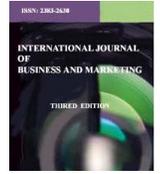


# International Journal of Business and Marketing

Journal homepage: [www.ijobm.com](http://www.ijobm.com)



## Factors Influencing Customers' Attitude toward Gray Market

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### ARTICLE INFO

#### ARTICLE HISTORY:

Received 15 January 2014

Received in revised form

1 June 2014

Accepted 20 July 2014

#### Key words:

Gray marketing,  
manufacturers and  
retailers  
Consumer attitude

### ABSTRACT

Gray marketing has been a widespread international practice and one of concern to manufacturers and retailers since the mid-1980s. Managers of international brands must learn the necessary skills to solve reported problems in gray markets. This article focuses on consumers' attitude toward gray market goods and purchase intention in gray market. This paper with refer to the previous paper suggested that perceived value, price consciousness, risk averseness, quality-price influence are effect on attitude of gray markets customers. On other hand this paper suggested that status consumption, social cost, attitude, consumption dependencies are influenced on purchase intention in gray market. The analytical method of this research is a vote-counting technique. According to the findings taken from the comprehensive review of existing reference in the literature on gray market, a proposed model has been designed to represent a model about variables effect on customer attitude and purchase intention in gray markets is presented.

### 1-Introduction:

Gray marketing has been a widespread international practice and one of concern to manufacturers and retailers since the mid-1980s (Baldo, 1985; Barlass, 1988; Mitchell, 1998). Parallel importation, or so-called "gray marketing," refers to the selling of trademarked products through unauthorized distribution channels without the manufacturer's consent. Gray markets are, in general, not illegal, as opposed to so-called "black markets", which contain stolen or counterfeit goods. Gray goods are not stolen and they are physically "genuine", but their distributions and marketing are unauthorized

(Hsiu-Li Chen, 2007). Unlike counterfeit products distributed through licit and illicit channels (Cho et al., 2013), products traded in gray markets are genuine.

However, because gray market goods are physically “genuine”, they are not generally illegal as opposed to so-called “black markets” which contain stolen or counterfeit goods. Gray-marketed goods become illegal only when they violate either the product regulations or the licensing contract for the trademark’s use in a specific country, or where the trademark owner is based in the country into which gray imports are shipped (Hsiu-Li Chen, 2007).

In some perspectives, gray marketing is seen as assisting in the penetration of foreign products into a domestic market, and thus can actually increase the market share of the products (Mitchell, 1998). In this market, gray marketed goods often lead to market segmentation, as these goods are generally sold at a lower price but also with fewer services and warranties as compared to goods from authorized channels. Consequently, risk-averse consumers pay a higher price to buy authorized products; while those who can tolerate the risk buy the gray goods at a discounted price.

Managers of international brands must learn the necessary skills to promote their brands, and solve problems in international markets. Upsetting pricing stability, destroying marketing channels and damaging brand images are reported problems in gray markets, experienced by managers of international brands (Alberts, 1992; Cespedes et al., 1988).

However, these strategies are hard to implement. First, given globalization, any proactive actions on the supply side will limit a brand manager’s marketing activities or have some negative impacts. For example, a “one-price-for-all” policy will reduce the brand’s profit margin and limit its market penetration (Howell et al., 1986).

Thus, for managers and decision makers involved in the gray market, which is very important in answering the question "How consumer attitudes toward purchasing luxury products changed from gray market".The answer to the question requires an understanding of consumer behavior and attitudes towards the gray markets that can be efficient strategies to solve this problem and encourage customers to be able to choose between transparent market and gray market products.

In this context, the present study is to present the theoretical literature, to the pay scale of development, in which consumer’s behavior toward gray market goods, measuring and test the factors that affect the behavior.

## **2-LITERATURE REVIEW**

### **The Gray Market**

The gray market signifies the distribution of labeled goods by the unauthorized dealers (Bucklin, 1993, Eagle et al, 2003). There are two kinds of home-made and import goods in the gray market. The distribution channels for both kinds of goods are called “parallel channels” where exists at least one unofficial deliverer in the distribution channels (Berman, 1996). One of the important matters regarding this kind of market is its effectiveness on the value and credit of the brand. Since this market presents goods with weak after-sales services and also because of many consumers mistrust in the quality of the gray market’s goods, it gets a lower mark and reliability compared to the distributed goods by the authorized distributors. From another side, this market will provide suitable circumstances for the brand influence and increasing its share (Chen, 2007). The attenuations and the low price of durable import goods with technical features which are sold in the gray market, affects considerably the price of the similar goods in the market and increase competition in such a way that the producers themselves are forced to reduce their own goods price (Thompson, 2009). According to Li and Maskus (2006), the main factor in the formation of legality of the parallel imports is the inland undermining of the mental ownership rights.

