

# The grey market



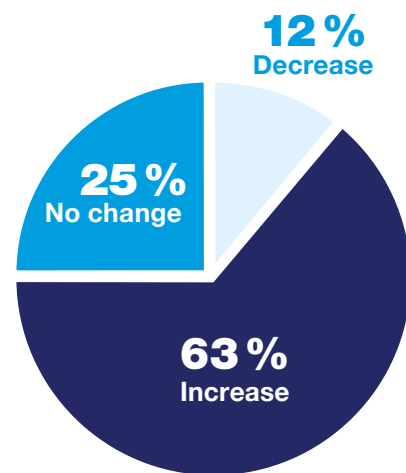
Risks and countermeasures

# The grey market at a glance

With increasing globalisation, the worldwide availability of products is growing steadily. At the same time, the danger of misuse is also increasing. A good example is, **traders taking advantage of price differences in the different markets through parallel imports or re-imports.**

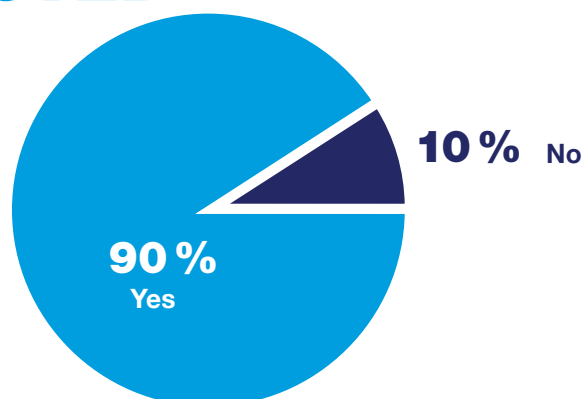
Worldwide, technology products worth around 60 billion US dollars alone are sold through unauthorised channels each year<sup>1</sup>. According to a study by KPMG, more than 60 percent of the companies surveyed have seen an increase in grey market activities in recent years. A full 90 percent have already discovered their products on the grey market that were sold there without their consent.

In contrast to counterfeits, i.e. the deceptive imitation of branded products, the grey market offers genuine products that are produced by the original manufacturer, then illegally diverted and sold without their knowledge.



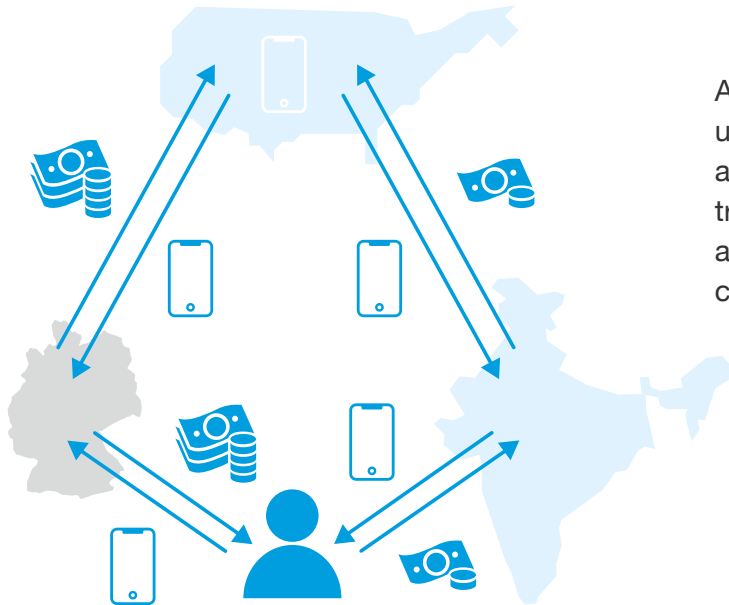
HAVE YOU SEEN A **CHANGE IN GREY MARKET ACTIVITY** SINCE 2008?

HAVE YOU FOUND INSTANCES OF PRODUCT AVAILABILITY **OUTSIDE OF THE APPROVED CHANNEL?**



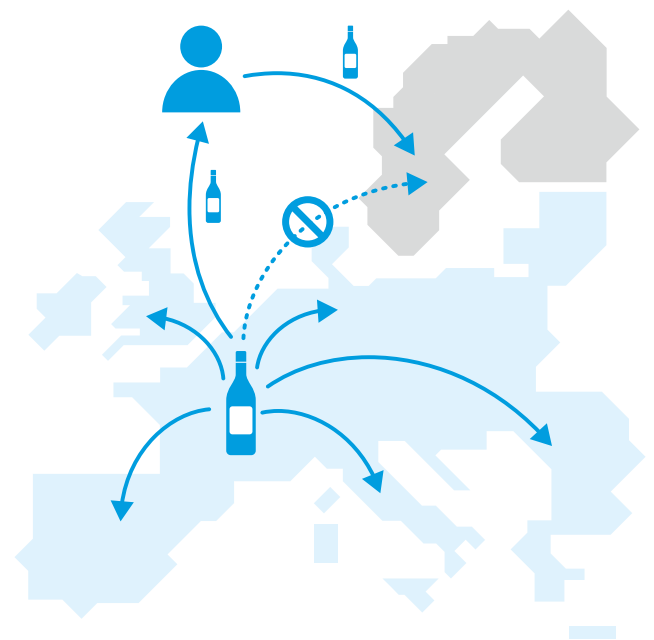
<sup>1</sup><https://www.financierworldwide.com/how-manufacturers-can-combat-the-grey-market#.YSdFDd9CSUK>

# Grey market examples



A trader from a low price country buys a product at low cost, sells it in a high price country and thus achieves a higher trade margin. This trade margin is lost to the actual producer. In addition, the price level of the high price country collapses.

