

Cartography of Gray Market: Antecedents, New Insights and Future Agenda

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Abstract

The gray market is completely complex phenomenon. Even scholars named it gray, but mostly, colorful-rainbow has shed the color. Multi-dimension perspectives are required to analyze the best possible solutions. The study shared three objectives toward the full cartography of the market, posited by addressing two fold questions: (1) what would be the antecedents for gray market and (2) how each antecedent are dealing one another to create systemic thoughtfulness. Using combined research method, the study analyzed 53 popular published manuscripts including three classic-papers from the era of late 50's. Using analogy of archipelago, the gray market consists of six major concerns, ranging from economy, law, politics, international business, psychology, and management. From discussion section, the study proposed a new insight on the theme. Analyzing the gray market phenomenon should began with research objectives. If the aim was to formulate proper strategy in dealing with gray market, then true combination of perspectives between supply and demand sides should be used. Lastly, the study enclosed with posing five propositions for future agenda.

Keywords: gray market, knowledge, macro factors, network strategic management

1. INTRODUCTION

For more than three decades, the gray market has grown tremendously in both developing and developed market. Former research found that strong market-demand, customer perspective and internal misfits shared great contribution in fertilizing gray market. Furthermore, macro factors such as disparity of economic performance, discrepancy on law enforcement and diversity of economic policy among countries have acting as endorser which reared gray market up to a complex matter. Today, more studies had been done to identify the most appropriate strategy in combating the market (Chaudhry, 2014; Berman, 2004; Prince and Davies, 2000; Swanson, 2000; Myers and Griffith, 1999).

Massive growth for gray market has named apprehension from many parties. Pro and contra to the theme has occupied some important thoughts of several respective journals whether originating from business and management, international finance, law, economy, psychology and ethics. Unconsciously, these multidimensional perspectives had turn gray market into unresolved phenomenon (Howell, 2012; Conroy, 2011; Whitaker et al., 2011; Bird and Chaudhry, 2010). On one side of the story, manufacturer tried to anatomize the matter using fuzzy solution to problem approach. Enhancing loyalty on the distribution network as well as developing intricate after sales procedures believed as the best way out (Antia et al., 2004; Kitchen et al., 2003). Unfortunately, there is no clear evidence that the effort succeeded in controlling the accretion of this market (Bergen et al., 1998; Michael, 1998).

Different notion had found on consumer side. Research on several regions had proofed that more consumers are relying their needs to gray market. Consumption status, rapid change in urban life style, and a paradigm shift tend to be the intense power that brings the customer to the market (Lin et al., 2012; Huang et al., 2004). Unexpectedly, the cerebration was easily transmitted from the current consumer to the potential buyer. Allowing this critical condition come to pass, up to one point, might undermine the harmonization of the entire market.

This paper tried to portray the overall phenomenon through proper identification of all possible antecedents whether from macro and micro stands point. The proposed configuration will be used to gain new insight regarding how manufacturer should react wisely to deal with current phenomenon. Lattermost, the study will lodge theoretical construct for future agenda.

The rest of the paper will be arranged as follows: section two provides some critical analysis from all current works relating to gray market. Section three describe the research method used in the study, section four briefly discuss the findings and solution to the proposed problem. Meanwhile section five provides conclusion.

2. LITERATURE REVIEW

2.1 *Revisiting the concept of gray market*

Gray market had first introduced on Harvard Business Review in 1988 by Cespedes, Corey and Rangan, defined as the type of market in which original products had imported from unauthorized distribution channel. Acquaintance to this market believed as the effect of improvement on society's awareness towards intellectual

property rights, the importance of brand ownership and pivotal factors of fairness in economy. Logic-linking between theory of lateral and vertical integration – as proposed by Grossman and Hart (1986), market mechanism that creates incentive scheme (Hart, 1983) and iniquity drove by free-riding phenomenon in our economy (Hilke, 1988) was convinced to be the underlying knowledge in justifying the gray market.