### **Consumer attitude toward gray market goods:**

“Attitude” means a learned predisposition to respond to an object in a consistently favorable or unfavorable way. It significantly plays an important role in consumer behavior. Attitudes cannot be observed directly, they are mental positions that marketers must try to infer through research measures (Wilkie, 1994). This article focuses on consumers’ attitude toward gray market goods in general, rather than any specific brand or specific product category. This work is thus consistent with that on the construction of measures that evaluate general consumer attitudes or tendencies (such as attitude toward advertising in general rather than toward a particular advertisement).

The study of the consumer’s attitude of the products, services, propaganda, different commercial names and his reaction toward them is something that attracts the attention of merchandising. Different factors such as price, kind of packaging, the appearance of each product, how to promote and the way of distributing are all influential in the attitude formation (Ranjbaran et al, 2007). The perspective can be defined as a complicated state of emotions, desires, beliefs, prejudices and

tendencies which make some sort of acceptance and readiness in person's behavior due to his various experiences. The attitudes can be regarded as: readiness for a particular response to a person, thing or a situation. One of the attitude characteristics is that it is not very lasting during time and is subject to change because of the information aggregation (Javadein, 2009). This paper with refer to the previous paper suggested perceived value, price Consciousness, risk averseness, quality-price influence are effect on attitude of customers in gray markets.

### **Risk averseness:**

“Risk” in relation to choosing brands is the probability of occurrence of a problem with a particular product of a certain brand multiplied by the negative consequences of that problem (Peter and Ryan, 1976). When a consumer makes a purchase decision, “risk” implies “greater consequences of making a mistake” and “degree of inconvenience of making a mistake” (Batra and Sinha, 2000). Havlena and DeSarbo (1991) described the multidimensional nature of perceived consumer risk, involving performance, financial, safety, social, psychological, and time/opportunity dimensions. The perceived risk can powerfully influence consumer behavior. Mitchell (1992) argued that perceived risk influences the five stages of the consumer decision process, which are problem recognition, pre-purchase information search, and evaluation of alternative, purchase decision and post-purchase behavior.

### **Price Consciousness**

Price consciousness is applied to a degree in which the consumers concentrate on paying lower prices, thus seeking to find low price is one of the common behaviors to gain benefits; (Jin, Sternquist, 2003), benefits such as better price for the good or an attempt to support business attractiveness. What is expected here is those consumers' interest with the consciousness of high price in having greater tendency to find attenuations or lower prices compared to others (Alford, Biswas, 2002). The product's price or service is determined based on the value of palpable and impalpable factors within it. The impalpable factors are not related to the physical combination of the product, like prestige, beauty and newness of the product. Instead, the palpable factors are directly related to the physical combination of the product including function, stability and the condition of being economic. The price represents the understanding of both salesman and costumer of the product's value, and can be said that it is the observable element of the product that will result in the

product purchasing or not purchasing. It directly influences the margin of the acquired benefit (Che, 2008). Kukar-Kinney et al (2007) study showed that price consciousness is a key feature for the consumers and has a reciprocal influence with all features of price proportionate and is related to the consumer's knowledge of the merchandise or the stock level.

### **Perceived Value**

The importance of the perceived value has been discussed in different writings in recent years and various concepts and meanings have been presented to signify it. Among the suggested concepts we can point to: the consumer's desirability, the acquired advantages related to that lost one, the worth, quality and the psychological price (Lee et al, 2007). The perceived value, especially the economic one has a highly positive effect on the consumer's satisfaction. Within the framework of the perceived value, the attention to and emphasizing economic values such as price and quality which are considered as some combination of it can have many advantages for them, therefore they should be thought about before compiling merchandising strategies (Iniesta-Bonillo, Sa'nchez-Ferna'ndez, 2009). Ang et al (2001) in their study found that those consumers who have more value awareness are of a better standpoint about gray market goods than those with lower value awareness.

### **Price-quality inference**

The belief in price-quality inference, "high price, high quality" and "low price, low quality", is important in pricing theory and in determining consumer behavior. According to the price-expectancy model of consumer choice, consumers evaluate products by comparing actual price with a referential or expected price determined from product quality and price-quality correlation of the product category (Ordonez, 1998). Ordonez's (1998) research supported the price-expectancy model and suggested that the relative preference for higher price/higher quality products over lower price/lower quality products increased as the subjective correlation between price and quality increased. Tellis and Gaeth (1990) examined the impact of information on consumers' choice strategies. They found that when information on product quality is imperfect, the price-quality correlation is an important moderating factor that influences consumers' behavior. According to Monroe and Krishnan's (1985) price-perceived quality model and Chapman and Wahlers' (1999) extended model, price positively affected perceived quality. For durable goods, Brucks et al. (2000) found that quality has six dimensions, ease of use, versatility, durability, serviceability, performance and prestige. Price

