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# Gray Marketing as Indication of Price Strategy Deficiency

## Based on the real life case from Canadian Knitting Craft Industry

# Contents

# Abstract

The vast majority of the gray marketing cases generally isn't discovered until the matter is brought before courts of law or arbitrage tribunal. Because of this fact it is very hard to build the dynamics of an average case and draw conclusions on the phenomenon in general. This paper observes a real life gray marketing case from its inception to the eventual winding down.

This case shows that the effects of the gray marketing do not only inflict damage to the bottom line of the original manufacture. They also set expectations of the consumers of the product for the lower prices. Gray marketing pricing strategy appears to serve as a guideline for the pricing policies for makers of competing products entering the market.

## 1. Introduction

The term gray marketing refers to selling the legitimate trademarked goods through the non-authorized channels. In many cases gray market goods appear in the retailer's hands through the maze of the semi-legal operations, which can generate a legitimate interest from the authorities. The progress of the international trade and the increase in the number of the multinational and global organizations around the world have called for the creation of the enormous number of distribution channels and subsequently a large number of entities, whose sole trade purpose is to act as an intermediary between the source, which is not necessarily a manufacturer, and a destination, which is not always a retailer or a consumer.

These organizations have formed a rather impenetrable supply chain each element of which represents a non-production entity, which generates its own profit using the difference between the input and output prices. Passing through this chain the price of the goods can increase three- or even fourfold without any measurable changes in a product itself. It became possible for the small entrepreneurial 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 markup and still have the price well below the one set through the distribution chain thus forming a gray market.

# 2. Gray Marketing

## 2.1. Definition

According to (Picard, 1996) "Gray marketing occurs when one party possesses the exclusive right to sell a certain product designated by a trademark in a certain area, and another party sells similar products in the same area under the same trade name." This definition requires the presence of two very important conditions:

- The existence of the agreement of exclusive rights to sell a certain product in the mentioned territory.
- The existence of a strong registered trademark, which is recognized at a certain territory where a potential gray marketing activity may occur

Despite the relative ease with which gray marketing schemes may be conducted the appearance of gray marketing is not very frequent. In order for gray marketing to exist the product must be superior to the others in the category, like Porsche cars or Rolex watches. It also must be perceived as significantly overpriced by the mainstream group of consumers. Gray marketing usually appears as a result of the combination of the latter conditions.

## 2.2. Legal Aspect

Gray marketing is not directly associated with any criminal activity. The essence of this process lies in the possibility of a person or another company to obtain the goods legally and sell them legally simply without the blessing of the original manufacturer and trademark owner. There are cases of settling the matter of unauthorized sales of goods in court, such as the case of Costco[1] selling Omega[2] watches (Schuster 2010). Even the case states that the watches were bought overseas legally. However the resellers were not authorized by Omega to sell

In the USA the definition and the clauses of gray marketing are regulated by Lanham Act, which accordingly to (Curley and Ferry, 2006) gives the trademark owner full rights to decide who will sell the goods on the territory of the USA. With the advent of the Internet and e-commerce any definition of sale became even more blurred. The retailer of goods may reside in one part of the world and the buyer in completely other one. In the case of the internet sale the sale transaction may be executed in the country where Lanham Act or similar legal norms are not applied. The delivery of the product to the customer appears from the legal standpoint as a sending of a simple fully legal mail parcel from one country to another.

In the case of the gray marketing the importer of goods does not break any import laws of its country. The goods are always imported legally based on the laws and regulations of the target country. The case of bootlegging the goods (smuggling them into the country) is not considered as a case of the legitimate gray marketing. (Chen, 2002) argues that persecuting gray marketing efforts of importation and selling the goods yields the unfair advantage to the legal distributors of the goods thus creating a monopoly for selling the products, which overall hurts the consumer.

[1] Welcome to Costco. http://www.costco.com/

[2] Omega Watches: Home, http://www.omegawatches.com/

## 2.3. Potential for Gray Market Appearance

As it was stated above gray marketing of the goods is done over otherwise legal channels. The entrepreneurs see gray marketing as the opportunity to sell the goods at lower price on the basis of incurring lower costs during the acquisition and the importation process. Gray marketing is by large a response by the market to the creation of a rigid distribution structure by the manufacturer of the goods or the owner of the trademark.