Sometimes, a product is not made available for strategic reasons. The grey market trader buys this product in the country of production and sells it abroad without authorisation, and without being bound by price specifications.



A product is no longer available in the destination country due to high demand. The grey market trader purchases the product (often in large quantities) in other countries and sells it, usually at much higher prices, in the destination country.

# Successful action against the grey market from practice



The cigarette manufacturer Philipp Morris was able to stop the unauthorised import of Marlboro cigarettes and other brands via the grey market, because the cigarette packets did not carry a warning in the local language and were therefore not legally compliant with the local market.<sup>2</sup>

Kanebo, a manufacturer of luxury cosmetic products, successfully defended itself against the sale of its products in German retail chains via grey market imports. Above all, their product placement next to generic, mass production products was harmful as it did not clearly differentiate the value of the product.<sup>3</sup>



Red Bull also had to deal with unauthorised grey imports into foreign markets. Above all, the soft drink manufacturer complained that the formulations and ingredients of the drink differed from country to country, and that it was therefore not universally tradable.<sup>2</sup>

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<sup>2</sup><https://businesslawtoday.org/2019/07/combating-gray-market-goods-using-itc-solve-gray-market/>

<sup>3</sup><https://www.fieldfisher.com/en/services/intellectual-property/intellectual-property-blog/new-dynamics-in-germany-in-dealing-with-grey-market-luxury-goods>

# The risks of the grey market

Unauthorised trading of products on the grey market is a serious problem for many companies, as it threatens both loss of revenue and lasting damage to their reputations.

In addition to significant revenue losses that companies have to suffer due to grey market sales or costly counter-measures, there are numerous other side effects that the grey market brings with it.



## Disadvantages for: **OEMs (Original Equipment Manufacturers)**

- For many products, customer service is an important source of revenue. This is often omitted or associated with difficulties in the case of grey market products.
- Dissatisfaction of end customers caused by a product purchased on the grey market falls back on the company.

## Disadvantages for: **authorised distributors**

- Due to possibly more favourable prices when sold by grey market dealers, authorised dealers are pushed into the background.
- Authorised distributors' reputations are affected by unauthorised grey market dealers.



## Disadvantages for: **end consumers**

- Missing or foreign-language instructions or descriptions cause frustration during commissioning or use of the product.
- Guarantee or warranty claims cannot be made, as grey market products do not contain them.

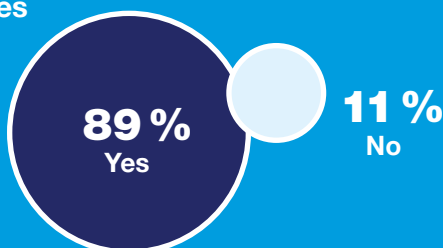
# Special challenges for OEMs

OEMs are struggling with the effects of the grey market; for example, through price dumping and extraordinary discounts from grey market dealers, through additional service costs for end customers caused by product handling problems and a lack of warranty coverage.

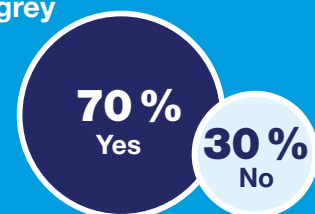
The increase in grey market activity in recent years is challenging more and more OEMs and has led to numerous legal cases targeting unauthorised resales. In addition, more and more companies are focussing on effective monitoring and other measures that address grey market trade.



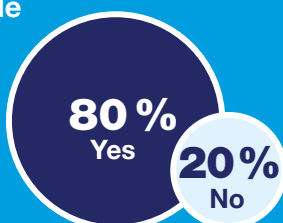
A company uses a distribution agreement that includes a grey market clause to prevent sales there.



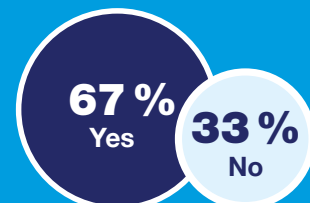
A company offers training programmes that educate people about the grey market.



A company uses monitoring to keep an eye on the grey market and possible counterfeits.



A company has already taken legal action to stop grey market activities.



\*All figures are from the KPMG study of 2016: Gray markets: an evolving concern.

# Measures to combat grey market activities

What can OEMs do to reduce or even prevent grey market activities? We have summarised the most important measures and how we can support you in implementing them.

## 1. Take responsibility

Create a responsible position in your company, for example, in a Brand Protection Department, that coordinates your measures and activities. These range from internal and external communication to the training of employees and partners to the development of guidelines for distributors that help to sanction violations and create incentives to stay away from the grey market.

