

# **Parallel trade**

*The pros and cons within the context of the European market*



**Masha Boer**

**Student number: 20060233**

**Class: 3ES3C**

**Thesis supervisor: Mr P.M. Koelemij**

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**The Hague School of European Studies  
The Hague University of Professional Education**

## Executive summary

Parallel trade is ‘the legal importation of genuine goods into a country by intermediaries other than authorised distributors’ (Albaum, Duerr, Strandskov, 2005, p. 313). It has been concluded that parallel import is a result of price differences across European countries, which in turn, is the result of different price settings in adjacent markets by the manufacturer or fluctuating currencies. The aim of this research was to investigate parallel trade within the European Union with, on the one hand, the preferences of the manufacturer of branded goods and, on the other hand, the European law.

Research has shown that the authorised intermediaries and the manufacturer itself are most concerned with the grey market as parallel importing affects their revenues; damages the reputation of the product and brand; leads to the official intermediaries losing motivation; whereby there is no control over the manufacturer’s products. Nevertheless, this research shows that the manufacturer itself may find it beneficial to engage in parallel trade. Moreover, in the personal care market especially larger players such as L’Oréal, Unilever and Procter & Gamble can be found that do all prefer global strategies for their main products. However, this research proves that these products are most likely to be found in the grey market as the global strategy is most beneficial to the grey marketeer as products are standardized and prices adapted to local circumstances.

If measures are to be found to help manufacturers prevent finding their products in the grey market; sacrificing markets is probably the most effective measure, as the manufacturer will not accept any price reduction. After all, one can conclude that the role of the manufacturer in encouraging parallel trade can be described as active and effective. The role of the manufacturer in preventing parallel trade, on the contrary, whilst it can also be described as very active, it is not at all effective.

The European Union does not assist the manufacturer in preventing parallel imports, as the European Commission believes that branded goods are sufficiently protected by EU law against the threat of parallel imports by means of the regional/community exhaustion rule. Parallel importing is a result of the free trade between all member states, which is, in general, very beneficial to all international businesses. Moreover, the European Union believes that the European consumer benefits from parallel trade as their favourite brands can now be found against lower prices.

Finally, it has been concluded that the manufacturer, in order to be successful, needs a change in EU law, stating that the manufacturer cannot be held responsible for products when the manufacturer’s intermediary trades with the grey marketeer. This change would be the ideal situation for the manufacturer and could result in a win-win situation for both the manufacturer and the European consumer.

## Table of contents

Introduction.....	1
Chapter 1 – Parallel trade, an introduction .....	3
1.1 Section 1 - Parallel trade .....	3
1.1.1 <i>What is parallel trade?</i> .....	3
1.1.2 <i>When does parallel trade occur?</i> .....	3
1.1.3 <i>Reasons for price differentiation</i> .....	4
1.1.4 <i>Europe</i> .....	4
1.1.5 <i>Which products?</i> .....	5
1.2 Section 2 - Answer to the research question.....	5
Chapter 2 – The market .....	7
2.1 Section 1 - The market and the consumer .....	7
2.1.1 <i>Parallel trade and its interference</i> .....	7
2.1.2 <i>How does parallel trade affect the consumer?</i> .....	8
2.1.3 <i>Questionnaire: Does the consumer really care about it?</i> .....	9
2.2 Section 2 - The price and the product aspect.....	10
2.2.1 <i>International pricing strategies</i> .....	10
2.2.2 <i>National strategies versus global strategies</i> .....	10
2.3 Section 3 - The channel .....	11
2.3.1 <i>The channel</i> .....	11
2.3.2 <i>Rationale for using intermediaries</i> .....	12
2.3.3 <i>Grey market channel, value added services</i> .....	13
2.3.4 <i>The network</i> .....	14
2.3.5 <i>Conflict in parallel systems</i> .....	14
2.3.6 <i>The power of the intermediary</i> .....	15
2.4 Section 4 - Answers to the research questions .....	15
Chapter 3 – The manufacturer .....	20
3.1 Section 1 - The situation.....	20
3.1.1 <i>What happens</i> ... ..	20
3.1.2 <i>What are the reasons for avoiding the grey market?</i> .....	21
3.2 Section 2 - How to prevent finding products in the grey market.....	22
3.2.1 <i>Differences in the product life cycle</i> .....	22
3.2.2 <i>Differences in countries: differences in tastes and necessities</i> .....	23
3.2.3 <i>How to prevent parallel imports?</i> .....	23
3.3 Section 3 - Benefits of engaging in parallel trade .....	25
3.3.1 <i>Over-production, cost advantage and sales volume</i> .....	26
3.4 Section 4 - Consequences of parallel trade to the brand image.....	27
3.4.1 <i>Brand destruction</i> .....	27
3.4.2 <i>Free riding on marketing efforts</i> .....	27
3.5 Section 5 - European marketing mix & global strategies .....	28
3.5.1 <i>European marketing strategic mix</i> .....	28
3.5.2 <i>Features of a global product</i> .....	29
3.5.3 <i>Global strategies, the solution?</i> .....	29
3.6 Section 6 - Answers to the research questions .....	31
Chapter 4 - Legal aspects.....	36
4.1 Section 1 - Restrictions and possibilities.....	36
4.1.1 <i>Are parallel imports legal?</i> .....	36
4.1.2 <i>Free movement of goods in the European Union</i> .....	36
4.1.3 <i>Can't a manufacturer stop or restrict parallel imports?</i> .....	37
4.1.4 <i>Exhaustion principle</i> .....	37
4.1.5 <i>Consumer protection</i> .....	38
4.1.6 <i>Dior case: Luxury battles with discounters</i> .....	39
4.2 Section 2 – Essential legal documents to protect the manufacturer .....	40
4.2.1 <i>Responsibility issue</i> .....	40

4.2.2. <i>Brand damage</i> .....	41
4.3 Section 3, answers to the research questions.....	41
Chapter 5 – Conclusion .....	43
References.....	47
Bibliography .....	49

## Introduction

In this report parallel trade within the European Union is investigated. Parallel trade, which is accommodated in the grey market, can best be described as ‘the legal importation of genuine goods into a country by intermediaries other than authorised distributors’ (Albaum, Duerr, Strandkov, 2005, p. 313). The image of the grey market needs a little more understanding as the grey market, although legal, can be seen as rather suspicious and with a dark side. It is commonly known that grey marketeers run challenging and extremely profitable businesses as the grey market is focused on high margins and rapid sales. It is a striking fact that the grey marketeer does not talk about profits, nor business partners.

Parallel trade can be seen as a sensitive topic to most manufactures and it is rather hard to prevent finding products in the grey market. Manufacturers prefer not to talk about this business practice either and, therefore, do not give much information about it. International sales managers, with whom I had the chance to talk, declared not to be active in the grey market. They did the best they could to protect themselves from parallel imports. However, no-one can prevent finding their products in the grey market as parallel imports are legal within the European Union.

Here one may understand the challenge to write this report, as both the manufacturer and the grey marketeer are reluctant to give much information about this business. Information was gained from many different sources. Most information about the grey marketeer was gained at Topbrands Europe B.V. where I have been working for a month. It is important to state that all confidential information gained at Topbrands Europe B.V. has not been used to write this report. In addition, I visited an international beauty fair in Frankfurt where I was able to talk to many international sales managers from branded products. Mostly desk research has been used, such as books, which only briefly describe the subject of this research. Online sources, on the contrary, were far more critical. A questionnaire was conducted in order to examine the preferences and the motives of consumers that buy parallel imported goods.

This report has been divided into three main chapters, namely: the market; the manufacturer; and the legal aspect. Each chapter starts with an introduction and ends with the answers to the research questions. In the last chapter, an answer will be given to the central question of this report: *‘Should parallel trade be prevented or be encouraged, taking into consideration the free trade of goods within the European market and, at the same time, the preferences of the manufacturer?’*

The following research questions support the central question of this report:  
Research question chapter 1:

- *‘What is parallel trade and what are its features?’*

## Research question chapter 2:

- *'Should parallel trade be prevented or be encouraged within the European market to favour the consumer?'*

Sub question:

- *'How does parallel trade interfere with the market and what is the importance of the price aspect?'*

Sub question:

- *'How does parallel trade affect the consumer?'*

Sub question:

- *'Is there any value created, and if yes, where is the value created?'*

## Research question chapter 3:

- *'What is the role of the manufacturer and the intermediaries, such as wholesalers and agents, in preventing and/or encouraging parallel trade?'*

Sub question:

- *'What are the reasons for avoiding the grey market and how could the manufacturer prevent finding products in the grey market?'*

Sub question:

- *'Why is it beneficial for manufacturers to engage in parallel trade?'*

Sub question:

- *'What happens to the image of the brand and/or product?'*

## Research question chapter 4:

- *What restrictions and possibilities are created by legal documents?*

## Research question chapter 4:

- *Are any legal documents desirable to favour the manufacturer?*

As for the scope of this research, the subject is limited to the parallel trade of personal care products and perfumes. However, examples of other products may be given in order to illustrate the situation and to give clear examples.

## Chapter 1 – Parallel trade, an introduction

In the first chapter of this report a short introduction is given on the subject of parallel trade. Firstly, a definition of parallel trade is given. Secondly, it is explained when parallel trade occurs and the importance of price differences and the reasons for different price settings in adjacent markets. Then, Europe and the euro are examined in the light of this research. And, finally, a short explanation is given about which products are likely to be found in the grey market.