As it was stated earlier gray marketing is only possible if the product is of excellent quality, it is sought by the consumers and it is perceived as overpriced. Gray marketers would endeavor to import and sell the product in the target country only if the cost of delivery of the product to the market would be significantly lower. Hence the gray marketer will still make a profit by selling the product at a lower price.

The main cause of appearance of a gray market for a product is the division of the responsibilities inside the product distribution chain. When the product first appeared and sold locally the manufacturer of the product undertook marketing and distribution efforts in order to deliver the product to the retailers. As the enterprise of making the product grows the manufacturer attempts to segregate themselves from the distribution process and concentrate all efforts on R&D and manufacturing. At this stage of product development the manufacturer seeks the alliances with the companies which would take over the distribution of the product in the certain territory.

The distribution company does not strive to improve the product and/or fit it to the needs of the consumer. It simply owns the trademark on the territory of the distribution, which gives it exclusive rights to deliver the products to the retailers. In some cases the manufacturer retains the right to influence the price policies. However in the vast majority of instances the distributor has exclusive rights to set the price of the product on the territory it operates. When the market is perfectly competitive[3] the distribution company has no other choice but to compete on the price with the distributors of the similar products. In this case the distribution operates by installing a market-acceptable markup over the overall cost of the product.

When the market is monopolistically competitive[4], which means that the customers use the features of the product rather than the price for differentiation, distributors may apply a higher markup to a high quality product which perceivably has no analogs on the market. The latter case of a monopolistically competitive market usually creates perfect conditions for overpricing the product. If the product is mass produced and sold in many places around the world, this approach to pricing can create conditions for the appearance of gray market for the mentioned product.

### 2.3.1. Real Life Case

In order to illustrate the previous statements this paper uses the real world example of gray marketing which happened in Canada in 2004-2009. Headwater Wool [5] is a small importer and retailer of yarns with headquarters in Orangeville, ON. The owners of the company favor Russian Style[6] of knitting, which among many other qualities requires needles, which have very smooth surface. One of the owners acquired this habit while using Russian manufactured steel needles with chrome plated surface. After a serious consideration the Russian needles were deemed not suitable for import because Russians do not produce needles thicker than 5mm.

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[3] Perfect competition, http://www.investorwords.com/3661/perfect_competition.html
[4] Monopolistic Competition, http://www.investorwords.com/3111/monopolistic_competition.html
[5] Welcome to Headwater Wool, http://www.headwaterwool.com
[6] Russian Knitting Technique, http://www.headwaterwool.com/hw_russian_knitting_technique.aspx

Taking into consideration the requirements of the Canadian Market, which has a demand for the needles of 2mm-12.5mm and sometimes even thicker, the company decided on using similar chrome plated needles produced in Germany, called Addi Needles[7]. The needles were manufactured in Germany and distributed in Europe by the manufacturer GUSTAV SELTER GMBH & CO. KG. However in North America the same needles were distributed by the company called Skacel[8], which has an exclusive right granted by SELTER to sell these needles anywhere in North America including all of the territory of Canada.

Skacel has a distribution partner in Canada, which is called Wool and Wicker and which now represents itself as Skacel Canada[9]. The information on what is the real cost of Addi Needles for Skacel is private and confidential. This paper will use the output information based on certain assumptions to illustrate the given case. The following table represents the transformation of price as the needles are passed through the distribution channels. It is assumed that Wool and Wicker would use Canada Post services to deliver the needles. If they use a courier the retail price might reflect it[10].

| Skacel Wholesale Price | Wool & Wicker Wholesale Price | Transportation | MSRP |
|---|---|---|---|
| $8 | $12 | $10 | $24-26 |

As one can see that for Canadian company the possibility of a gray market exists even if the goods are sold to the US outlet and then transported over the border. Skacel is the US company. It rebrands the needles and creates different paper inserts thus qualifying the product to be US manufactured. In this case no duty must apply when the product crosses the border between the USA and Canada.

The same needles are sold in Europe by the various small country wide distributors. The lack of tariffs in Europe creates the market of Addi Needles where prices are significantly lower. The end consumer of needles in one of the East European countries can sell these needles for $3 with the acceptable profit for themselves. The cost of import of these needles to Canada would add approximately 30% and the overall cost of these needles to the gray market importer would be $3.90[11].

