Competing With Gray Markets

The sale of branded products through unauthorized channels is a growing problem for suppliers. A three-pronged approach can help them fight back.

Kersi D. Antia, Mark Bergen and Shantanu Dutta

In recent years, a growing problem has become the bane of brand owners and the scourge of successful supply chains. In fact, gray markets — in which a firm's products are sold or resold through unauthorized dealers — have become so prevalent that one trade publication called them a "disease to be eradicated."[1] In response to this increasing threat, manufacturers in a variety of industries have been waging a pitched battle against gray market sales around the world.

The concern over this issue is well founded. Gray markets are ubiquitous — they exist for tangible products (lumber and electronic components) and intangibles (broadcast signals, IPOs); for massive goods (automobiles and heavy construction equipment) and light, easily shipped products (watches and cosmetics); for the mundane (health and beauty aids) and the life saving (prescription drugs). It is estimated that gray market sales come to more than $20 billion in the information technology sector alone. A study of manufacturers of health and beauty aids determined that gray market sales amounted to 20% of authorized sales in some markets and as much as 50% of authorized sales in others. The problem is so substantial that multinational companies such as Motorola, 3Com, HP, DuPont and 3M devote full-time managers and staff to dealing with gray market issues.

Furthermore, gray markets aren't going away any time soon. Although gray market activity ebbs and flows as exchange rates, price differentials and supply conditions change, surveys confirm the increasing incidence and scope of gray markets in many industries. In the European Union, a rapidly growing unified market, eroding trade barriers and a highly efficient logistics infrastructure are expected to result in gray markets across products increasing by a whopping 120% to €7.4 billion by 2006. Some industries have experienced a tripling of gray market activity in just three years.[2]

An inability to compete with gray markets can wreak havoc on firms and industries. In many situations, gray market sales outstrip authorized sales. Consider Malaysia, where cell phones purchased on the gray market account for 70% of total cell phone sales. Similarly, in India, sales of gray market personal computers outnumber authorized sales by two to one, as was also the case for IBM Corp. in the early days of PC sales in the United States. Numerous compa-

***Kersi D. Antia** is assistant professor of marketing and Earl H. Orser-London Life Faculty Fellow at the University of Western Ontario's Richard Ivey School of Business in London, Ontario. **Mark Bergen** is Carlson Professor of Marketing at the University of Minnesota's Carlson School of Management in Minneapolis. **Shantanu Dutta** is a professor and Tappan Fellow at the University of Southern California's Marshall School of Business in Los Angeles. They can be reached at kantia@ivey.uwo.ca, mbergen@csom.umn.edu and sdutta@marshall.usc.edu.*

About the Research

The perspectives in this paper are based on more than a decade of research, writing, teaching and consulting on gray markets. We have worked on many issues relevant to gray market management, from developing some of the first formal theories on how to manage gray market activity[i] to writing an in-depth case study on gray market sourcing potential in Asia[ii] to gathering some of the only systematic evidence on how firms manage gray market activity.[iii] The latter came from two field surveys, the first of which was conducted in the electronic components industry and the second in the context of health and beauty products distribution. Findings from these surveys offer direct evidence of the impact of gray market activity on the declining level of service provided by authorized distributors, the erosion of trust in channel relationships, the undermining of manufacturers' pricing strategies, the damage to territory exclusivity and the dilution of brand strength. We have also developed two dimensions of gray market management to help firms deal with such problems. The first focuses on how firms can most effectively limit gray market activity through creative enforcement practices,[iv] and the second examines when and how firms can leverage the benefits that gray markets generate in some situations.[v]

i. See S. Dutta, G. John and M. Bergen, "The Governance of Exclusive Territories When Retailers Can Bootleg," Marketing Science 13 (winter 1994): 83-99.

ii. See K. Antia and D. Everatt, "Looks.com (A): A Grey Issue," Richard Ivey School of Business case no. 9B00A012 (London, Ontario: Ivey Publishing, 2000).