In this chapter an answer is given to the research question of chapter 1:

- *‘What is parallel trade and what are its features?’*

### 1.1 Section 1 - Parallel trade

#### 1.1.1 What is parallel trade?

Parallel importing is best described as ‘the legal importation of genuine goods into a country by intermediaries other than authorised distributors’ (Albaum, Duerr, Strandkov, 2005, p. 313). In other words, parallel importing, which is accommodated in the grey market, is trade through distribution channels which, while legal, are not authorized, nor intended by the manufacturer. In the grey market, ‘the manufacturer’s ‘legitimate’ distributors face competition from others that sell the manufacturer’s products at reduced prices’ (Albaum, et al., 2005, p. 313). This is in contrast to the black market in which goods are illegally distributed and sold.

#### 1.1.2 When does parallel trade occur?

Price differentiation is one of the main reasons for the emergence and existence of the grey market. Hollensen (2007) explains that ‘price differentiation encourages the creation of parallel importing/grey markets, as different prices are set in adjacent markets’ (p. 486). As a result, products can be bought in one market and sold in another, undercutting the established market prices by the manufacturer.

Brassington & Pettitt (2006) describe four pre-conditions which are necessary for parallel trade to work (p. 460):

- Unrestricted free trade between countries involved, such as in the European Union
- The differences between the prices of identical goods in these countries must be substantial
- Transport costs for these goods must be low
- Distribution of goods must be separated from their manufacture

Firstly, in the European Union, free trade between countries is unrestricted and parallel importing is even supported by the European Union. Secondly, although decreasing, manufacturers are

still setting discriminatory prices in different European countries. Thirdly, transport costs for parallel imported goods must be low, as the grey marketeer benefits from high margins on these products. Lastly, the distribution of goods must be separated from their manufacture meaning that the grey marketeer should use different channels than the channels used by the manufacturer's official intermediaries. This last point is a rather sensitive one for both the manufacturer and the official intermediaries, as the latter now faces competition from another seller offering the same product.

### ***1.1.3 Reasons for price differentiation***

A major problem for companies, manufacturers, and marketeers is how to co-ordinate prices between countries. 'There are two essential opposing forces: first, to achieve similar positioning in different markets by adopting largely standardized pricing; and second, to maximize profitability by adapting pricing to different market conditions' (Hollensen, 2007, p. 485).

- Price differentiation allows each local subsidiary to set a price that is considered to be the most appropriate for local conditions. In relation to this research, 'price differentiation encourages the creation of parallel importing/grey markets, as significantly different prices are set in adjacent markets' (Hollensen, 2007, pp 485-486).
- Price standardization, on the contrary, is very effective when the manufacturer wants to prevent finding products in the grey market, as no price discrimination occurs between countries.

It is interesting in the light of pricing strategies that one strategy, price standardization, avoids parallel importing; as the other strategy, price differentiation, maximizes profits.

Parallel importing can also occur because of 'fluctuating value of currencies between different countries, which makes it attractive for the grey marketeer to buy products in markets with a weak currency and sell them in countries with a strong currency' (Hollensen, 2007, p. 532). In February 2009, the pound was rather weak in comparison to the euro. Many wholesalers in clearance goods bought goods in the United Kingdom to resell these goods in other European countries. On the contrary, Sweden is a good example of a country to which clearance goods are not easily sold, because of the local currency.

### ***1.1.4 Europe***

Europe was seen as the perfect place for price differentiation when all markets were separated. Now, 'price differentials are more difficult to retain' as Europe is becoming one transparent market (Hollensen, 2007, p. 489). Therefore, manufacturers may feel the need to standardize prices in the European Union in order to avoid parallel importing.

For the aim of this research, the influence of the Euro is an interesting point to discuss. Before the creation of the Single European Market and the introduction of the euro, one could see that price differences and/or fluctuating currencies were the main factors creating an ideal situation for parallel trade. Now, the most European countries are using the same currency, which results in a more transparent market. Therefore, it is more difficult for the parallel trader to find lower prices in one market and to export to countries with higher prices. As stated before, international marketeers may feel the need to standardize prices across European countries.

### ***1.1.5 Which products?***

Hollensen (2007) argues that ‘parallel importing mainly exists for high-priced, high-end products, such as fashion and luxury apparel, like perfumes’ (p. 532). On the contrary, the grey marketeer argues that ‘fast moving consumers goods are by far more common, as these products are used on a daily basis and can be bought in bulk goods, which results in a lower price per product’ (I. Braber, personal interview, January 21, 2009). In the end, ‘products particularly prone to parallel importing are products where the production lies in one single country’ (Albaum, Duerr, Strandskov, 2005, p. 314). For example, when the production of one product can be found in Portugal, and in no other European country, one can see price differences because of logistic costs, resulting in higher prices when exporting to Scandinavian countries. As different answers are given to the question which products are likely to be found in the grey market; one can conclude that every possible product can be found in the grey market, as long as different prices are set in adjacent markets. It has also been found that products which are likely to be found in the grey market are mostly branded products.

## **1.2 Section 2 - Answer to the research question**

In the first chapter of this report a short introduction was given to the subject of parallel trade.

Answer to the research question of chapter 1:

- *‘What is parallel trade and what are its features?’*

Parallel trade is ‘the legal importation of genuine goods into a country by intermediaries other than authorised distributors’ (Albaum, Duerr, Strandskov, 2005, p. 313). It is found that price differentiation encourages the creation of parallel importing, as different prices are set in adjacent markets. It is interesting in the light of pricing strategies that price standardization avoids parallel importing; and that price differentiation maximizes profits. A striking feature of the grey market is that

consumers can now buy branded products which were actually intended for another market against significantly lower prices.

*In appendix 1,2 and 3 more information can be found about the 'personal care' grey market in the Netherlands. Appendix 1 describes the Dutch grey market, including the largest grey marketeers specialised in personal care products; the trends in the grey market and the key success factors. Appendix 2 shows the price differences between parallel imported goods and goods intended for the Dutch market/goods imported by authorised distributors. Appendix 3 describes the Dutch consumer market for personal care products.*

## Chapter 2 – The market

The second chapter of this report focuses on market related aspects. Parallel importing interferes with the market and in this chapter it is investigated until which extent parallel importing interferes with the market and the causes and consequences of parallel importing. Mainly examples of the Dutch market are given; the final conclusion, chapter 5, is about the interference in the European market.

In this chapter an answer is given to the following three sub questions:

- *‘How does parallel trade interfere with the market and what is the importance of the price aspect?’*
- *‘How does parallel trade affect the consumer?’*
- *‘Is there any value created, and if yes, where is the value created?’*

In the last section of this chapter, an answer is given to the research question of this chapter:

- *‘Should parallel trade be prevented or be encouraged within the European market to favour the consumer?’*

The second chapter is divided into four sections, namely: ‘The market and the consumer’; ‘The price and product aspect’; ‘The channel’ and ‘Answers to the research questions’.

### 2.1 Section 1 - The market and the consumer

#### 2.1.1 Parallel trade and its interference

Parallel importing interferes with the market in terms of price differences. Prices are set by supply and demand; however, this is what one can find in the books. In the grey market, though, third parties are entering the market with the same product, but against significantly lower prices. As a result, the prices set by the manufacturer, or by intermediaries, do not match with the prices set by the grey marketeer. It is the power of the grey marketeer to set lower prices and still make a sufficient margin.

As a logical result of these price differences, authorised intermediaries are losing motivation, as other non-authorised intermediaries are entering the market with similar products against lower prices. The manufacturer and the intermediaries are heavily dependent on each other and mutual trust and commitment are crucial for a good co-operation. An intermediary losing motivation could be very dangerous for a manufacturer as the intermediary is responsible for the sales of the manufacturer’s product. Fewer sales would result in fewer revenues which might have serious consequences in the end.

By having said that, what is the influence of the price from the famous 4P’s in the marketing mix? In a marketing strategy ‘the price is used as a communicator, and customers use prices as a means of comparing products, judging relative value for money or judging quality’ (Brassington &

Pettitt, 2006, p. 431). So, the third point would be that parallel trade interferes with the market by means of disturbing the actual marketing mix. All four P's are related, integrated and are dependent on each other. All decisions, such as selecting an intermediary, depend on this marketing mix. In other words, when the marketing mix is disturbed by others entering the market with the same products but against lower prices and in other stores, two aspects of the marketing mix are affected, namely the price and place element.

Here one can see that parallel importing interferes with the market as prices set by the manufacturer do not match with the prices set by the grey marketer. Different prices set by the grey marketer result in authorised intermediaries losing motivation, which could be crucial in the end. Lastly, the price and place aspect of the marketing mix are affected.

### ***2.1.2 How does parallel trade affect the consumer?***

Parallel trade also affects the final consumer. It might affect the consumer in a positive, but also in a negative way. Either way, it is not how the manufacturer intended to serve the final consumer. On one hand, the consumer may argue that the manufacturer refuses to honour the safety of the consumer. On the other hand, the consumer benefits from lower prices.