Based on the example of gray market importation costs it can be assumed that Skacel would be able to lower the cost of $3.90 per needle considered by Headwater Wool. Although the overall costs incurred by Skacel can be somewhat higher, they are not likely to exceed $5 per needle with the built in cost of rebranding and advertisement.

Headwater Wool decided to use the gray market channel for the needles. The cost of the needles was set at $12. This price was significantly lower than the one displayed in the comparison table but still high enough to maintain the differentiation of the product from the less expensive brands, such as Aero[12] and Susan Bates[13] which are made of plastic and have inferior qualities.

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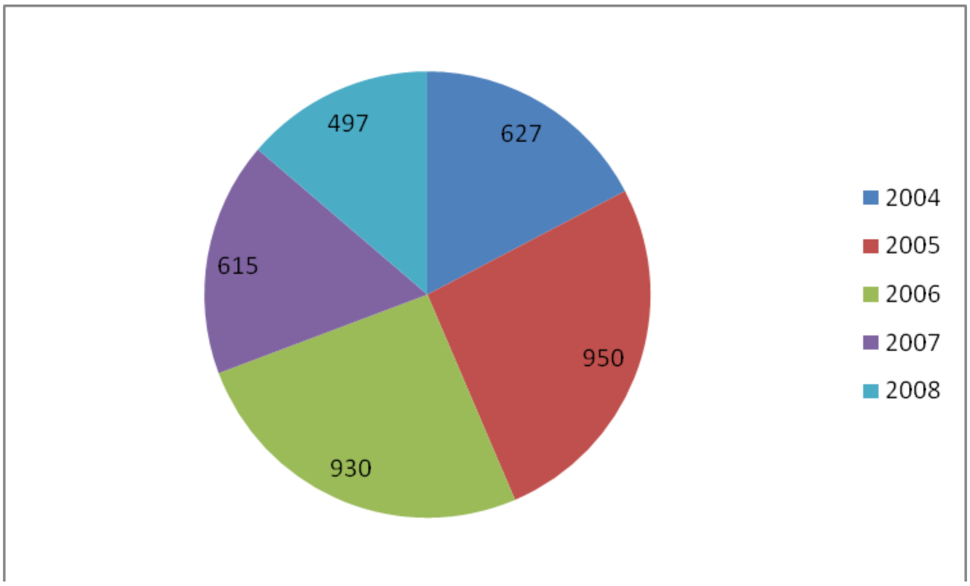
[7] The difference is named Addi", http://www.addinadeln.de/pages_english/index_en.html
[8] Skacel Collection, http://www.skacelknitting.com/
[9] Skacel Canada, http://www.skacel.ca/
[10] Shown prices do not reflect the difference in VAT existing between the Canadian provinces. The pre-VAT price is given.
[11] During the last 3 years USD and CAD are practically at par
[12] Aero Needles, http://www.kelsea.ca/aero%20knitting%20needles.htm
[13] "Knitting Needles" http://www.coatsandclark.com/Products/Accessories/Knitting/Needles/

### 2.3.2. Market Price Analysis

The market of knitting needles has always been a two tier market. The first tier contains needles of premium quality, which are coveted by consumers. These needles are made out of chrome plated aluminum tubes, high quality bamboo, wood such as birch or beech, bones and dairy byproducts. The price of these needles rarely reflects the costs of manufacturing and is set based on the estimation of what would be the price consumers are willing to pay. The customers buying these products are aware of their superior qualities.

The second tier of the market is comprised of the low quality bamboo needles as well as needles made of cheap steel and plastic. These needles are often made in the countries with less expensive labor and sold all over the world under different brand names. The new knitters buy these products mainly because they are not sure if they would want to use the craft or move on to other endeavors. Knitters must make a significant investment into the good quality premium tier needles in order to satisfy their needs. It is customary for an average knitter to have 8-10 sets of needles of different diameters. The professional knitters usually have multiple sets of needles of the same diameter, which they use on the same knitting project or multiple knitting projects simultaneously.

The following diagram is an estimation of the distribution of the use of needles by the knitters based on the observations made in 2004 by the owners of Headwater Wool.




Addi clearly dominated the premium market segment because of the versatility of the product and its superior quality. Besides the excellent quality chrome plating its circular variety also had a very flexible non cringing cord, which was extremely useful in knitting socks using "Magic Loop" technique.