iii. See J. Heide, S. Dutta and M. Bergen, "Managing Gray Markets Through Tolerance of Violations: A Transaction Cost Approach," Managerial and Decision Economics 19 (1998): 157-165; K. Antia, M. Bergen and S. Dutta, "(How) Does Enforcement Deter Gray Market Incidence?" working paper, Carlson School of Management, 2004; and K. Antia, S. Dutta, M. Bergen and J. Nickerson, "Strategic Management of Gray Markets," working paper, Carlson School of Management, 2004. Other empirical work in related areas includes S. Dutta, M. Bergen, J. Heide and G. John, "Understanding Dual Distribution: The Case of Reps and House Accounts," Journal of Law, Economics and Organization 11, no. 1 (April 1995): 189-204; S. Dutta, J. Heide and M. Bergen, "Exclusive Dealing and Business Efficiency: Evidence From Industrial Markets," Journal of Law and Economics 41, no. 2 (October, 1998): 387-407; and S. Dutta, J.B. Heide and M. Bergen, "Vertical Territorial Restrictions and Public Policy: Theories and Industry Evidence," Journal of Marketing 63, no. 4 (Oct. 1999): 121-134.

iv. K. Antia, M. Bergen and S. Dutta, "(How) Does Enforcement Deter Gray Market Incidence?" and K.D. Antia and G.L. Frazier, "The Severity of Contract Enforcement in Interfirm Channel Relationships," Journal of Marketing 65, no. 4 (Oct. 2001): 67-81.

v. See S. Dutta, G. John and M. Bergen, "The Governance of Exclusive Territories When Retailers Can Bootleg," Marketing Science 13 (winter 1994): 83-99; and K. Antia, S. Dutta, M. Bergen and J. Nickerson, "Strategic Management of Gray Markets."

nies have experienced substantial damage to their profits (Beanie Babies and Ty Inc.), brand equity (Tommy Hilfiger Corp.), market position (Yashica cameras in India) or all three (Caterpillar, Volvo, Mercedes, Chanel, IBM, HP and Swatch, among others) because they couldn't stop gray markets.

So what's a manager to do? Unfortunately, because it is so hard to get data on gray market activity and what firms are doing to deal with it, there is little published guidance for managers to draw from. Worse, people often lump gray markets together with black markets, in which contraband products (sometimes genuine, sometimes counterfeit) are being sold illegally — a completely different headache for managers. The sale of legitimate products in the wrong place or in the wrong channel poses unique problems to companies, but there are unique solutions that can be brought to bear to successfully manage them. Once the nature of the problems has been identified, managers can apply a framework based on what we call the 3 S's — sensing, speed and severity — in order to manage gray market activity. (See "About the Research.")

The Many Shades of Gray Markets

Gray markets thrive in a wide variety of industries. Consider the following examples:

During the latter half of the 1990s, the weak Canadian dollar and the differential pricing practices of automobile manufacturers resulted in a roaring crossborder diversion of vehicles meant for the Canadian market. Brokers approached Canadian auto dealers in Vancouver (one of many gray market hotbeds) with briefcases full of cash, bought vehicles meant for the Canadian market by the dozen and shipped them to Seattle. They were able to undercut the prices of legitimate U.S. dealers and still make a profit.

A gray market also exists for high-end fashion apparel. When an authorized retailer can't sell all its inventory to consumers, it may move the leftover items to an unauthorized dealer. That distributor — more than happy for the opportunity to carry the high-end brand — may then end up selling the apparel, while other high-end distributors continue to market the line. That is exactly what happened on the Magnificent Mile in Chicago, where buyers from a venerable department store were shocked to see a high-end branded shirt carried by the store appearing in the displays of a discount retailer directly across the street.

Gray markets are fed by many sources in the electronics business. Perhaps the most common are rogue authorized dealers who can make a profit, or at least minimize a loss, by selling to unauthorized dealers. The Internet makes it easier for firms operating in gray territory to reach a wide range of customers. Companies can buy in bulk and resell to unauthorized distributors, a situation that has characterized the market for computer parts for some time. Sometimes a manufacturer itself will sell into the gray market as salespeople struggle to meet quotas or managers attempt to cover costs or make year-end goals. This has been a common scenario at computer and cell phone manufacturers.

Intangibles are also fodder for gray markets. In Canada, dealers of satellite television dishes were selling products that customers could use to hack into U.S.-based encrypted television programming without paying for it. Led by Bell Canada's satellite division, ExpressVu, four major media companies with rights to resell the U.S. programming sued 18 of these "pirates of the airwaves" for $100 million in 2002. The Canadian legislature is considering a bill that would impose stiff fines and possibly even prison time on operators in this gray market.

The Gordian Knot of Gray Markets

Opponents of gray markets cite several reasons for their condemnation of unauthorized sales of goods and services. There are at least five significant costs imposed by gray markets. And companies battling gray markets don't just pay one cost at a time — the five are closely tied to one another. In fact, each consequence identified below feeds off the others to create a Gordian knot for the manufacturer.