Goods that are circulating in the grey market in one country are actually intended for another market, which results in finding the instructions of the product in another language than the language spoken in that particular market. Packaging, for example, in an unknown language may confuse the consumer. In addition, it is required for products such as deodorants and detergents to have a packaging in the language of the country. For example, a deodorant which was actually intended for the Greek market is now sold in the Netherlands. However, the warning mentioned on the package 'keep away from fire', is in Greek and not in Dutch. The Dutch law requires that all warnings should be in Dutch. Unfortunately, the grey marketer refuses to put an additional sticker on the packaging, which indicates the warnings in Dutch, 'as extra costs are involved' (J van Noordt, personal interview, February 23, 2009).

One important reason for avoiding the grey market is that manufacturers need to know where their products are distributed. If, by accident, a damaging perfume is being added to a body cream, the manufacturer has to recall all body creams made that specific day. Imagine, if the manufacturer does not know where these products are being sold, because of parallel importing, what the consequences could be for the final consumer. This is another example that might show that the grey marketer refuses to honour the safety of the consumer.

Parallel trade affects the consumer in a positive way too. In terms of prices, the consumer can find the same product for a lower price. Goods which are intended for the Dutch market are about 25% to 35% more expensive than parallel imported goods which are sold through different channels. For

example, a Dove Silk Glow Beauty Care Shower Cream in the Netherlands costs € 2.99 in an DA, drugstore, while the ‘same’ Dove shampoo costs € 1.99 in a textile supermarket (Wibra) which has bought these Dove shampoos in the grey market.

 <div>Dove Silk Glow Beauty Care Shower 250ml</div>	
 € 1,99	 € 2,99
Price difference %	€ 1,00 33%

 <div>Dove Indulging cream Beauty Care Shower 500ml</div>	
 € 3,49	 € 4,69
Price difference %	€ 1,20 26%

*For more price differences, please see appendix 2*

### 2.1.3 Questionnaire: Does the consumer really care about it?

The question one might pose is whether the consumer really cares about it? Manufacturers argue that parallel imported goods may affect the consumer, as there is no control over the manufacturer's products. Consumers, on the contrary, benefit from lower prices of their favourite brands.

The questionnaire revealed that consumers, who normally buy their personal care products at a shop which sells parallel imported personal care products, are very aware of the price. At the same time, almost all respondents think that safety is important. Consequently, most consumers buy these products because these products are branded products. Here one can draw the conclusion that the consumer that buys parallel imported goods is very aware of the price but, at the same time, wants to buy a branded product which guarantees safety. It is striking to see that 57% of the respondents that had bought a parallel imported product that did not have Dutch packaging had not noticed this.

Another conclusion that can be drawn from this questionnaire is that consumers who buy a branded product automatically believe that a branded product stands for safety, as almost all respondents believe that safety is important. In fact, research shows that parallel imported goods are not controlled by the manufacturer which can have serious consequences when a product should be recalled.

*All results of this questionnaire are included in this report. Please see appendix 4 for more results.*

## **2.2 Section 2 - The price and the product aspect**

### ***2.2.1 International pricing strategies***

The impact of increasing European integration and particularly the launch of the euro as the common currency for most European countries, 'created challenges for pricing decision makers and has led many organisations to consider the necessity of a European pricing strategy rather than a national pricing strategy' (Brassington & Pettitt, 2006, p. 457).

Price is seen as the element of the marketing mix that is most likely to be adapted for local conditions and price sensitivities still vary widely across the European Union. On the one hand, the European Union can be seen as one single market, in which goods can be circulated without barriers, and one can pursue international prices. On the other hand, European countries do differ a lot and one could argue that local needs and preferences are not taken into account. It is important to state again, that the price of the product determines the position of the product in that market. Marketeers should make careful decisions, taking into consideration the level of competition, substitutes of the product in the market, not forgetting about the demand of the product, purchasing power and, last but not least, the stage of the product life cycle. Nowadays, most companies still use different prices in different markets, reflecting not only different market conditions but also differences in marketing strategy.

Welord and Prescott (1996) state that 'consumers accept that they are trading-off added value, which stands for quality, sophistication and service, for a lower purchase price' (p. 421). In the light of this research this would mean that consumers are willing to accept packaging in different languages and even different sales locations for a lower purchase price. In times of economic recession, like the current financial crisis, one can also see that people accept the trading-of value for a lower purchase price. The questionnaire also confirms the statement of Welord and Prescott, as the consumer highly values a lower price for his or her favourite brand.

### ***2.2.2 National strategies versus global strategies***

National strategies are adapted to local circumstances, such as local needs and preferences. Global strategies, on the contrary, pursue largely standardized products and similar prices in all markets. In fact, both strategies favour the situation for the grey marketeer.

The national strategy adjusts prices to local purchasing power, the level of competition etcetera; and products are adapted to local preferences. As implied before, price differences foster the grey market and the grey marketeer benefits from different prices set in adjacent markets. Products are adapted though, but the grey marketeer argues that 'there is always sufficient demand for these products against lower prices' (J. van Noordt, personal interview, January 23, 2009). Global strategies, on the contrary, are characterized by the standardization of products and prices which are sold in

various markets. This means that when manufacturers pursue a global strategy, manufacturers will have to standardize products and prices. Products which are not adapted to local preferences are perfect for the grey marketeer as the grey marketeer will not face any difficulty selling the product to other markets. Bucklin states that ‘the very conditions that foster global strategies also magnify the grey market opportunity’ (as cited in Albaum, Duerr, Strandskov, 2005, p. 314). However, products that are largely standardized, but with small adaptations to local preferences, are most successful in global markets. As implied before, price is the element of the marketing mix that is most likely to be adapted for local conditions. As most prices will be adapted to local preferences, and products are largely standardized, global strategies will indeed magnify the grey market.

In short, the national strategy fosters the grey market by setting different prices in adjacent markets. The global strategy, on the contrary, fosters the grey market by not adapting the product.

*More information about global strategies can be found in chapter 3, section 5*

### **2.3 Section 3 - The channel**

The final consumer price is, in fact, decided by the last member in the chain, often the retailer. The retailer may decide on a high or rather low profit margin. One strategy could be to sell more units against lower prices; other retailers however, may decide to sell fewer units against a higher margin. Either way, both will make sure they generate sufficient revenues. In this chapter, a closer look is taken at the pricing strategies made by the manufacturer, but one should not forget what the channel members, such as a possible intermediary and the retailer, could do to change these pricing strategies.

#### **2.3.1 The channel**

A marketing channel can be defined as ‘the structure linking a group of individuals or organizations through which a product or service is made available to the consumer’ (Brassington & Pettitt, 2006, p. 519). The ideal distribution system would be efficient and sophisticated, however, most distribution systems are complex. The main aim of a successful system is to get the product at the right place at the right time.

Here a closer look is taken at the channel structure of personal care products and perfumes. The following four are the most common channel structures in consumer markets, each involving a different number of intermediaries and each appropriate to different selling situations:

- Short channel : producer – retailer – consumer
- Long channel : producer – wholesaler – retailer – consumer
- Longest and most indirect channel : Producer – agent – wholesaler – retailer – consumer

One cannot say which channel structure is best, as all different structures are used for different products. For personal care products however, ‘the producer – retailer – consumer structure’ is very popular with larger retailers, such as Etos in the Netherlands, as they can buy in large quantities. The advantage of a wholesaler, on the contrary, is necessary when smaller retailers are involved. In most cases, it is preferable to keep the channel structure as short as possible because at every stage administrative costs and different responsibilities are involved.

### ***2.3.2 Rationale for using intermediaries***

One would think that it is best if manufacturers sell directly to the retailer, so not via any other intermediary, because only then do manufacturers have the highest control over their products. Especially in the light of this research, one would expect this to be the ideal situation. However, here the rationale for using intermediaries will be explained.

‘Intermediaries add value for the manufacturer and customer alike’ (Brassington & Pettitt, 2006, p. 529). Facilitating value, transactional value, and logistical value are the value added services of an intermediary. One should keep in mind that these features are applicable to the original and intended channel structure by the manufacturer. Later, the theory of the grey market channel structure is explained.

- Facilitating value: Financing, training, information, after-sales

Intermediaries provide a valuable financing benefit for the manufacturer, as the manufacturer only has to deal with a small number of accounts, and the manufacturer then has a tighter control over all financial matters. On economic grounds alone, ‘the rationale for using intermediaries is creating transaction efficiency’ (Brassington & Pettitt, 2006, p. 529). Besides, the intermediary is much closer to the actual market, and so can provide valuable information to the manufacturer.

- Transactional value : Risk, marketing, administration

Intermediaries share the risk together with the manufacturer, as the intermediary has to sell what has been bought. The intermediary can also take over some part of the marketing; as the intermediary can use the marketing and promotional tools set by the manufacturer.

- Logistical value: Assortment, storage, sorting, bulk breaking.

‘A critical role for the intermediary is the assembly of an assortment of products from different sources that is compatible with the needs of the intermediary’s own customers’ (Brassington & Pettitt, 2006, p. 530). Besides, the possibility to store products, to sort products, and to bulk breaking are beneficial to the manufacturer too.

Market coverage of the intermediary also creates value. Market coverage is about ‘reaching the end customer as cost effectively and as efficiently as possible, while maximizing customer satisfaction’ (Brassington & Pettitt, 2006, p. 534). Besides, market coverage reflects the importance of

the place element in the marketing mix. Products should be found where the customer expects to find them, if not, the customer will be confused. International marketeers should carefully select those intermediaries that will cover the area and distribute to the right places. Douglas, Dutch retailer in perfumes and other cosmetics, covers all the bigger cities in the Netherlands. All premium retailers, and also average brands, want to supply their products to Douglas. Customers expect to find the new perfume of DKNY, Kenzo and Dior in all Douglas shops. For both the manufacturer of these perfumes and Douglas as retailer, this is a favourable situation.