influences consumers' judgments of quality to various extents on the quality dimensions. Some experimental research, however, did not support the price-quality inference. Sjolander (1992) used ice cream to test the effects of price on perceived product quality. The results did not significantly support a direct link between the price cue and consumers' perceptions of quality. In a study performed to test the effect of store name, brand name and price discounts on consumers' evaluations and purchase intentions, Grewal (1998) demonstrated that the effect of price discounts on a brand's perceived quality was minimal. Given that most gray market goods are sold at lower prices, the more a consumer maintains the price-quality inference, the lower the consumer's perceived quality of gray market goods. Hence, price-quality inference is expected negatively to affect consumer attitude toward gray market goods.

### **Status Consumption**

Some researchers' opinion is that the status consumers are a favored target market in the view of these products' marketers because of their desire to pay more money for goods that bring them social esteem and prestige (Clark et al, 2007). Such sort of consumption pertains to both materialism and social comparison. This, and in the case that the consumers who seek social esteem emphasize on social comparisons, the promotion can be influential (Heaney et al, 2005). This group of consumers is much more interested in paying more for reaching a higher position in the society (Goldsmith et al 2010).

### **Consumption dependency**

The personal impression is the reflection of what people thought of themselves as individuals or through their communications. It also points to the individual's way of thinking, feelings and activities in his relation with others (Huang, 2009). Like the individualism collectivism variable, the dependency/ independency also consider the individual's relation with the group or the society (Sun et al, 2009). The youngsters who are influenced by the western culture have a great readiness to change the consuming values and regarding their tendency toward self sufficiency, they seek idealism, modernity, entertainment and loyalty in their decision making manners. They emphasize their uniqueness and independency through searching high-class, new and well-known products (Hahn, Kean, 2009). However, the relation between individualism and collectivism is very

complicated and the features related to each of these two do not necessarily signify different cultural dimensions (Millan, Reynolds, 2011).

### Social Cost

This matter that many of the gray market goods are launched through unauthorized channels and in most cases it is done without the producer’s planning and awareness, not only it damages companies but also the consumers won’t receive proper services. Yet, by the growth and expansion of this kind of market and an increase in the number of demands, many forged and smuggled kinds of these goods enter the market and finally purchasing counterfeit goods causes the illegal activities to be increased (Delender, 2000).

### Summary of proposed determinants by literatures

Determinates	Researchers / years	Significant positive relationship	No significant relationship	Significant Negative relationship
Perceived risk	Martinez-Poveda(2009)	✓		
	Chen (2007)	✓		
	De Matos et al (2007)	✓		
price consciousness	Huang et al (2004)	✓		
	Garretson et al (2002)	✓		
	Huang et al (2004)		✓	
Quality-price Inference	Huang et al (2004)	✓	Weak effect	
	De maeyer (2007)	✓	Weak effect	
	Volckner,Hofmann (2007)	✓	has gradually decreased	
	De Matos et al (2007)			✓
	Sjolander (1992)			✓
Social cost	Clark et al (2007)	✓		