Dilution of exclusivity. Perhaps the most immediate consequence of gray market activity is the watering down of exclusive rights to distribute a product. Instead of being the sole distributor or one of a select few establishments carrying a product, the authorized distributor becomes merely one of many sources. The result is a drastic drop in margins as multiple outlets compete for the same customer. What follows quickly thereafter is only to be expected: loud complaints from authorized distributors and calls for the manufacturer to "do something about it!" This is likely what persuaded Levi Strauss & Co. to take legal action against U.K.-based mass retailer Tesco Corp. when it learned that Tesco was sourcing Levi's jeans on the gray market and selling them at a significant discount compared with prices at authorized outlets.

The fallout from a sudden profusion of outlets is not confined to authorized distributors. Customers paying top dollar for exclusive products are outraged when they discover what they purchased isn't as exclusive as they had thought.[3] Brand cachet is a powerful differentiator, and nothing erodes it faster or more effectively than wide availability. Managers at Levi Strauss were quick to grasp this essential fact, and their efforts to maintain the aura of the brand (one of the strongest emblems of "Americana") led to a successful legal bid to preclude Tesco from selling Levi's jeans.

Free riding. But what if a manufacturer ignores or, worse yet, dismisses its authorized distributors' complaints? While it is unlikely that a distributor would sever ties with the supplier in protest, there are numerous less direct but perhaps more insidious means of getting back at the manufacturer. One of these is free riding, in which authorized dealers, demoralized by anemic margins and manufacturer inaction, start skimping on the important services they normally provide — such as presale service, consumer education on product attributes, salesperson training and so on — in an effort to reduce their costs and match gray marketers' prices.

This tactic can undermine the value-added services and activities that often lie at the heart of many firms' sources of differentiation and competitive strategy in the marketplace. As one automobile dealer put it, "We invest millions in sales and service facilities. It's hard to compete with someone whose only investments are a briefcase and a cell phone." The underprovision of services is the death knell of high-end brands, as customers that value service will abandon the brand in droves.

Damage to channel relationships. Perhaps the biggest cost of gray marketing is its impact on the relationships and trust between members of the distribution network. When a manufacturer has made significant investments in authorized channel members or is dependent on one or a few partners (or both), gray markets that tear apart these relationships can be particularly costly.

Imagine an authorized distributor that has just coughed up $2 million to set up a new showroom and its associated trappings — all to fulfill its contractual obligations. The manufacturer has assured the dealer that ownership of an exclusive territory will more than make up for its investment. Just as the distributor begins to anticipate the promised sales, it receives word that the cash cow of the product line is available down the street at a markdown of 15% to 20% off its own posted price. Frantic calls to the manufacturer are met with empty reassurances or even stony silence. What should the company do? Should it (a) match the price of its gray market competitor, doing whatever is necessary to cut costs, (b) complain vigorously to the manufacturer, or (c) seek relief from the courts, suing whoever appears responsible for its present sorry state? This scenario was, in fact, part of the daily operating reality facing automobile dealers and their suppliers for much of the past decade, and many dealers answered "all of the above," forcing manufacturers to acknowledge and move against the $4-billion-a-year gray market problem.

Authorized dealers may skimp on the important services they normally provide in an effort to reduce costs and match gray marketers' prices.

Undermining segmented pricing schemes. The spillover from this distribution headache extends with equal ferocity to most vital elements of a marketing strategy, including pricing. A fundamental aspect of multinational operating strategy is the ability to price products at levels that each local market can bear. As long as a company can segment each market, it has a winning hand. But globalization throws a wrench into the works. Tumbling trade barriers, increased availability of information and enhanced logistical capabilities have combined to make the watertight local market a quaint notion; these factors also make it easier for gray market operators to thrive. Some companies — including LVMH Moët Hennessy Louis Vuitton, marketer of popular high-end brands such as TAG Heuer and Christian Dior — have forgone the profit-making opportunities that arise from pricing for local markets, choosing instead to price their products the same worldwide.

Reputation and legal liability. A manufacturer's ability to stand behind its product is taken for granted. In the case of gray marketed goods, however, the manufacturer loses control of the product. Prescription drugs, for example, are often sold through gray markets near to or past their expiration dates. And Motorola Inc. ran into trouble in 2000 when 70 of its two-way radios, meant for markets in Asia, were sold by an unauthorized distributor to the New Jersey Parking Authority. The radios were not FCC approved for use in the United States, and many of them worked improperly or failed altogether. After the parking authority complained, Motorola agreed to replace the phones, but the damage already had been done to its reputation and brand.