### ***2.3.3 Grey market channel, value added services***

As already implied, the facilitating, transactional and logistical services add value to the channel structure; however, for the grey market the focus is mainly on the last value added services: the logistical value. It is interesting to see that even in the grey market value is added to the channel structure.

As implied before, 'a critical role for the intermediary is the assembly of an assortment of products from different sources that is compatible with the needs of the intermediary's own customers, which can operate at product or brand level' (Brassington & Pettitt, 2006, p. 530). In the grey market, an assortment is made at product level. Many grey marketeers are specialized in one type of product; in this case, personal care products. Grey marketeers buy clearance goods, either directly from the manufacturer or from other wholesalers, and make their own assortment from many different brands. For example, De Vijzel Trading, Dutch wholesaler in clearance goods, offers an assortment of different products from manufacturers such as Procter & Gamble, L'Oréal, Unilever etcetera. One can see that, especially in the grey market, assortment strategy is a critical variable in a retailer's marketing strategy. All wholesalers want to create an assortment which reflects the needs of the target market. Here, retailers which sell clearance goods shop around for the cheapest products. The wholesaler which has a full assortment against the lowest prices, has an advantage over others. Yet, the grey marketeer never knows which products he can offer to the retailer, as clearance goods are never predictable.

Successful assortment strategy is one of the features which make the grey marketeer triumphant. In addition to this, the ability to store many products and to offer bulk breaking are advantages which help the wholesaler to win clients from both sides; the manufacturer and the retailers. The manufacturer, on the one hand, prefers to 'dump' all products at once to one partner. The retailer, on the other hand, prefers to buy smaller lots from different product groups. So if the grey wholesaler manages to buy large units from the manufacturer, or from other wholesalers, to store them, and to split these large units into smaller lots, it can satisfy both the selling manufacturer and the buying retailer.

After investigation, one can conclude that the grey marketeer is not so much interested in other value added features, such as market coverage of the retailers. The grey marketeer prefers to sell all products as soon as possible instead of finding the right retailer. However, some restrictions might be applicable, especially if the clearance goods are directly bought from the A-brand manufacturer. For example, Nivea body cream, product of Beiersdorf, was bought by a Dutch wholesaler in clearance goods. Nivea required that the product could not be sold in the Netherlands, as it would disturb the Dutch market too much. What happened was that the Dutch wholesaler could get a better price in the Netherlands, and the Nivea body cream was sold to a Dutch retailer. Here, one can see that the grey marketeer does not care so much about restrictions laid down by the manufacturer, nor the preferences of the manufacturer. This also shows that the wholesaler in clearance goods wants to sell all products as soon as possible, no matter to which retailer.

#### ***2.3.4 The network***

It is defined that 'a channel is an inter-organizational social system comprising members who are tied together by a belief that by working together, they can improve the individual benefits gained' (Brassington & Pettitt, 2006, p. 543). However, the following might describe the grey market channel structures even better: 'You scratch my back and I'll scratch yours, and we shall both be better off' (Brassington & Pettitt, 2006, p. 544).

Channel structures for the grey market are even more complex than the regular intended structures; and close co-operation and trust are extremely important. Moreover, the network of the grey marketeer is one facet which should not be forgotten. It is a striking fact that grey marketeers do not give much information about their network, as their network requires the grey marketeers not to talk about it. For example, in some cases the grey marketeer can buy directly from the manufacturer or from an official distributor. Both do not want others to know that they have sold products to a grey marketeer, as this will harm their reputation. When trust is created between the grey marketeer and the manufacturer they have created a so-called network from which both benefit. According to J. van Noordt, 'the network is perceived to be the most important asset of the grey marketer, as trust and co-operation are rather hard to achieve' (J. van Noordt, personal interview, January 26, 2009).

#### ***2.3.5 Conflict in parallel systems***

As stated before, the channel can be seen as one large social network. In any social network conflict can arise, as conflict is a natural part of any social system. However, operating a parallel system will basically always result in a channel conflict.

In the grey market, third parties are entering the market through different channels, but with the same product as the authorised intermediaries are offering. Moreover, these third parties are

offering the same product against lower prices than the authorised intermediaries. Here conflict arises as 'the exporter's 'legitimate' distributors face competition from others that sell the manufacturer's product at reduced prices' (Albaum, Duerr, Strandskov, 2005, p. 313). Most intermediaries base their prices upon competition in one market, now when parallel imports occur; they face extra competition, which could have serious effects, resulting in less revenue.

In any case, all members of the channel and the manufacturer need to ensure that 'conflict does not get out of hand and become dysfunctional, as that could lead to reduced channel performance' (Brassington & Pettitt, 2006, p. 546). In case of parallel imports, conflict could become dysfunctional when all original intermediaries sell significantly fewer units, or against lower prices, and lose market share. This is something the manufacturer wants and needs to avoid, as control over the channel, and commitment and trust of manufacturer's intermediaries is essential.

### ***2.3.6 The power of the intermediary***

Power occurs in every channel. However, this does not mean this it automatically results into dysfunctional behaviour. It is true that all members depend on each other, some more than others, which requires trust and commitment from all members involved. What happens between the manufacturer and the manufacturer's retailers is that neither party can operate without the other, which shows a mutual dependency that limits the other.

As stated before, the manufacturer depends on retailers, and/or on wholesalers, but this does not necessarily mean that the manufacturer has no influence. However, this influence is rather small, as intermediaries have the control over the manufacturer's product and, more importantly, most intermediaries are responsible for the sales. In the light of this research, clearance goods are found in the grey market because mostly the manufacturer's intermediaries use other than the intended channels to sell the products due to wrong sales forecast by the intermediary. The manufacturer's products can now be found in the grey market, without the intention of the manufacturer. Here one can clearly see the dependency of the manufacturer on wholesalers/retailers. Especially manufacturers working with only a few wholesalers; they cannot afford to omit one of them, this making the wholesaler strong and powerful.

## **2.4 Section 4 - Answers to the research questions**

In the second chapter of this report the market related aspects were discussed. Parallel importing interferes with the market and in this chapter it was investigated until which extent parallel importing interferes with the market.

Answer to sub question:

- *'How does parallel trade interfere with the market and what is the importance of the price aspect?'*

*How does parallel trade interfere with the market?*

Research has shown that parallel importing heavily interferes with the market. Many parties are affected when the grey marketeer enters the market with the same product that the manufacturer's authorised intermediaries also sell. First, the manufacturer is affected, as there is no control over the manufacturer's products in the grey market, which can even have serious consequences for the consumer too. Secondly, the authorised intermediaries face extra competition from third parties that they did not expect. Here conflict arises as the exporter's legitimate distributors face competition from others that sell the manufacturer's products at reduced prices. Extra competition can result in less revenue which affects both the intermediary and the manufacturer. Thirdly, different prices set by the grey marketeer result in authorised intermediaries losing motivation which could also result in less revenue. Lastly, the consumer is affected by parallel importing as the consumer could be confused finding branded products in cheaper shops. Parallel trade could also affect the consumer in a positive way, as parallel importing results in lower prices for the final consumer.

In conclusion, one can see that parallel importing interferes with the market in terms of no control over the manufacturer's products, extra competition, intermediaries losing motivation, confusion for the consumer, but also lower consumer prices from which the final consumer benefits. Either negative or positive, all these interferences are caused by price differences, as prices set by the manufacturer do not match with the prices set by the grey marketeer.

*What is the importance of the price aspect?*

When investigating the importance of the price aspect, national strategies were compared to global strategies. This resulted in the price element being coupled with the product element. It was found that the national strategy fosters the grey market by setting different prices in adjacent markets and that the global strategy, on the contrary, fosters the grey market by not adapting the product. So either opting for a nationally adapted strategy or a global strategy, none would help to prevent finding products in the grey market.

Global strategies which are most successful are characterized by products that are largely standardized, but with small adaptations to local preferences. As implied, price is the element of the marketing mix that is most likely to be adapted for local conditions. As most prices will be adapted to

local circumstances, and products are largely standardized, global strategies will indeed magnify the grey market.

Interesting in the light of the current economic situation is that research has shown that consumers are willing to accept packaging in different languages and even different sales locations for a lower purchase price. This means that people accept the trading-of value for a lower purchase price.

In conclusion, one can state that the price aspect is very important as different price settings in adjacent markets cause parallel imports. Either pursuing a national or global strategy, both foster the grey market.

Answer to sub question:

- *'How does parallel trade affect the consumer?'*

Parallel trade also affects the final consumer. It might affect the consumer in a positive, but also in a negative way. Either way, it is not how the manufacturer intended to serve the final consumer.

As implied, the manufacturer is affected by no control over the product, which can have serious consequences for both the manufacturer and the consumer. If a product should be recalled, the manufacturer needs to reach all retailers where the product is sold, so that all consumers can be warned. In the grey market, the manufacturer does not know where one can buy the product, which means that the manufacturer cannot reach the consumer. Here, the consumer may argue that the manufacturer refuses to respect the safety of the consumer.