Traced back to early 80's, attention towards gray market was given mostly from the perspective of law. Using trademark as principium, scholars had already rise thoughtfulness what if the essential of ownership would be pondered in terms of economy derivation. One seminal article which becomes the basis of all-related thought was proposed by Telser (1960). Focusing on how manufacturer rely more on efficient distribution and retail structure to gain better performance, Telser highlighted the prominent proposition in determining fair-trade. Though it might mere hallucination, but achieving fair-trade has been one of the common objective, even on developed markets.

At the time when manufacturer compete to provide the best product or services, from the demand-side, consumers found themselves as an integration of complex desires (Toulouse et al., 2006; Swait and Adamowicz, 2001; De Palma et al., 1994). Imbalance growth between desires – caused by manufacturer promotion campaign – and purchasing power has raise-up intention to possess premium-brands. In turns, this will drive the creation of the gray market (Autrey et al., 2014).

Conceiving gray market only on physical platform is antediluvian. Original draft proposed by Knoll (1986) which describe the market on its physical facts had already obsolete. Rapid-technology development provides intensity to shift on online platform. Today, the social-media channels had been used widely as means of gray market (Bandyopadhyay, 2010; Lim et al., 2001). Scholars believed that internet has driven the trend faster than before, thus leading its future directions.

2.2 *Devising the clues*

Designing precise strategy to encounter the gray market is arduous. Expeditionary change in consumer character, increasingly widespread leakage on manufacturing process as well as distribution channel and poor respect on property rights oftentimes failed to offset, even by dynamic capabilities of producers. This creates absurdity in confining gray market. As reported by Bain & Company, up to 2015, intention to buy some premium brands had increased 20% globally. On the other hands, there is signal that the growth of gray market at the same year was approximately 25%, 5% higher than the original products coming from authorized distribution network.

The above facts showed that analyzing the gray market phenomenon must be done by treating internal and external factors equally. Scholars need to give emphasized on the role of each stakeholder within the overall market. Most former research focus more on supply side (Bergen et al., 1998), demand side (Huang et al., 2004; Batra and Sinha, 2000), government (Bucklin, 1993; Albert, 1992) without pondering the strong influence from environmental concern, and potential development of society's knowledge through mass-media. This might be the clue for future agenda.

3. RESEARCH METHOD

The study used multiple approaches of research method: first, regarding the use of grounded theory to analyze the gray market from different point of view. The study compiled all published manuscript on related topics of gray market from late 1980's to 2015. All manuscript derived from Google scholar and ISI database using 'gray market' as primary keyword. To enhance the quality of the works, the study employed criteria in selecting references. Respective manuscript should be published from reputable journal, using English-written format and has been cited more than 20 recent studies. Both theoretical and empirical works are acceptable. Furthermore, in an attempt to search for all possible antecedents, each manuscript was categorized based on (1) unit of analysis, (2) research objective, (3) research method, (4) sample and (5) findings.

Following categorization, the study used explanatory approach to put forward all necessary argument in order to substantiate the proposed model. For each general antecedent the study posits postulation which will be useful for empirical ground.

4. ANALYSIS AND DISCUSSION

4.1 *True color of grey (market)*

Dwelling the source of gray market can be divided into three important stages: (1) classical thoughts which covered all manuscript published around 1950 to late 80's, (2) post-classical thoughts that appointed all published academic works from early 90's to early 2000, and (3) fuzzy thoughts which covered multi-dimension thoughts of gray market. This section will describe each stage as summary from all identifiable sources.

It should be recognized that the early works viewed gray market from eyes of the law. The original objections arose when scholar started to fully aware the true mechanism of price-cost relationship behavior and how each player tried to achieve the victories. It was Adelman (1959) who raised the needs for proper public policy to control market competition in order not to steer the consumer side. This might signaled the first calling

to give more attention to the demand-side. The second notable groundworks were done by Grover (1968) and Akerlof (1970). Supporting the previous works, these studies called heed on quality uncertainty and how market mechanism contributed a lot to the phenomenon. It raises the necessity to put the two wheels – supply and demand side – together since they are making the cycle spinning.