FOR AN EXAMPLE OF how these five elements can work together, consider the problems faced by manufacturers of new, high-end electronics. High levels of service are often necessary to educate customers on the features and benefits of these products. To really understand picture quality, sound quality, new product features and how the new products work with other technologies, customers must learn from a salesperson at the retail store. To make such service possible, the manufacturer often needs to develop a relatively exclusive set of distributors, building strong relationships and supporting the distributors' activities with subsidies and the opportunity to earn higher margins.

Authorized distributors are particularly vulnerable to gray markets in this situation. Unauthorized dealers can free ride, letting other dealers invest in the service and offering the same products at lower prices. Potential customers can take what they learn from authorized dealers and seek out low-service, lower-price gray markets. The authorized sellers thus face higher costs, shrinking margins and lower sales. Often, the solution they choose is to provide less service and to be more price competitive. As their margins shrink, channel conflict grows, and the

When Gray Markets Can Help

Gray markets aren't always bad for everyone in the supply chain. They are often an effective way to respond to competitive pressures, manage distribution channels, segment markets, reach untapped markets and adjust to changes in market conditions. Not surprisingly, companies are more tolerant of gray market activity when such benefits are present.

INCREMENTAL SALES. Gray markets are beneficial if they reach previously untapped markets. For example, the companies we studied in the health-and-beauty aids industry believed that almost 25% of diverted sales were made in markets *not* in direct competition with authorized distributors. Gray markets may also reveal the existence of new markets. Cell phone manufacturers competing in Malaysia, for example, discovered a buying segment willing to pay premium prices for the latest cell phone gadgetry.

SUPPLY CONSTRAINTS. Gray markets are beneficial if they allow suppliers to overcome supply constraints and shortages. For example, IBM Corp. relied on the unauthorized channels in China to get around government regulations requiring the participation of local companies. Rather than make the large investments needed to forge partnerships with local distributors, IBM turned a blind eye to a flood of gray market imports from Hong Kong.

COMPETITIVE NECESSITY OR OPPORTUNITY. Competitors will often use gray markets if they are profitable, and companies that don't follow suit will lose substantial market share, position and power. That is exactly what happened to Indian-branded manufacturers of PCs. While the visible competition and sales went on at high-end retailers, the real sales volume that led to scale economies and market penetration occurred in the unorganized sector, accounting for almost 60% of the total market. Many branded PC makers in India ignored this market, failing to reach a large untapped segment of customers whose needs were not being met by the existing channel. Competitors that did sell to this segment have since become major players.

MARKET SEGMENTATION. It is sometimes difficult to segment a market within an existing distribution channel structure. Gray markets allow firms to segment their customer base more profitably than they could if they used only a narrow base of distributors or grappled with the channel conflict, customer confusion and brand dilution that comes from selling through dealers begin steering customers to competitors' products that offer higher margins. The problem then ultimately shifts from the authorized distributors and comes to rest on the shoulders of the manufacturer.

How To Control Gray Markets

How can managers limit gray market activity? The standard prescription is to punish operators in the gray market severely. Yet too often, this solution is not likely to be effective on its own. A broader approach is required in which the 3 S's — sensing, speed and severity — are used in combination.

Sensing: Do you have the mechanisms for sensing when, where and to what extent gray market violations are occurring?
It's impossible for a company to take action, of course, if it has not developed mechanisms to detect gray market activity in the first place. And distributors operating in the gray market will not be deterred by threat of punishment if they know that the manufacturer's ability to uncover their actions is underdeveloped. Many companies, however, give short shrift to sensing capabilities, focusing instead on "wielding the right club."

Those that do attempt to detect gray market sales may use one or more of a remarkable range of techniques, from mundane "feet to the street" efforts to the stuff of cloak-and-dagger novels. (Perhaps understandably, companies are hesitant to publicly divulge information on their techniques.) Some firms rely on periodic, unannounced audits of their distributors' sales records. Others establish what one interviewee referred to as "snitch lines" — toll-free telephone numbers that authorized distributors can use to report on gray market instances in their territories. Yet others contract with market research firms, which have broader knowledge of a market than that of any single company, to obtain estimates of the extent of gray marketing of their products.