As a result of parallel imports, branded products can be found in cheaper shops which may confuse the consumer. Consumers expect to find branded products in the more exclusive shops, this where the manufacturer intended to sell the products. The grey marketeer, however, distributes the manufacturer's products to shops where the consumer does not expect them to find. This confusion can, in the long run, cause brand destruction, which affects the manufacturer.

Parallel imported goods are cheaper than the goods which are actually intended for the home market. Consumers can now find their favourite brand against significantly lower prices. Mostly negative effects of the grey market have been described, but reduced prices for branded products could eventually have a positive affect. This is in line with the objectives of the European Union which supports free movements of goods and competition, so that the consumer benefits of the Internal Market.

The questionnaire revealed that the consumer that buys parallel imported goods is very aware of the price but, at the same time, wants to buy a branded product which guarantees safety. Another conclusion that can be drawn from the questionnaire is that consumers that buy a branded product automatically believe that a branded product stands for safety. In fact, research shows that parallel

imported goods are controlled by non-authorised intermediaries, which results in no control over the products by the manufacturer.

Answer to sub question:

- *'Is there any value created, and if yes, where is the value created?'*

In the light of this research, one would think that manufacturers want and need high control over their products, preferring to sell immediately to the retailer, so not via any other intermediary. However, the rationale for using intermediaries has been explained in this chapter. The facilitating, transactional and logistical services add value to the channel structure; however, for the grey market the focus is mainly on the last value added service: the logistical value. Successful assortment strategy is one of the features which makes the grey marketeer triumphant. In addition to this, the ability to store many products and offer bulk breaking are advantages which help the wholesaler to win clients from both sides; the manufacturer and the retailers.

In short, a successful grey marketeer creates a logistical value, offering an assortment of products from different sources which are compatible with the needs of the intermediary's own customers. In addition, value is also created by the grey marketeer as the grey marketeer has the ability to store many products and offer bulk breaking.

Answer to research question chapter 2:

- *'Should parallel trade be prevented or be encouraged within the European market to favour the consumer?'*

Here, two opposing ideas are to be discussed. On the one hand, the European Commission believes that parallel trade should be encouraged in order to favour the consumer. On the other hand, the manufacturer believes that parallel trade should be prevented in order to protect the consumer. In order to answer this question, research findings described in chapter 4 are used.

Firstly, the European Commission explains that parallel imports are a 'direct consequence of price divergence and the development of the Internal Market which guarantees the free movement of goods' (European Commission, 2003). In addition, the European Commission argues that branded goods traded in the European Union are sufficiently protected by EU law against the threat of parallel imports. It is stated that the exhaustion system, which was adopted with respect to trademarks, protects the manufacturer sufficiently. Here one can draw the conclusion that the European Commission believes that parallel trade should be encouraged, as it favours the consumers in terms of lower prices.

Secondly, one may argue that the manufacturer refuses to respect the safety of the consumer. Under directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999 the final seller can hold the manufacturer liable in their business relationship. Therefore, the manufacturer is affected as the manufacturer is responsible for the product even when the product is distributed in the grey market without his knowledge and consent. Manufacturers argue that they need to control their product in order to guarantee safety. The European Commission, on the contrary, holds that free trade of goods is important, although certain conditions must be respected, namely those that are needed to protect public health. The European Commission highly values consumer protection, and this is where those two ideas contradict each other.

The questionnaire revealed that consumers that buy parallel imported goods are very aware of the price but, at the same time, want to buy a branded product which guarantees safety. One can also conclude that consumers that buy parallel imported goods are satisfied with their purchases as they can now buy their favourite brands against significantly lower prices. It has been seen that consumers accept the trading-off value for a lower purchase price, which means that they are willing to accept packaging in different languages and even different sales locations for a lower purchase price.

In conclusion, one can say that parallel import favours the European consumer as their favourite brand can be found against lower prices. To answer the central question of this chapter; parallel trade should be encouraged within the European market to favour the consumer. Here one can state that if safety is guaranteed, there is no need to protect the consumer from parallel imports. One may argue that the manufacturer only upholds the idea that he is not able to guarantee safety, as he wants full control over his products and distribution system. Therefore, a change in EC law might be required, so that manufacturer can no longer be held responsible when the manufacturer's products circulate in the grey market.

## Chapter 3 – The manufacturer

This chapter deals with all manufacturer related aspects. Manufacturers themselves may decide to engage in parallel trade by selling their products to the grey marketeer, but may also find their products in the grey market without their knowledge, or intention. In this chapter it is investigated what influences the manufacturers have themselves and what they could do to prevent finding their products in the grey market.

In this chapter an answer is given to the following three sub questions:

- *‘What are the reasons for avoiding the grey market and how could the manufacturer prevent finding products in the grey market?’*
- *‘Why is it beneficial for manufacturers to engage in parallel trade?’*
- *‘What happens to the image of the brand and/or product?’*

In the last section of this chapter an answer is given to the research question of this chapter:

- *‘What is the role of the manufacturer and the intermediaries, such as wholesalers and agents, in preventing and/or encouraging parallel trade?’*

This chapter is divided in six sections, namely: ‘The situation’; ‘How to prevent finding products in the grey market’; ‘Benefits of engaging in parallel trade’; ‘Consequences of parallel trade to the brand image’; ‘European marketing mix & global products’ and ‘Answers to the research questions’.

### 3.1 Section 1 - The situation

#### 3.1.1 What happens...

The authorised agents or other authorised wholesalers of a brand’s product are most concerned with the grey market. Parallel importing in their market by other non-authorised wholesalers will affect and damage their sales and profits, including their reputation. Therefore, manufacturers and the official authorised agents and wholesalers will continue to look for possibilities to restrict the grey market.

On the 2<sup>nd</sup> of February 2009 I spoke to an international sales manager of Piz Buin, a sun cream brand which focuses on the more upper class segment, at the Beauty Fair in Frankfurt. He explained that ‘there is no possibility to find any product of Piz Buin in the grey market. When Piz Buin launches a new line-up it recalls all older products first, before putting the new line-up on the market’ (International sales manager Piz Buin, personal interview, February 2, 2009). What happened, ironically, two days after this interview, was that Piz Buin’s sun creams were bought by Topbrands Europe, wholesaler in clearance goods etcetera. This was in total contrast to what they had told me earlier. The only possible declaration I can find for this is that the grey marketeer is prepared to pay a

higher price for the products than Piz Buin does when it recalls products. Despite the efforts made by Piz Buin and the costs involved when recalling the products; the products can still be found in the grey market.

This is a clear example that the manufacturer makes a great effort to avoid finding products in the grey market; however, the manufacturer cannot prevent it. In addition, parallel importing is legal within the European Union and even supported by many national governments. So, what is the need to discuss the role of the manufacturer if the manufacturer's efforts are not supported by the European Union?

### ***3.1.2 What are the reasons for avoiding the grey market?***

Many manufacturers want to avoid finding their products in the grey market. The grey market is avoided by manufacturers for the following reasons:

- Less revenue

When parallel trade occurs, the manufacturer's product can be found against significantly lower prices than the actual intended market price. Consumers look for the lowest price and the product will be bought from other than the official intermediary, which, in turn, results in less revenue for the official intermediaries and the manufacturer in the end.

- Intermediaries losing motivation

As a result of these price differences, intermediaries are losing motivation as they face competition from third parties entering the market with the same product but against lower prices. Intermediaries losing motivation could have serious consequences because this could also result in less revenue.

- No control over the manufacturer's products

In the grey market manufacturers have no control over their products. Products are now being sold by sellers that the manufacturer does not know about. Manufacturers have a certain responsibility for their products. If an error has occurred in the factory, all products made that specific day should be recalled. Products which circulate in the grey market cannot be traced by the manufacturer, which can have severe consequences for both the consumer and the manufacturer.

- Parallel importing results in damage to brand image

Most manufacturers spend a large amount of their profits on investment and promotional activities. The grey marketer benefits from this investment and does not pay any attention to the marketing mix created by the manufacturer. In other words, the grey marketer enjoys the free riding on the marketing efforts of the manufacturer.

## 3.2 Section 2 - How to prevent finding products in the grey market

When one needs to know how one could prevent finding products in the grey market, one first needs to know how it is possible that products end up on the grey market. When reasons and possibilities can be found, one should avoid these situations and act on time. In the introduction it has been stated that price differences are one of the main reasons for the existence of parallel importing. Here, the emergence of parallel importing is explained in more detail.

### 3.2.1 *Differences in the product life cycle*

The so-called product lifecycle concept reflects the theory that 'products live a life' (Brassington & Pettitt, 2006, p. 339). In other words, products, just like people, are born, they grow up, they mature and eventually, they die. At all stages, 'different prices are set and different levels of competition are involved which require an active approach by the manufacturer and marketeer' (Brassington & Pettitt, 2006, p. 339). The pattern of sales, the revenues and the marketing efforts made by the manufacturer are all dependent upon the stages of the product life cycle (PLC).

There is no need to explain the full concept of the product life cycle; however, what is interesting to investigate in the light of this research is that the same product may find itself in a different stage of the product life cycle in different countries. For example, a manufacturer can decide to launch a product in France, and when the product has successfully achieved the growth phase, the manufacturer can decide to expand to other neighbouring countries. So, 'a brand that has been carefully nurtured over the years in one market to achieve a position where it can command a handsome price premium may mean nothing to the consumer in another European country' (Brassington & Pettitt, 2006, p. 458).