The price of the products consists of the cost of manufacturing, delivery to the consumers and the acceptable profit margin. The manufacturer can use a marginal cost model as they are in control of the manufacturing process. Distributors are more used to the cost-plus or full-cost models, which give them control over the fluctuation of currency rates and the fluctuation in manufacturer costs. It is also quite common in North America to use the "double cost MSRP", which suggests that MSRP (or DSRP in the case of a distributor being a price setter) should be set as double of wholesale price of the product. It is assumed that this formula would cover all costs incurred by the buyer as well as the collateral costs of advertisement and stale stock. This pricing scheme also takes into consideration that no more than a half of all products would be sold at the suggested price and that the retailer would be conducting dump sales of the stale stock using significantly lower prices.

## 2.4. Market Dynamics

The product sold as a gray market product usually causes changes in the structure of the market. The consequences of the gray market differ based on the extent at which the gray market retailer has access to the consumers of the product. In order to keep low profile as well as to keep prices as low as possible gray market retailer does not advertise the product on the same scale as the original manufacturer and/or distributor. The most common marketing approach for the gray market goods is a viral marketing[14]. Knitting is a social hobby and many knitters assemble into guilds or collective in order to spend few evenings a month indulging in their hobby. These groups usually discuss the prices of the products and pass around the information about the bargains and below market prices for yarns and needles. At the same time gray market retailer has to assume full responsibility over the faulty products thus considering the costs of replacement and/or fixing of the faulty products into their price model.

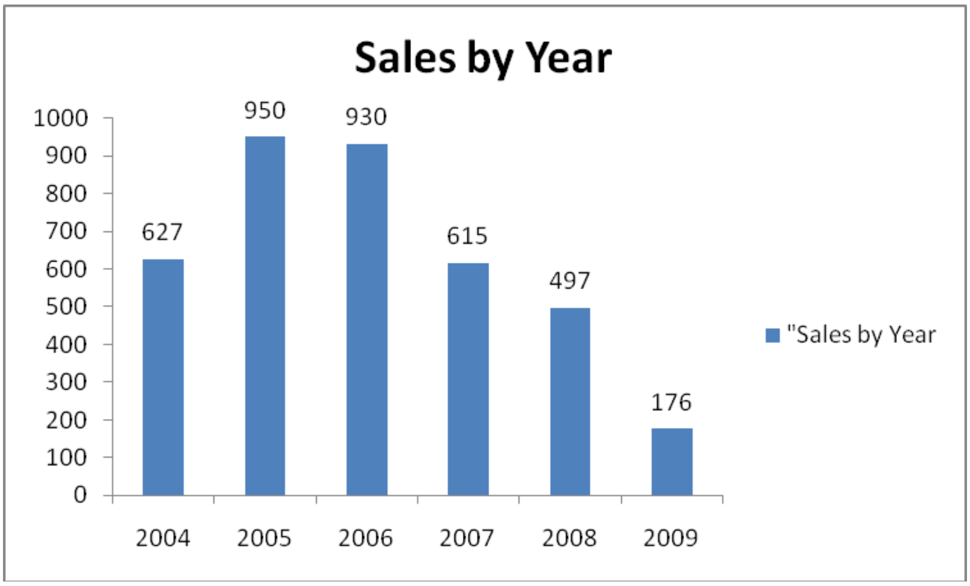
### 2.4.1. Market Longevity

The market for the premium product exists as long as the product remains relatively expensive and relatively unreachable by price to the large number of consumers. Gray market for the same product may decrease the longevity of the original market. In this case gray market retailers would not be able to sustain the level of sales they enjoyed originally thus decreasing the viability of the gray market for a product. In the case of the knitting needle market there are two trends, which play role in the original appearance of the gray market:

- The buyers and the potential buyers of the premium product see the opportunity to buy a premium product for lower price
- The buyers of the second tier products can be convinced that the difference in price is much lower and that the premium quality product yields other tangible benefits to the user such as less strain to the hands, higher speed of knitting and so on.