Companies are increasingly turning to high-tech solutions. Lotus Development Corp., for instance, made news in the late 1980s when it used serial numbers to track the flow of gray market goods through the channel. But gray marketers responded by defacing the tracking numbers on the packaging. The next technological innovation came from PUMA AG, the sporting goods manufacturer, which inserted tracking fibers in the laces of its running shoes. Again, gray marketers had a ready response, selling PUMA shoes without the laces.

Since then, this high-stakes game has become increasingly sophisticated. Sensing options now include tracking software that flags sudden spikes in orders placed by distributors (if they are buying more than usual, they may be seeking to divert products to the gray market), Web crawlers that sift through the Internet's billions of pages to identify potential instances of unauthorized sales (comparing the URLs of sites offering the products with

a multichannel network of authorized dealers. IBM used a dual-channel strategy to sell profitably in high-end markets while still reaching more price-sensitive consumers with gray market products; this approach helped the company meet sales targets, generate revenues and create scale economies in production. As a strategy, it is similar to the production and sale of private-label products by packaged goods manufacturers. This segmentation can be based on service levels, product selection and other distributor activities as well as price.

CHANNEL MANAGEMENT. Sometimes it is less costly to tolerate some gray market activity than to shut it down completely. Shutting down gray markets can be very expensive in terms of management time and other resources needed to sense violations, document them, communicate them internally and with distributors, and punish offenders. Gray markets may also be less costly ways to serve small customer segments that do not have access to authorized channels or customers who don't value the services provided by authorized dealers.

CHANGING MARKET CONDITIONS. In many cases, distribution channels cannot change quickly enough to meet new market realities. For example, auto dealers have distribution networks in place that are hard to change. But in an era of soft sales, continued incentives and ever-increasing competition, they are scrambling for volume, even if it means forgone profits. As a result, dealers have been more accepting of gray markets as long as those markets allow them to reach a broader set of customers at better price points.

MARKET INTELLIGENCE. Companies that uncover gray market activity and the reasons behind it learn about their customers and the markets they sell in. Since gray markets emerge on their own, outside existing distribution channels and structures, they are often driven by powerful market forces (such as a lack of supply to a particular customer segment that wants the product) and therefore offer some of the purest forms of market intelligence available.

In short, the issue of gray markets is not black and white. But companies need to be very careful in determining when these markets help and when they hurt — and manage them accordingly. This is not a conundrum that can be solved on autopilot; instead, like most real problems facing senior executives, it requires careful thought and the application of managerial wisdom.

those on a list of bona fide sites maintained by the brand owner) and traceable inert, ingestable substances that cannot be separated from the actual product (such as a high-value pharmaceutical) without causing damage. Radio frequency identification and other emerging new technologies are being developed by companies such as 3M Corp. to improve the ability to track and trace the location of products.

Companies should assign responsibility to specific managers to take speedy action when they receive information on gray markets.

New technologies hold real promise for companies seeking to improve their sensing abilities because they allow managers to follow products throughout the distribution channel. Store audits, secret shopping and market research studies can also help to uncover gray market activity with greater precision, but such methods can be costly, so managers must weigh the additional costs against the incremental benefit of greater sensing. Firms that are serious about limiting the gray marketing of their products are constantly improving their ability to use all these methods.

Speed: How fast can you take actions against violations?
Perhaps because it is relatively unobservable, speed of enforcement has been little focused on by the business press. But faster and more efficient enforcement is critical to shutting down gray market activity. Speed exerts a deterrent effect on gray market activity in at least two ways. First, a quick response establishes a direct cause-and-effect relationship between participation in the gray market and punitive consequences. Any doubts about the supplier's resolve to safeguard its channel integrity are quickly dispelled in the face of the enforcement equivalent of a ton of bricks falling on the gray market participant. Second, a quick response means the perpetrator will have much less time to enjoy the payoff from gray market participation.

Companies can become faster at responding to gray market activity by developing more efficient structures and processes. Consider the experience of an auto dealer who sells both Toyota Motors Corp. and DaimlerChrysler AG products. He pointed out that Chrysler is much faster than Toyota on enforcement, for two reasons: Japan is far away and thus news of gray markets reaches Toyota's top managers more slowly; and Chrysler, with its Detroit headquarters, is more in tune with the U.S. market and is hurt more by Canadian sales into that market. Thus Chrysler is able to assess quickly the extent of the damage and react appropriately to the violations.