One feature of the PLC that needs more attention is the pricing aspect. The product lifecycle influences the prices of a particular product over a period of time, as 'price is primarily related to what the consumer is prepared to pay for a product offered seen from a marketing perspective' (Brassington & Pettitt, 2006, p. 457). Brassington & Pettitt (2006) explain that 'in the introductory stage, a lower price might be necessary as part of the marketing strategy to promote trial' (p. 456). As the product becomes established through growth and early maturity stages, and gains local buyers, the manufacturer may feel the need to raise prices in order to increase sales and profits. 'In late maturity and decline, it is possible that price reductions could be used to squeeze the last breath out of the dying product' (Brassington & Pettitt, 2006, p. 456). The marketeer has to be extremely careful with these price reductions, which means that the price of one product is significantly lower than at the stage before. The grey marketeer always looks for the lowest prices in one country, and then to sell them to the country where the same product has a higher price because of a different stage of the product life

cycle. So, here the question is: should the manufacturer reduce the price to such a low price when this means that parallel trade will be facilitated?

Last, but not least, 'for an organisation, product management is important not only for making sure that existing products live profitable and efficient lives, but also that they are deleted at the most appropriate time, which implies that manufactures need a balanced portfolio of products' (Brassington & Pettitt, 2006, p. 374): some still in development, others in the early stages of their lives, some more mature and some heading for decline. Concerning parallel imports, deleting products at the most appropriate time is essential in order to avoid parallel imports.

Having said that one should be extremely careful with decreasing prices at the late maturity stage and declining stage, and that the careful consideration which is required when a particular product should be deleted, one can already feel the heat of the grey marketeer. If product prices differ too much from the prices in neighbouring countries, the manufacturer may have to decide not to decrease prices and to eliminate the product before the heavy decline if the manufacturer wants to avoid any type of parallel trade. If not, the manufacturer will have to accept the possibility of parallel importing which can, in turn, affect profits and the reputation of the product.

### ***3.2.2 Differences in countries: differences in tastes and necessities***

Besides the differences in demand in relation to the product life cycle, one product can also be very popular and demanding in one country, and just a regular product in another country because of differences in taste, lifestyle and aspirations. Although most European countries belong to the European Union that does not mean that all EU countries are similar, have the same living standards, or purchasing power. Therefore, it is necessary to understand the consumer needs, possibilities and preferences, as well as the alternatives open to the consumer in terms of competition and substitutes in one country. Marketeers can set higher prices for countries where a product is very popular, unique and demanding, and a lower price for a market where this product is used by people but is not popular or open to much competition. Again, the grey marketeer sees the possibility to transfer this particular product to the country where this product is in demand and popular.

### ***3.2.3 How to prevent parallel imports?***

Now that it has been described how it is possible that products could end up in the grey market, possibilities for preventing the grey market can be found. The manufacturer cannot change differences in countries, although some do argue that tastes and necessities are created by the manufacturer who decides what consumers use, need and like. Moreover, the manufacturer does not want to change the product life cycle either, because using different stages in the product life cycle is more profitable as

global manufacturers may decide to test a product first in one country and to start conquering other markets after.

Some attempts have been made to find out how parallel imports can be prevented. Hollensen (2007) describes two pro-active approaches in order to prevent the grey market (p. 533):

1) Seek legal redress.

According to Hollensen, manufacturers can opt for a legal option if the expected duration of the problem is long.

2) Change of marketing mix, which involves three elements:

- Product strategy

Here, he explains, one should choose for product differentiation, with a different and adapted product in each market. He argues that product standardization favours the grey market.

- Pricing strategy

The manufacturer can change the ex-works prices to the channel members to minimize price differentials between markets. In other words, prices will be more equal.

- Warranty strategy

The warranty strategy requires that the products can be identified through the channel system by reducing, or even cancelling, the warranty period for the grey market products.

The first pro-active approach, to seek legal redress, will not be successful in the European Union as parallel importing is legal because of the free movement of goods within the European Union. In addition, the European Commission supports free competition. Parallel imports from outside Europe, however, are illegal. More about this legislation can be found in chapter 4. The second approach, change of marketing mix, is more interesting as the manufacturer can change the product, pricing and/or warranty strategy.

In chapter 2, section 2 it has already been concluded that both the national strategy and the global strategy favour the situation for the grey marketeer, as the national strategy fosters the grey market by setting different prices in adjacent markets and that the global strategy, on the contrary, fosters the grey market by not adapting the product. Here the findings in chapter 2 will be compared to the point of view from Hollensen.

Concerning the change of the product in the marketing mix, Hollensen argues that one should choose for product differentiation, with a different and adapted product in each market. He argues that product standardization favours the grey market and that products adapted to local preferences are the solution in order to prevent finding products in the grey market. The grey marketeer, however, argues that 'the adapted products have the potential to be sold in other markets too, as there will always be

demand against lower prices' (J. van Noordt, personal interview, January 23, 2009). Changing the pricing strategy is another solution when trying to prevent parallel import. Hollensen (2007) argues that 'one should minimize price differentials between markets, as price differences foster the grey market and the grey marketeer benefits from different prices set in adjacent markets' (p 533). According to Hollensen one should change both the product strategy and the pricing strategy. Research has shown that changing both elements to highly differentiated products and similar prices across European countries is almost impossible to achieve, as one cannot pursue similar prices for differentiated products.

The pro-active approach to change the warranty strategy is an interesting point to discuss. Hollensen (2007) argues that this requires 'that the product can be identified through the channel system by reducing, or even cancelling, the warranty period for the grey market products' (p. 533). In fact, this would be the perfect solution as changing both the product and pricing strategy will not prevent finding products in the grey market. It is the manufacturer's responsibility to distribute safe products. As stated before, in the grey market manufacturers do not know where their products are being distributed, so in fact safety cannot be guaranteed. More about the warranty strategy and the safety can be found in chapter 4, in which the possibilities for protecting the consumer from a legal point of view are discussed.

Another solution which is not included in these pro-active approaches is to sacrifice certain markets, even in the European Union. Simon and Kucher believe that 'smaller countries should be sacrificed, in order to retain acceptable price levels in the bigger markets' (as cited in Hollensen, 2007, p. 490), such as Germany, France and the United Kingdom. In other words, it would be more profitable not to sell in small and mostly poorer countries, such as Portugal and East European countries, than to accept a price reduction of ten to fifteen per cent in the bigger markets due to possible parallel importing from the smaller and rather poor countries.

### **3.3 Section 3 - Benefits of engaging in parallel trade**

Although all manufacturers declare not to be active in the grey market and that they do the best they can to avoid the grey market, some manufacturers do engage in the grey market. Three motivating reasons for engaging in parallel trade are found, namely: over-production, cost advantage and sales volume.

### ***3.3.1 Over-production, cost advantage and sales volume***

#### **➤ Over-production**

Hollensen (2007) points out that even the manufacturer may decide to engage in the grey market if ‘sales people struggle to meet quotas or managers attempt to cover costs or make year-end sales goals’ (p. 533). This can be a result of over-production or bad planning made by the manufacturer itself. The benefit of this is that the manufacturer decides to sell products to grey market channels, so the manufacturer will, somehow, still have the control over the products and where the products are distributed. Nevertheless, this will still depend on the grey marketeer as mostly these wholesalers cannot yet promise to whom these products will be sold.

In this case, manufacturers should approach wholesalers which are reliable and which can guarantee no sales through the original channels which will disturb the market. In the Netherlands, for example, there are many wholesalers which are specialised in clearance goods, such as Topbrands Europe, Metco, and De Vijzel Trading. However, Strootman, which is situated in Oudenbosch, stands out for the ‘track and trace system’ that ‘guarantees business transparency’ (Strootman, 2009, ‘waarom strootman group?’ section). This way of doing business makes them unique in this industry. By means of this ‘track and trace system’, manufacturers will always be able to know where their products are distributed.

#### **➤ Cost advantage**

Manufacturers may decide to engage in parallel trade because of cost advantage. When a manufacturer decides to produce as many products as possible, the maximum capacity, it can keep their prices very low, because the fixed costs are allocated over many products, resulting in a cost advantage. The problem with producing the maximum capacity is that the manufacturer might need to sell products to other than intended wholesalers, as all wholesalers are already supplied and there is no room to store all products. This phenomenon is rather similar to over-production, although over-production is not planned. As a result of this strategy, the manufacturer’s products can be found in the original retail stores against lower prices, because of the cost advantage gained by producing the maximum capacity, but the same products can now also be found in other than the original, mostly low-budget, stores. If this decision is taken by the manufacturer, it should carefully consider the consequences.

#### **➤ Sales volume**

Pricing objectives and pricing strategies are discussed in this report, and one can see that target sales volume affects the final consumer price. ‘Seeking volume sales arises from an operational focus on capacity and pricing may be used as means of maintaining operational smooth running of the organisation’ (Brassington & Pettitt, 2006, p. 474). For example, a manufacturer may realize more revenues selling more units against lower prices than selling fewer units against higher prices. With continuous production of mass standardized products, there is the possibility to pile up all products

until it is sold. However, at some time, the storage may become very large, and at times of recession and even the current financial crisis, the pressure of selling this stock against discount pricing may become very high.