Leaving Adelman and Akerlof point of thought as prominent inquiry, the study found 32 famous cases, ranging from the Canon camera cases up to Porsche and Benz cases. Most of them had comprehensively analyzed among scholars who punctuated gray market as not mere lawful or economic cases, but more to market-psychology, business-organization matter, ethical concern and individual beliefs (for more detail, see Liebler, 1987; Carlton, 1986; Coursey, 1986; Higgins and Rubin, 1986; Caves and Williamson, 1985; Coggio et al., 1985; Leffler, 1985; Flaherty, 1984; Baumol, 1982; Landes and Posner, 1981).

Second stage of knowledge development on gray market had posited more on mechanism to systematically stem the trends. Gray market has no longer become national issues but more to global concern. One reason was that the gray market had contrived new types of market through internalization mechanism. During post classical thoughts, scholars found that affluence gap together with consumer paradigm and internal-micro issues leads extraordinary growth for gray market. Again, the five classical factors mentioned at the previous paragraph justified as the true driver of the market. One difference can be found on its intensity. Accretion pathways for the gray market happened to be the same as the authorized path. Furthermore, gray market has called attentions from public policy as well as politic matters.

Substantial contribution from post-classical thought was that the gray market has come into global domain where the needs for government and other stakeholder roles needed to developed better firmly paradigm. As long as it has not become the official footpace among nations, then the gray market will unstoppable (for more details please refer to Swanson, 2000; Gallini and Hollis, 1999; Myers, 1999; Chaudhry and Walsh, 1995; Ghosh, 1994; Bucklin, 1993; Lansing and Gabriella, 1993).

A continuing theme from this stage was the full understanding of consumer behavior. Due to its plethora of studies, most scholars agree that one way to cease the growth of gray market is by reassuring customer regarding the fairness of all economic-transaction. It started with Berman (2004) who tried to proposed sequential alternative approaches. In fact, each producer has two options: resists the market brutally, or on peaceful-basis. The first option believed to create red-ocean condition which leads to the point of great losses for both parties. Meanwhile, the second alternatives required strong insight on consumer psychological elements. Therefore more studies had developed towards that goal.

For the last stage, this study identified several researches indicates strong efforts to disentangle the puzzles: began with Huang et al., (2004) who succeeded in untwisting intention to buy product from gray market. The paper elusively highlighted how external knowledge can be converted into internal values which considered as basic consideration to be an active-buyer for gray market. The conclusion raised attentions from psychological stands-point (Young et al., 2010; Augusto de Matos et al., 2007; Kwong et al., 2003) and also from the inside of sociology (Antia et al., 2006; Yang, 2006). Some even upraised the phenomenon to moral and ethical issues (Kim et al., 2009; Tallontire et al., 2001; Whysall, 2000).

Whilst the concept grow mystify, recent studies focus more on micro factors thus obscuring the needs in justifying strategy to defeat the gray market effectively. On contrary, some researches signaled the spirit of bury the hatchet by proposing more insight from consumer perspective (Granslandt and Maskus, 2007; Huang et al., 2004; Eagle et al., 2003). It is believed that disenchanting customer regarding trademarks and intellectual property rights may precede strong power that supports other macro considerations.

Up to that point, one might see that multi-color seems enlightening the gray market, thus portraying future challenges.

4.2 The antecedents

The previous section had presented a new tone that contending the gray market should be based on a natural law. Let us refer to theory of biological evolution developed by Charles Darwin (1809-1882), stating that all organism develop through the natural selection of small, inherited variations which increase individual's ability to compete. This is actually the true challenge faced by every economic player in each nation. The key to win is no longer happened on financial calculation, but more on the knowledge-paradigm level. Using Darwinism as an analog, the tricky-game has made the tree grow higher. Effective innovation is needed to provide new power to reach supreme leaf at the top of the tree.

Furthermore, balanced analysis between macro-micro factors is required to quest for comprehensive thoughts in living with the gray market. As a result, the study depicted several possible antecedents for future research, ranging from (1) knowledge-psychological perspective, (2) macro factors and (3) micro factors.

Combination between knowledge and psychological factors assured to have better power of explanation regarding the gray market phenomenon. These two factors applied for both demand and supply side. It consists of moral and ethical comprehension among parties. At the supply side, producers are reminded to put non-

financial indicator beneath the common good of the society. Fairness in terms of quality and selling price should exceed mere desire to achieve higher profits. These efforts are expected to have positive impact on how producer might convince the demand side effectively.