This example suggests that companies should develop internal processes and assign responsibility to specific managers to take speedy action when they receive information on gray markets. Companies often do not have a clear chain of command for responding to gray markets; managers are forced to deal with problems in their markets on their own. But some companies have created managerial positions in which the person holding the job has sufficient legitimacy and authority to take immediate action. Others have established training programs to develop a common language for discussing gray market issues, as well as metrics for measuring their size and impact and a common base of solutions. Still others have created task forces and working groups to assess the problem, make recommendations and begin setting up organizational structures to resolve gray market problems. At Hewlett-Packard Co., for example, an audit team separate from HP's sales and marketing groups watches for unusual sales patterns by checking on distributors to see where and to whom they have sold products recently.

Severity: Are you able to take severe actions against violations?
Building a capability to apply the right degree of punishment is a critical aspect of an effective deterrence policy. Companies have many options to choose from in meting out punishment for gray market sales.

Many rely on fines, called "chargebacks," sometimes amounting to hundreds of thousands of dollars when big-ticket products like automobiles are involved. Manufacturers like General Motors Corp. have charged Canadian dealers caught selling cars to the United States the difference between Canadian and U.S. dealer invoice prices. Another tactic is to withhold rewards customarily offered to authorized distributors that aren't playing by the rules — withdrawing or lessening co-op allowances and quantity discounts, reducing the distributor's allocation of high-selling products and so on.

Sometimes the "hassle factor" can be an effective aspect of punitive action. For example, one automotive dealer was cut off from the hottest model in the product line for three months after being caught gray marketing. Companies may also choose from a slew of legal options, starting with telephone calls to the offending distributor and escalating to informal but not-so-friendly site visits, the issuing of an injunction or cease-and-desist order and the termination of the relationship.

Enforcement is not the only way to limit gray marketing. Rather than adopt an after-the-fact approach, some firms have taken steps to prevent or at least minimize gray marketing. These arrangements include the provision of services that cannot be free ridden on directly, such as innovative financing schemes

(Caterpillar); charging the same price to all markets (LVMH); introducing the hitherto gray marketed product through authorized channels (Yashica in India); regulating the channel through careful screening of distributors and use of incentives to prevent diversion of products (Gucci Group N.V. in the United Kingdom); or introducing new products constantly and steadily discounting the previous generation's products (Intel Corp.).[4]

One caveat: Companies must be reasonable in their expectations. In many cases, it may not be possible to shut down all gray market activity completely. Sometimes a gray market arises for good reason, and sometimes it can simply be too expensive to close down totally. Moreover, there are a variety of reasons for tolerating gray markets in certain instances. (See "When Gray Markets Can Help," on p. 66.)

ALL INDICATIONS SUGGEST an increase in the scope and prevalence of gray markets. Manufacturers and brand owners must come to terms with this fact. Rather than bury their heads in the sand and hope that it will go away, managers must attempt to understand the particular drivers of gray markets for the products they sell and learn to manage the level of unauthorized sales. Knowledge of the specific costs being imposed on a given company by gray market activity is an important first step. The next step is to develop better sensing capabilities and an approach that can be implemented quickly — whether the indicated response is one of toleration or severe punishment. Companies that take a holistic approach to gray markets will be better prepared to enjoy the upside, in some instances, and to limit potential damage in others.

REFERENCES

1. See "Pharma Firms and Wholesalers Join Forces To Curb Grey Markets," Chemist & Druggist, June 12, 1999, p. 32.

2. See J. Michael, "A Supplemental Distribution Channel?: The Case of U.S. Parallel Export Channels," Multinational Business Review (spring 1998): 24-35; M. Myers, "Incidents of Gray Market Activity Among U.S. Exporters: Occurrences, Characteristics and Consequences," Journal of International Business Studies 30, no. 1 (1999): 105-126; and P. Brent, "Auto Dealers In Push To Stamp Out Grey Market: 'We Have to Stop This Before It Gets Worse,'" National Post, Sept. 12, 2002, sec. Financial Post, p. 1.

3. See P. Hollinger and S. Jones, "Asda To Continue Defying Designer Goods Ban," Financial Times, Aug. 7, 1998, p. 7; and K. Antia and D. Everatt, "Looks.com(A): A Grey Issue," Richard Ivey School of Business case no. 9B00A012 (London, Ontario: Ivey Publishing, 2000).

4. Most of the existing literature on gray markets is focused in this area. See, for example, G. Assmus and C. Wiese, "How To Address the Gray Market Threat Using Price Coordination," Sloan Management Review 36, no. 3 (spring 1995): 31-41; and F.V. Cespedes, E.R. Corey and V.K. Rangan, "Gray Markets: Causes and Cures," Harvard Business Review 66 (July-August 1988): 75-82.