caused by grey markets has affected channel relationships. Distributors lose the motivation to push the manufacturers' product when a similar product is sold in the grey markets. Authorised distributors end up competing with unauthorised dealers on price and service matters. Grey markers consolidate themselves around products that are near commodities since they require no customer education and after sales service and repair for such products are established, the authorised distributors competing on basis of service matters and warranties, in such situations lose the competitive advantage that they have to grey marketers.

**4. Government:** Grey markets deny Governments' the revenue due to them through direct and indirect taxes.

**5. Unauthorised Dealer:** Operating a grey market business may entail legal action from the manufacturer. When the grey market resellers are unable to meet after sales service warranties and guarantees, there is always a chance that the unhappy customers may also seek legal recourse.

**Advantages:**

**1. Consumers:** They stand to gain from lower prices offered by the grey markets. Some online grey marketers offers consumers a chance to buy products unavailable to them.

**2. Manufacturers:** Grey markets that are in operation in foreign markets become an excellent source of marketing intelligence. Information such as demand conditions, consumer profiles, profit margins, incentives and expenses, can all be assessed.

Restrictions such as quotas, import licenses etc., prevent authorised distributors from achieving potential sales, whereas the grey markets provide the manufacturer with the additional sales.

3. **Government:** Parallel imports lead to lower prices and higher sales revenue. The competitive economy offers more product variety.
4. **Channel Members:** Sometimes when manufacturers are unable to meet requirements just-in-time, authorised distributors may seek out unauthorised distributors to fill the gap in their supplies. The grey markets become a source of supply in the above mentioned circumstances.
5. **Unauthorised dealer:** Operating an online grey market website is a lot easier than a brick and mortar shop; the cost that one incurs in setting up a website is very miniscule compared to that of the physical shop. The online grey markets also offer flexible inventory; once orders have been placed only

#### **Boon or Bane: The Conclusion**

The adverse effects of grey markets combined with the benefits make it very difficult to assess whether it is a boon or bane. Depending on the market conditions; promotion or restriction is a collective effort.

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