As a result the initial acceptance of the gray market is very high and the gray market retailers can reap tangible benefits causing the legitimate distributor a significant loss in revenue. In time the gray market retailer saturates the segment of the market, which is the most susceptible to bargains and the amount of sales naturally drops. Hence this market is relatively short lived. The following diagram illustrates this trend by using the sales of Addi Needles by Headwater Wool

[14] Viral Marketing, http://en.wikipedia.org/wiki/Viral_marketing




As the diagram shows the peak of sales is reached very soon after the company made a decision to import the goods by using the alternative channel. After three years the company's efforts were detected by the distributor and the manufacturer who made every attempt to stop the gray market sales. These efforts together with the relative market saturation have caused the drops in sales with the subsequent market exit. This example shows that gray markets even if they are not targeted legally with "cease and desist" orders are not sustainable on the long run.

## 3. Possibility of Arbitrage

Arbitrage is a term, which is used predominantly in currency trading. Arbitrage in foreign currency trades is a condition under which the alternative routes of currency conversions may yield a benefit (arbitrage) for a currency trader. In the markets of the real goods the possibility of a reasonable arbitrage is much rarer than in the currency trades. In the currency trades the object of the trade has a constant value. When a trader buys a currency A and converts it into a currency Z the only real effort involved is the one of the trader. The trader has the access to the currencies at limited cost to themselves or at no cost whatsoever.

In the market of tangible goods, such as the one described in chapter 2 the ability to extract the gains from the alternative routes of delivery of the product is much smaller than in the foreign currency trades. This statement can be supported by the following underlying conditions.

- First of all during the process of manufacturing and distribution of the product the market conditions may change sufficiently so that initially considered arbitrage may no longer exist.
- The delivery of the product to the consumer market is subject to the transportation costs and applicable tariffs. Performing the delivery of goods via alternative channel, and especially the fact that the goods are delivered in small quantities, can negate the possibility of the arbitrage completely

Therefore for the arbitrage to exist there should be a glaring discrepancy between the costs of the products in different parts of the world. This inconsistency in costs must offset the costs of delivery, the costs of sales and the costs of upholding the warranty and replacements by a gray marketer in order to create a consideration for the price arbitrage. Besides, the gray marketer also must take into consideration the low life span of the gray market due to the conditions described in Chapter 2 and the possibility of both injunctions and barriers created by the owners of the legal distribution channels.

While considering the possibility of arbitrage the potential gray marketers must also consider that involvement in the gray market of any substantive size would require a large initial investment especially if arbitrage is based on a large projected volume. Regular distribution in North America uses Net 30 price model for the distribution of goods to retailers. By using this model any retailer has 30 days of sales of the "free" merchandise before they are absolutely required to make a payment to the distributors. The relationship between the paying distributor and the manufacturer is even more relaxed and Net 60 or Net 90 models are often used.

Gray market distribution requires the company to buy the goods outright by paying the full price at the time of purchase. One of the reasons for this to happen lies in the fact that the gray market retailer and the catering distributor want to stay under the radar and reduce the interactions to the absolute minimum in order to maintain business relationship for a longer period of time. From the other hand the channels of goods acquisitions for the gray market are often located in the parts of the world, which do not accept any form of payment other than Cash on Purchase. The company considering gray market retail must include the cost of capital invested in the purchase of goods in order to create a full arbitrage picture.

## 4. Consequences of Gray Marketing for Manufacturers

For the consistency of the material presented in this paper it is considered that the manufacturer of the goods is the owner of the original trademark. Although a distribution company can own a trademark on the certain territory, the overall ownership of the trademark belongs to the manufacturers. In the case of Addi Needles it would be SELTER. It is quite often the case that independent distributors of the product attempt to secure the distribution rights for a long period of time. This policy is based on the consideration that introduction of the product to the market of a significant size such as North America may take a significant time and will be met with the sizeable resistance by the consumer community.

This existing order of things locks a manufacturer out of the price setting process. The distributor becomes the only influential price setter on a certain territory. The agreements set up between the manufacturer and the distributor often dictates only the volume of product which distributor must purchase or order from manufacturer in order to continue the relationship. Quite often the distributor decides to set the price artificially high in order to maintain the status of the product as a premium purchase. For the seasonal product such as knitting needles[15] the distributor attempts to offset the poor performance over the periods with the lack of sales.