Similar things should apply for the demand side. Ethical buying consideration must be developed as comprehensive way of thoughts. Customer need to carry on the highest morale values in every transaction. Any goodness offered by supply side must be acknowledged as noble steps to elevate the quality of current civilization.

In practice, knowledge based paradigm should be internalized effectively, thus creating effect of psychological dimension, for example; customer intention to buy and seller intention to sell. At this point, offsetting process somewhat stashing the hidden-good things for civilization in terms of economic and social-life. After considering all facts, the study proposes the first idea as follows:

Proposition 1: knowledge – in terms of moral and ethical factors for both demand and supply side tend to share negative relationship to the growth of gray market

Proposition 2: the level of success in having internalization among moral and ethical values for both demand and supply side tend to share negative relationship to the growth of gray market

The second general antecedents are named macro factors. True knowledge – as mentioned from the two previous propositions tend to act as the driver of stakeholder's paradigm. Awareness to fully respect one's interest might become endorser to law enforcement and other public policy which affected economies welfare among society. Former researches had appointing on economic equality as the basis for gray-market conversion to white-market. Though it might mere dreams, but linking all these factors to the ultimate goal will make it easier to portray.

Some economic calculations indicated that disproportion among currency as the result of domestic performance has triggered the creation of this market. Uniquely, researches also justifying knowledge as triggering factors for any macro policies. Thus, the study proposed the second idea:

Proposition 3: law enforcement and public policy in conjunction with knowledge tend to share negative relationship to the growth of gray market.

Proposition 4: the partial effect from law enforcement and public policy would be lower than its simultaneous power in examining gray market phenomenon.

The last identifiable antecedent in the study is concerning micro-factors. As described on literature review section, the study punctuating that the gray market is a product of joint movement from supply and demand side. Therefore, one possible way to minimize its growth is by smarten the authorized distribution channel acknowledged by the brand owner. The study raised the importance for player to implement network strategic management properly. Justifying loyalty, trust and commitment would no longer enough. Scholars need to focus more on factors that may act as ties in managing the entire network. The brand owner should gain the position as the focal company which directed all necessary effort, thus providing the best product and service to the final customer. Considering these matters, it is plausible to propose the last idea as follows:

Proposition 5: better network strategic management implemented by the brand owners tends to create negative relationship to the growth of gray market.

5. CONCLUSION

This study shared three major contributions. First, using archipelago as analogy, the gray market phenomenon is huge-spreading islands from east to west which composed of six major issues, including economy, law, politics, international business, psychology, and management. Having carefully analyzed 53 highly-cited manuscripts, the study appointed five propositions for clearer explanation for gray market phenomenon.

Secondly, the study emphasized the relevancy for scholar as well as practitioners to see the general phenomenon based on supply-demand perspective. The creation of gray market mostly triggered by mismanagement at both producer and consumer side. Therefore future studies need to consider both factors wisely. Strategy to resist gray market should began on knowledge-paradigm level for both sides. Once the stakeholders are convinced that the gray market might harm the future economy, then renunciation may become proponent for the goodness brought by supply side. This new insight tried to compensate the red ocean phenomenon while at the same time turning it into the limpid ocean.

Moreover, the study justified possible antecedents for future research, ranging from (1) knowledge-psychological perspective, (2) macro factors and (3) micro factors, where all factors accounted to the both sides. After deriving every antecedent on each operational definition, the study proposes five propositions for further studies.

For academic purposes, this study offer systematic mentation in analyzing the gray market. The means on which scholars will use to determine the exact antecedents should be based on the research objectives. Choosing which side of story that may be developed should be done at the very first stage. If designing strategy was the aim, then positioning supply-demand side considerations would be advantageous. Multi-dimensional

perspectives are indispensable for this topic.

Over practical basis, the strength point of this study was the acknowledgement of knowledge as the basis for all chaotic reality. It is plausible to stipulate proper knowledge as the basic solution to the gray market.

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