### **3.4 Section 4 - Consequences of parallel trade to the brand image**

#### ***3.4.1 Brand destruction***

Grey marketing mainly concerns price, thus the so-called grey marketer pays little or no attention to providing marketing support, nor after-sales service. Most manufacturers of A-brands spend a large amount on investment and promotional activities. Dove, for example, is known for its research and the many advertisements in magazines and on television and is therefore seen as a well-known and qualitative brand. Now, Dove can be found in the cheaper stores which will damage the brand Dove.

Without a doubt, brand reputation is an important asset of the manufacturer. Here, the question is if lower prices set in the grey market affect the brand image. According to Albaum, Duerr and Strandkov (2005) 'it is not so much about the lower prices that will affect the brand image, but it is important that products remain in the same price category/ranking' (p. 315). They took Calvin Klein as an example; Calvin Klein's products cost less in the United States of America than in the United Kingdom, but 'they still command a premium price in both markets' (Albaum, Duerr and Strandkov, 2005, p 315). In other words, products should remain in the same price category and prices could still differ across countries. However, products in the grey market are significantly lower and do not remain in the same price category, which will result in brand destruction. Parallel imported goods and goods which are intended for that particular market vary 15% to 35% in price difference.

*Please see appendix 2 for more price differences.*

#### ***3.4.2 Free riding on marketing efforts***

The free riding on marketing efforts is one of the striking features of the grey market. A-brand manufacturers spend a lot of money on promotional campaigns and on research and development (R&D). The grey marketer, on the contrary, does not pay any attention to the marketing of the product. In fact, the grey marketer only benefits from the efforts made by the manufacturer. The manufacturer creates a marketing mix, which in his perception is interrelated and coherent. The grey marketer changes the price and place element of the marketing mix, destroying the actual marketing mix.

Mostly it takes years before the manufacturer has established a firm brand image, as A-brand manufacturers need to invest a lot of money and have successful promotional activities to achieve this.

The grey marketer states that ‘products which are particularly interesting for the grey market, are the products with a strong brand image, supported by successful marketing activities’ (International sales manager Piz Buin, personal interview, February 2. 2009). In other words, products which are popular in the eyes of the consumer are most interesting for the grey marketer. Although the grey marketer can obtain a lower margin on the products which are popular and supported by large promotional campaigns, these products are exceptionally important for the grey marketer as these products set the image of the personal care product section. Other, less popular, products can be sold alongside. A great example is the sales of the grey marketer’s own brand products. An advantage of selling an own brand is that this own brand can always be delivered, in contrast to the parallel goods.

Nowadays, an incredible amount of information can be found on the internet. As for personal care products, the ingredients, prices and promotional campaigns can be found online. It is the same for television, as promotion on television is one of the most effective ways to reach the consumer. It is a great advantage for the grey marketer that the consumer watches television, uses the internet and gets familiar with the product before entering a shop. Before, the consumer only became acquainted with the product in the shop, the place where the product was sold. In that case, the consumer associated the product with that particular shop. Now, the consumer sees the product online or on television and buys the product where it is sold against the lowest price.

### **3.5 Section 5 - European marketing mix & global strategies**

#### ***3.5.1 European marketing strategic mix***

‘Global strategies’, a combination of two very popular words used in many books, articles and by countless chief executive officers. Many discussions are going on, whether or not to globalize, but is this something we decide, or does it just happen?

Although this report is economically orientated, it needs a social understanding: El Kahal (1998) states that it is rather unrealistic to believe that ‘all European inhabitants will be transformed into European people, imagining that this person will be eating Euro-pasta and drinking a Euro-beer while enjoying Euro-music, because deep-seated differences in culture, language, and consumer preferences continue to exist in Europe, despite the creation of the Single European Market’ (p. 131-132).

It is, however, still possible to develop a pan-European strategy, VanderMerwe and L’Huillier state that ‘Europe can be grouped into six segments of Euro-consumers based on geographic proximity as well as cultural, demographic and economic factors’ (as cited in El Kahal, 1998, p. 132). For example, the Netherlands would be grouped together with Germany, Luxembourg and Denmark in

one segment. According to them, ‘companies can compete effectively in this segmented Europe by accurately targeting the needs of narrow multi-country segments’ (as cited in El Kahal, 1998, p. 132).

Whether people like it or not, the world is globalizing. Although the focus of this report is on Europe, the globalization of the world market should be discussed. Ohmae states that ‘customer needs have globalized and international orientated organizations must globalize to meet them. Consequently, we have become global citizens, with global needs, and since global needs will lead to global products global organizations should act globally’ (as cited in El Kahal, 1998, p. 133). In fact, for Ohmae, globalization is driven by the needs and preferences of the consumers and not so much by the competition of larger international organizations.

### ***3.5.2 Features of a global product***

In short, global products are characterized by standardization: one can find the same product all over the world. Good examples of global personal care products are: Dove shampoos, Rexona deodorant, and L’Oréal mascara. Interesting in the light of this research is that global products are a stimulator for parallel imports. Features of a global product which make the product likely to be attractive for the grey market are: high brand awareness; high circulation; and high margins.

High brand awareness, by far the most important stimulator for parallel imports, facilitates sales. The first feature mentioned also relates to the subject of free riding on marketing efforts. The grey marketeer pays little attention to the intended marketing strategy of the manufacturer. Quick sales are also guaranteed by high circulation of the branded product. The grey market is known for its rapid sales; and most grey marketeers buy odd lots or over-production only when they are sure they can rapidly resell the products. Although the grey marketeer creates value by storing products, it needs products which they can sell at any time. Lastly, the grey market is characterized by high margins. The combination of clearance goods and high brand awareness allows the grey marketeer to obtain high margins.

All three features, high brand awareness; high circulation; and high margins, are desired by the manufacturer too, which means that the manufacturer is not going to change the product in order to prevent finding products in the grey market.

### ***3.5.3 Global strategies, the solution?***

Global strategies are about to position a global product successfully in all markets worldwide. This sounds rather easy, but it is not.

Global strategies have been defined by many marketeers. Porter states that ‘the purest global strategy stands for the highest coordination of activities together with the highest geographically concentrated configuration of activities’ (as cited in Van der Zwart & Eenennaam, 1998, p. 20). In

other words, he argues that a global strategy is one that has centred all activities in one country, and which can successfully serve the entire world.

Marc de Swaab Arons states that ‘it is not hard to develop a global strategy for a product, but it is hard to execute this global strategy in 50 countries’ (as cited in Van Grunsven, 2009, pp 30-32). Marc de Swaab Arons is the founder and chairman of EffectiveBrands, a company that focuses specifically on building global marketing capability to help accelerate global brand growth. EffectiveBrands focuses on the specific opportunities and challenges of global marketers and has given strategic advices to many global marketers, such as Unilever, Johnson & Johnson, Starbucks and Sony Ericsson.

He argues that for specific fast moving consumer goods it is not difficult to attain a global strategy. He takes Dove as an example. ‘The role of Dove for the consumer is rather consistent throughout the world and Dove can successfully achieve a global strategy’ (as cited in Van Grunsven, 2009, pp 30-32). In addition, ‘Dove’s marketing campaign’, he continues, ‘is very successful as it is global and adapted to local circumstances’ (as cited in Van Grunsven, 2009, pp 30-32). In the United States, Dove showed 100 ‘normal’, in fact rather large women, instead of showing really thin women. On the contrary, to realize similar achievements in Japan, rather thin women were shown.



*Dove's marketing campaign in the United States*

Standardization or adaptation? That is the question all manufactures have to ask themselves. The focus of this research is on personal care products and in this market one can see that several large players, such as Procter & Gamble, L'Oréal, Unilever etcetera have most market share. All these larger companies have chosen a global strategy for the majority of their products. As seen before, global products are characterized by standardization.

It is said that ‘the very conditions that foster global strategies also magnify the grey market opportunity’ (Albaum, Duerr, Strandkov, 2005, p. 314). Global strategies are characterized by the standardization of the products which are sold in various markets, thus facilitating parallel importing. This results in an interesting question that the manufacturer of branded products might ask itself; whether the grey market will cause global strategies to be less desirable?

What does this mean for the grey marketer? As seen before, a product is internationally successful if it is perceived equally by all consumers worldwide, even in different segments. For example, a luxurious body cream is desirable to be seen as luxurious in every segment. All elements of the marketing mix are integrated in such a way as to introduce the product as luxurious. For example, for a promotion a celebrity is hired and only exclusive channels chosen to promote and sell the product. The price however, may have to vary according to purchasing power in every segment. One product can be a luxurious body cream for € 20 in market/segment A, while in market/segment B it should cost at least € 35 to attain the same positioning. This is where the grey marketer enters, as the grey marketer benefits from differences, and especially from price differences. In this case, the grey marketer only has to transfer the product from one segment to the other.

In conclusion, most companies in the personal care market have chosen a global strategy with standardized products, similar promotions campaigns throughout the world, and sales through similar channels, but mostly with different prices. Compared to other marketing elements, it is most difficult to realize similar prices in different markets, and this is exactly where the grey marketer enters. Although the role of Dove for the consumer is rather consistent throughout the world, Dove has different prices throughout the world. The fact that Dove has the same price-quality perception throughout the world is not of so much interest to the grey marketer.