### 4.1. Deficiencies in Price Strategy

The widespread of the internet and the e-commerce created significantly more transparency in any market of consumer goods including the market of the knitting needles. The manufacturing company attempts to use the same price scheme for all of its distributors in order to avoid the conflicts, which can potentially result in a legal action especially in the USA where unjustified price discrepancy is explicitly forbidden. In this case it is the responsibility of the distributors of the product to set the prices in a manner excluding the possibility of an arbitrage at the territory of their distribution. In the described case of Addi Needles there were several attempts other than the one by Headwater Wool to sell the needles in North America via Internet by the prices, which are significantly lower than the price set by Skacel. The most notable example of this is the British company Angel Yarns[16] which has been effectively shut down from selling Addi Needles by the manufacturer.

Hence the manufacturer of the products has only two viable options, such as setting a proper price which would deny the possibility of the arbitrage or fighting the sales of its products by the lower prices via injunctions. The deficiency in price strategy can be attributed to the excessive independence given to the distributor over setting the price at a certain distribution territory. It can also be attributed to the improper positioning of the product. Considering a product as a luxurious and premium would attract the gray marketers much faster than in the case when the product is priced to sell. Hence in the case of luxury positioning the manufacturer of the product must have much stronger control over the distribution of the products (ex. luxury cars).

### 4.2. Appearance of Substitutes

Substitutes often appear in the monopolistically competitive markets. The feature differentiated leading brand of products is always a target of copy by white labels and competition. In the case of gray market products we shall consider as substitutes the products, which have similar features, comparable quality and the price which rivals the price set by the gray market retailers. There is no visible connection between the appearance of the gray market for

[15] The bulk of sales of the knitting products happens in the fall months (September – November)

[16] Knitting Yarn Store, http://www.angelyarns.com/knitting/addicirc.php

a certain brand and the appearance of the substitutes. However in some cases the price setting strategy of gray market retailers can spur the creations of equally priced substitutes of comparable quality. Unlike gray market goods, the substitutes are completely legal. The manufacturer of the product can change its features in order to differentiate from the substitutes or reduce the price in order to make substitutes not so viable.

### 4.2.1. Substitutes to Addi Needles

Since Headwater Wool entry into the gray market of Addi Needles several substitutes of comparable price and quality have appeared on the knitting needle market. All these needles are made out of chrome plated aluminum tubes. They all sport flexible non-tangling cords, which make them as versatile as Addi. The first entrance was made by the company called Knit Picks[17]. The original price of the needles was $10-15 but it dropped further as of now. Since 2008 two companies: HiyaHiya[18] from China and Prym[19] from Germany entered North American market. The prices of the needles vary from $10 to $15. In 2010 despite being considered the best in the industry Addi needles are being priced out of the competition.

| Knit Picks | HiyaHiya | Prym | Addi |
|---|---|---|---|
| $7 | $11 | $7 | $15 |

The prices given in the above table are the retail prices of the needles. Out of three competitors Knit Picks does not wholesale the needles. Because of its size the company manufacturers its own needles and has an obvious advantage at the internet market. On the retail market both Prym and HiyaHiya have lower prices than Addi. The quality of the needles become virtually comparable and the customers are switching to the more affordable product.

## 4.3. Consequences for Manufacturers

Manufacturer of the premium product must always consider that the product would be outpriced or even outright replaced by the substitutes. The manufacturer cannot control the quality of the substitutes as compared to their own products. Gray market sets the new acceptable price for the products. Elimination or reduction of the gray market can give a manufacturer a temporary relief from the onslaught of the gray market retailers. However the price set by the gray market is the price that will be targeted by the manufacturers of the substitutes entering the market. By the time the substitute products enter the market the manufacturer of the original product being targeted must be ready to come out with the product containing the new features enough to differentiate the product while keeping the price at the same level.

[17] Nickel Plated Needles, http://www.knitpicks.com/needles/Options_Nickel_Plated_Fixed_Circular_Knitting_Needles__DKPFixedCables.html#viewNdleSizes

[18] HiyaHiya worldwide, http://www.hiyahiya.com/

[19] Aero/Inox/Prym https://www.handknitting.com/Aero_Inox_Prym_s/240.htm

# 5. Consequences of Gray Marketing for Distribution Channels

This paper does not consider distribution channels which are fully dependent on the manufacturer for its price setting policies. However it is important to discuss in the scope of this paper the channels which have a large degree of autonomy over the setting of the price on their territory.