## 2. Apply a copy-proof marking solution

To ensure the long-term protection and traceability of your products, it is advisable to use a marking solution that cannot be copied. The following criteria are important, which we guarantee with our products:

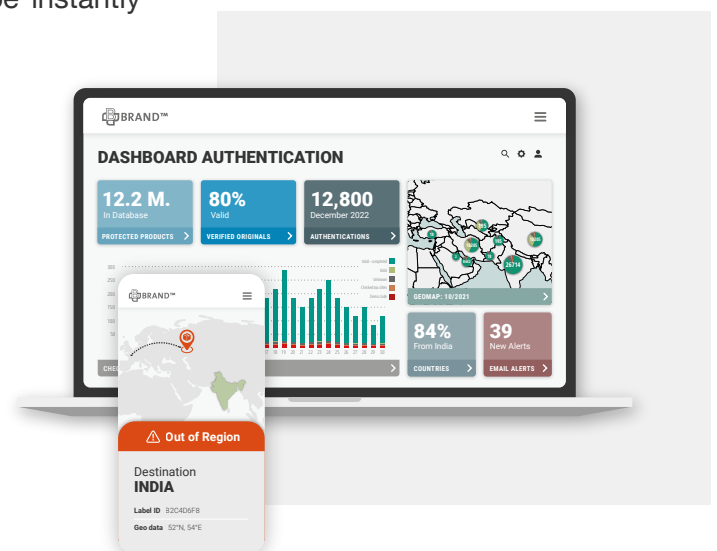
- ✓ The security technology used is not freely available on the market.
- ✓ Each security marking is unique and can be authenticated at any time.
- ✓ The solution combines overt and covert security features.
- ✓ The security feature is protected against manipulation and removal.



# 3. Employ constant monitoring

OUR GREY MARKET SERVICE WITH COST-EFFECTIVE, **INTELLIGENT TRACK & TRACE** IMMEDIATELY DETECTS WHEN A PRODUCT SHOWS UP IN A REGION WHERE IT DOESN'T BELONG.

To activate this feature, you simply have to specify in our digital platform which regions you ship to and which distributors are responsible for which areas. Each of our labels indicates the destination of the retailer's products. This information is then cross-checked with the end customer's geodata during the final product scan, which we incentivize to carry out. In case of a mismatch, you will be instantly notified.



# 4. Raise awareness on the topic

Grey market activity should not be taken lightly, as it can cause massive damage to your company, both in terms of your reputation and financially. Therefore, it is even very important that you inform and sensitise both your employees and your partners about the issue. Together, you must ensure that your products reach the end consumer legally and in their original condition.



# 5. Educate end customers

TO ENSURE THE EFFECTIVENESS OF MONITORING, THE **COOPERATION OF THE END CUSTOMERS** IS INDISPENSABLE.



Incentives, such as discounts or competitions, can significantly increase the end customers' willingness to scan. However, it is also important to make clear the dangers posed by the grey market, as well as to communicate the many other advantages that the end consumer receives by purchasing an original product through a regular distribution channel. Since the product features of our security solutions cannot be imitated, they quickly become an integral part of a product or outer packaging that the consumer would miss should they be removed. At the same time, transparent communication about product tracking deters any grey market traders.

**Our offer: We also take over the design of the communication of the end consumer and the distributors, dealers etc. for you. We would be happy to make you a suitable offer!**

# 6. Motivate cooperation

In addition to the continuous monitoring and review of distribution channels, it is a good idea to involve distributors, dealers and other partners in order to identify weaknesses. Incentives can also be used here to motivate all those involved to cooperate. And here as well, we have the right solutions for you.

# SCRIBOS

SCRIBOS GmbH enables brand owners around the world to win the fight against counterfeiting, by setting the standard for brand protection solutions. Since the discovery in 1998 that adhesive tapes can be used as data carriers and our foundation in 2001, we have become a leading solution provider for product labelling and the development of digital applications.

We develop and manufacture innovative, highly secure product labels and combine them with state-of-the-art digital tools. This creates effective brand protection solutions that help brand owners around the world combat counterfeiting, grey market trade and unauthorised overproduction. They also open up new avenues for track & trace, multiple customer interactions and market analysis.

Our company has over 20 years of experience in the field of brand protection and has worked with over 500 leading brands around the world, including Stellantis, Bosch, Castel and Chlo  .

As a wholly-owned subsidiary of the KURZ Group, we benefit from the extensive experience and global presence of our parent company in the international security applications market.



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We are aware of the measures taken by counterfeiters and are therefore always **one step ahead** of them through **constant research**. **The development** of our portfolio is based on **your needs**.

Sebastian Praefcke | Managing Director

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DO YOU HAVE **QUESTIONS**  
**ON THE TOPIC OF**  
**GREY MARKETS** OR **NEED**  
**SUPPORT IN TAKING**  
**MEASURES** AGAINST GREY  
MARKET ACTIVITIES?

If the answer is yes, then contact us!

**hello@scribos.com**