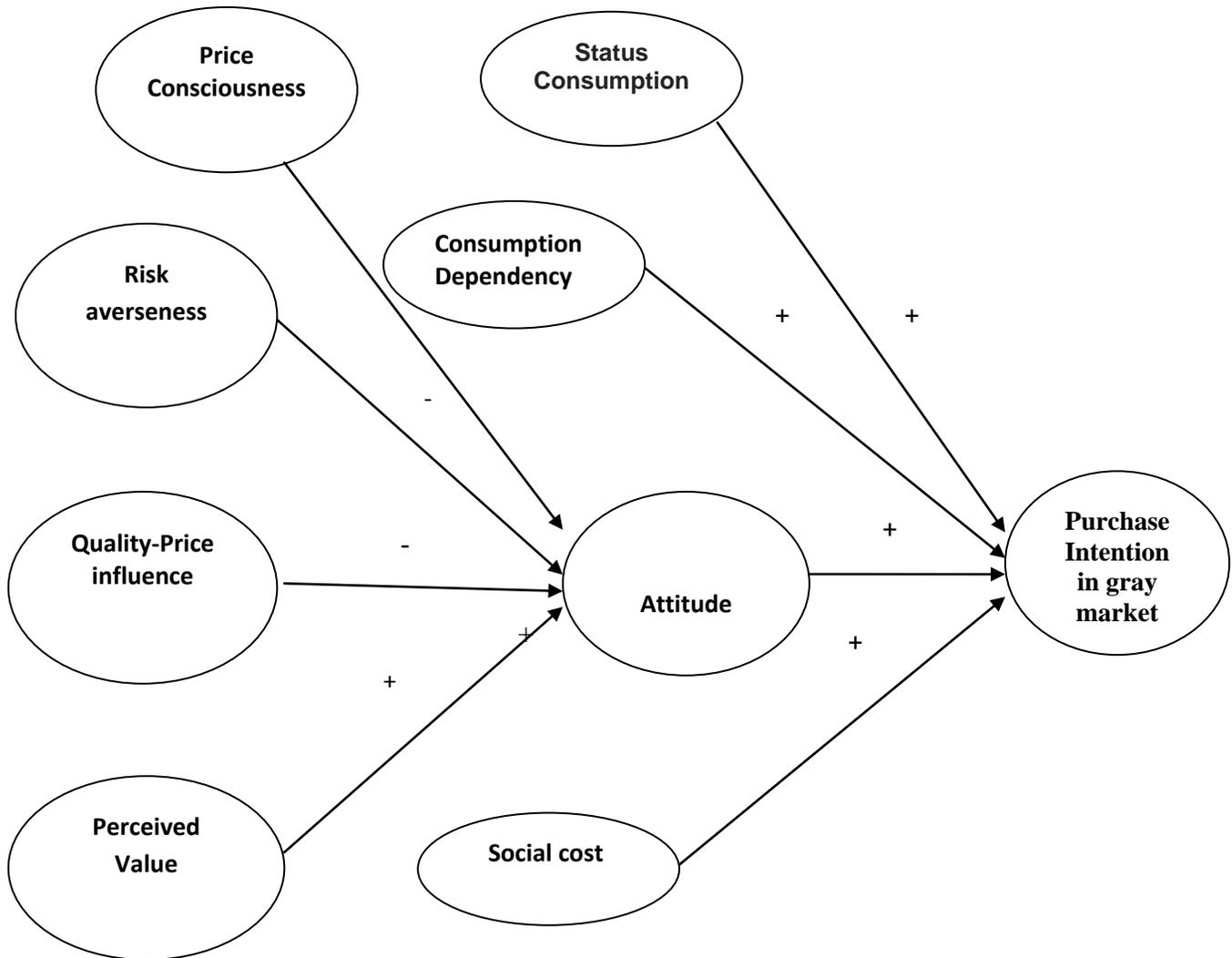
	Gold smith et al (2007)	✓
	Phau, L et al (2009)	✓
consumption	Millan and Reynolds (2011)	✓
dependency	Ahluwalia (2008)	✓

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### 3- Methodology and proposed frame work

The aim of this study is to synthesize the available studies on factors influencing customers' attitude toward gray market. Indeed, the current studies report different and often contradicting results on factors influencing customers' attitude toward gray market that this issue clarify that it is need to analysis the variable influence on purchase intention in gray market. Thus, to facilitate the conceptual framework for determinants of purchase intention, this need to be clarified the variables that influence gray market has to be identified. The focus of this review paper is on empirical works that have been published. In addition, as in other reviews paper, case studies and non English studies are not evaluated in this research. The analytical method of this research is a vote-counting technique that Zou and Stan (1998) and Sosa *et al.* (2005) had used in their review papers. This technique allows this study to report the significant negative effect, the significant positive effect, and non-significant effect on export performance.

According to the findings taken from the comprehensive review of existing reference in the literature on gray market, a conceptual model has been designed to represent a model about relationship between variables effect on customer attitude and purchase intention in gray markets as presented in Figure 1 as following.



**Figure 1: Proposed Model**

#### **4- CONCLUSION:**

Considering the significance of ‘gray market’ issue from the consumer’s point of view, this research investigated the effective factors on consumers’ tendency to purchase from this market. Factors such

as price consciousness, perceived risk, quality-price inference, perceived value, consumption state (status consumption), attitude, social expenses and dependency in consumption on the consumer's desire to buy gray market goods were tested. These factors with their influence on the consumers' attitude aroused highly their desire to purchase gray market goods.

This study suggests directions for future research. Future research may use a detailed experimental design to elucidate further the effect of price consciousness on consumer attitude toward gray market goods, including moderating factors. Gray market goods of famous international brands appear frequently in several countries, and the influences of culture and economic environments on the model are important. . Finally, the appearance of the gray market and the reactions of brand owners may affect brand image, brand loyalty and store image. Future research should address these issues.

This research contributes to the existing literature by establishing a valid measure of consumer attitude toward gray market goods, providing conceptual model and suggesting feasible strategies for managers of international brands. By focusing on the demand side of the gray market, managers of international brands can better control the gray market and reduce its impact.

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