## 5.1. Potential for fighting Gray Marketing

Gray market retailers use absolutely legal channels in order to deliver goods to the consumer. They pay the applicable tariffs and duties as well charge all applicable taxes. In many countries these activities are considered legally entrepreneurial. The laws of the USA allow the owner of the trademark to get a court injunction related to the sales goods, considered to be part of gray marketing. However the onus lies on the owner of the trademark on the certain territory to prove that trademark infringement indeed occurred. In the case of Addi Needles the North American distributor Skacel marketed the needles under the different trademark “Addi Turbo” in the attempt to underscore the speed of knitting with those needles. Skacel used a different color scheme for the packaging in the attempt to distance itself from the manufacturer thus concealing its location. In the attempt to fight gray market sales Skacel had to change the packaging to resemble the original one used in Europe. They also had to display the original trademark to make sure that the infringement can be easily traceable. It is the goal of the gray marketer to piggyback on the name and the reputation of the product sold on the gray market. Hence the distributor owning the trademark has to abandon the attempt to rebrand the product and stay as close as possible to the original product trademark to be successful in fighting the gray market.

## 5.2. Use Gray Market for Adjusting Price Policies

Gray market is an indication of the deficiency in price policy set by a manufacturer or a distributor of a product. There is no single set of rules which would apply to all products anywhere in the world. However if as in the case of Addi Needles the price of the product sold by the distributor is almost double in value in comparison with the gray market price, this may serve as an early indication that the price of the product is skewed.

The owner of the price strategy must realize that the customers, spoiled by the gray market prices will not be willing to return back to the original pricing even if the gray market retailer has been ordered to stop the sales. Another reason for price adjustment is the potential saturation of the market at a lower price. If the distributor is not willing to adjust the price they may face the reduced demand for the product by the time they finished fighting gray market retailer in court. It would be much more efficient to attempt to fight the gray market using the market mechanisms of price adjustment.

## 5.3. Use Gray Market for Adjusting Distribution Chain

In many cases distributor attempts to secure the largest possible territory for their distribution efforts in order to achieve maximum gains from their endeavor. Sometimes the distribution mechanisms are not properly aligned with the transportation mechanisms available in the territory of distribution. This causes larger transportation costs which are inevitably used in forming the retail price. The appearance of the gray market would indicate that the overall retail price is too high and that the transportation factor may the one be to blame for the price escalation.

In the case of Addi Needles both Skacel and Wool & Wicker are located at the Pacific Coast in Seattle and British Columbia respectively. While both companies enjoy the ease of communication with each other in the same time zone, the price of transportation through the territory of Canada, especially to the large Eastern markets of Ontario, Quebec and to the lesser extent the Maritime Provinces, is extremely high. In the view of the possibility of fighting the gray marketing in the East it would be much more prudent for Skacel to set up a distribution center in the Eastern Canada, which would cater to the aforementioned regions. The reduced price of retail of the original product would have offset the damage done in the East by the gray marketing efforts of Headwater Wool.

## 6. Conclusion

It is very important to underscore that although gray marketing has damaging effect for the company price strategy and especially the bottom line, it can also be used for the company's advantage. Long and well established business sometimes becomes oblivious of the changes appearing on the market of a certain product. Gray Marketing may serve as an indicator of the deficiency in price strategy. It can also pinpoint at which part of the distribution chain the costs may be too high or the operations become intolerably inefficient. It is important for the manufacturer of the goods to have a good feel of how their distribution chain performs. Even without tracing the full chain of delivery of goods which will form a gray market the manufacturer can detect and potentially correct the pricing strategy of the original product. This correction would eliminate or reduce the threat of gray marketing.

The price setting schemes set by the gray marketing are not only dangerous to the bottom line of the manufacturer of the original product. By using the reduced prices for the original product the gray market retailer prompts the consumers which prices they are to expect for the products of a certain quality. The makers of the substitutes use the price set by the gray marketing as a benchmark for the entry prices of their products. As a result the manufacturer of the original product has a bigger threat from the new entries to the market in addition to the one they would have from the gray marketing.

Any market is based on the market laws set by microeconomics. Gray marketing is a manifestation of these laws showing that the price setting strategies of a product have to be corrected. The owner of the price strategy must treat gray marketing not as an illegal menace but as an indicator of existing faults in their own price strategy.

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