### 3.6 Section 6 - Answers to the research questions

In this chapter it was investigated what influences manufacturers have themselves and what they could do to prevent finding their products in the grey market.

Answer to sub question:

- *'What are the reasons for avoiding the grey market and how could the manufacturer prevent finding products in the grey market?'*

First, a clear example has been given that the manufacturer can do the best he can to avoid finding products in the grey market, but he cannot prevent it. Parallel importing is legal within the European Union and even supported by many national governments. So, what is the need to discuss the role of the manufacturer if the manufacturer's efforts are not supported by the European Union?

*What are the reasons for avoiding the grey market?*

Many manufacturers want to avoid finding their products in the grey market. In this chapter it was investigated that the grey market is avoided by manufacturers for the following reasons: Firstly, in the grey market the manufacturer's product is found against significantly lower prices than the actual intended market price, which results in fewer revenues for the authorised intermediaries and the manufacturer in the end. Secondly, as a result of these price differences, intermediaries are losing motivation as they face competition from third parties entering the market with the same product but against lower prices. Thirdly, there is no control over the manufacturer's product. Here one can see that, although manufacturers have a certain responsibility, they cannot control these products. Lastly, parallel importing also harms the reputation of the manufacturer's product and brand name. Obviously, the manufacturer wants to avoid such situations.

*How could the manufacturer prevent finding products in the grey market?*

Some attempts have been made to find out how parallel imports can be prevented. Two pro-active approaches to prevent finding products in the grey market were described (Hollensen, 2007, p 533):

- 1) Seek legal redress.
- 2) Change of marketing mix, which involves three elements:
  - Product strategy
  - Pricing strategy
  - Warranty strategy

In the European Union it is not possible to seek legal redress, as parallel import is legal in the European Union, and even supported by many national governments.

According to Hollensen (2007) one should change both the product strategy and the pricing strategy (p. 533). Research has shown that changing both elements to highly differentiated products and similar prices across European countries is almost impossible to achieve, as one cannot pursue similar prices for differentiated products.

The pro-active approach to change the warranty strategy was an interesting point to discuss. Hollensen (2007) argues that this 'requires that the product can be identified through the channel system by cancelling the warranty period for the grey market products' (p. 533). In fact, it would be the perfect solution to cancel something like a warranty period. It is the manufacturer's responsibility to distribute safe products. In the grey market the manufacturer cannot guarantee safety as the manufacturer does not know where products are being distributed.

Another solution is to sacrifice certain markets. It has been argued by Simon and Kucher that 'smaller countries should be sacrificed in order to retain acceptable price levels in the bigger markets'

(as cited in Hollensen, 2007, p. 490). In other words, it would be more profitable not to sell in small and mostly poorer countries, such as Portugal and East European countries, than to accept a price reduction of ten to fifteen percent in the bigger markets due to possible parallel importing from the smaller and rather poor countries.

The product life cycle has also been discussed. It has been concluded that if the manufacturer wants to avoid any type of parallel trade, the manufacturer should be very careful when decreasing prices at the late maturity stage and declining stage, and careful consideration is required when a particular product should be deleted.

Lastly, global strategies are researched in relation to the emergence of parallel imports, as global products are an important stimulator for parallel imports. Features of a global product which make the product attractive for the grey market are: high brand awareness; high circulation; and high margins. These three features are desired by both the grey marketeer and the manufacturer. As these features are preferred by the manufacturer too, it is not likely that the manufacturer is going to change the product in order to prevent finding products in the grey market.

Answer to sub question:

- *‘Why is it beneficial for manufacturers to engage in parallel trade?’*

Although all manufacturers declare not to be active in the grey market and that they do the best they can to avoid the grey market, some manufacturers do engage in the grey market. Three motivating reasons for engaging in parallel trade are found, namely: over-production, cost advantage and sales volume.

Firstly, it is stated that the manufacturer may decide to engage in the grey market if ‘sales people struggle to meet quotas or managers attempt to cover costs, as a result of over-production or bad planning made by the manufacturer itself’ (Hollensen, 2007, p 533). The benefit of this is that the manufacturer decides to sell products to different channels, which are not normally used.

Secondly, manufacturers may decide to engage in parallel trade because of cost advantage. When a manufacturer decides to produce the maximum capacity, it can allocate fixed costs over many products, resulting in a cost advantage. This phenomenon is rather similar to over-production, although over-production is not planned. As a result of this strategy, the manufacturer’s product can be found in the original retail stores against lower prices, because of the cost advantage gained by producing the maximum capacity; but also in low budget stores.

Thirdly, ‘seeking volume sales arises from an operational focus on capacity and pricing may be used as means of maintaining operational smooth running of the organisation’ (Brassington & Pettitt, 2006, p. 474). For example, a manufacturer may realize more revenues selling more units against lower prices than selling fewer units against higher prices.

Answer to sub question:

- *‘What happens to the image of the brand and/or product?’*

Brand reputation is an important asset of the manufacturer, and most manufacturers spend a large amount of money on promotional campaigns. The grey marketer benefits from the marketing effort made by the manufacturer, this facilitating sales for the grey marketer. This phenomenon is called ‘free riding on marketing efforts’.

The grey marketer states that ‘products particularly interesting for the grey market are the products with a strong brand image, supported by successful marketing activities’ (International sales manager Piz Buin, personal interview, February 2, 2009). In other words, products which are popular in the eyes of the consumer are most interesting for the grey marketer. It is a great advantage for the grey marketer that the consumer watches television, uses the internet and gets familiar with the product before entering a shop. Now, the consumer sees the product online or on television and buys the product where it is sold against the lowest price.

It has been concluded that products should remain in the same price category, while prices could still differ across countries. However, products in the grey market are significantly lower and do not remain in the same price category, which results in brand destruction.

Lastly, not much happens to the product, as the grey marketer does not change anything about the product itself. The packaging, on the contrary, might be changed though, as sales are facilitated when the instructions are written in the language of that particular country.

Answer to research question chapter 3:

- *‘What is the role of the manufacturer and the intermediaries, such as wholesalers and agents, in encouraging and/or preventing parallel trade?’*

Firstly, the role of the manufacturer and the intermediaries in encouraging parallel trade is discussed. Then, the role of the manufacturer in preventing parallel trade is discussed.

Although all manufacturers declare not to be active in the grey market and that they do the best they can to avoid the grey market, some manufacturers do engage in the grey market. Three motivating reasons for engaging in parallel trade were found, namely: over-production, cost advantage and sales volume. For example, a manufacturer may gain a cost advantage over competitors by producing larger units of a particular product for a lower cost price per unit, as fixed costs are allocated over many products. As a result, the manufacturer may not be able to sell all products to authorised intermediaries as they are saturated with products. Now, the manufacturer has to look for other channels and, as a result, products can be found in low budget stores. Here, one can conclude

that the manufacturer encourages parallel trade by choosing to produce many products against a lower cost price per unit, and to sell these products to other than the authorised intermediaries.

In most cases though, the manufacturer tries to prevent parallel importing. However, it has been seen that although the manufacturer can make a great effort to prevent finding products in the grey market, the manufacturer cannot avoid it. This means that the manufacturer has a role in preventing parallel trade, but this role is rather limited. The following feasible approaches have been described in this chapter: firstly, one may change the price and product element of the marketing mix to prevent parallel imports; secondly, one can sacrifice markets in order to retain acceptable price levels; thirdly, one should be extremely careful when decreasing prices at late maturity and decline stages in the product life cycle, and when a particular product should be deleted; and lastly, one should find a balance between nationally adapted strategies and globally standardized strategies. Research shows that sacrificing markets is probably the most effective measure, as the manufacturer does not accept any price reduction.

In conclusion, one can state that the role of the manufacturer in encouraging parallel trade can be described as very active and effective. The role of the manufacturer in preventing parallel trade, on the contrary, can be described as very active but not at all effective.

## Chapter 4 - Legal aspects

The fourth chapter of this report focuses on the legal aspects of parallel trade. Parallel trade also needs a legal understanding and in this chapter it is investigated on which grounds the grey marketeer can freely move branded products from one state to another state within the European Union. Consumer protection has also been analyzed, to which was already referred in chapter 3, section 2.

In this chapter an answer is given to the following two research questions:

- *What restrictions and possibilities are created by legal documents?*
- *Are any legal documents desirable to favour the manufacturer?*

The fourth chapter is divided into three sections, namely: 'Restrictions and possibilities', 'Needed documents to protect the manufacturer' and 'Answers to the research questions'.

### 4.1 Section 1 - Restrictions and possibilities

#### 4.1.1 Are parallel imports legal?

Yes, parallel imports are legal. The European Commission states that parallel imports are a 'direct consequence of price divergence and the development of the Internal Market which guarantees the free movement of goods' (European Commission, 2003, p.19). However, according to the European Commission certain conditions must be respected, namely those that are needed to protect public health.

#### 4.1.2 Free movement of goods in the European Union

As stated before, the Internal Market guarantees the free movement of goods, which is one of the cornerstones of the internal market.

*'The European Commission (2009) states that this principle implies that national barriers to the free movement of goods within the European Union should be removed. Article 28 to 30 of the EC treaty forbid Member States from maintaining or imposing intra-Community trade barriers, except in special circumstances. Articles 28 and 29 of the EC treaty forbid quantitative restrictions on imports, exports or goods in transit and all measures having equivalent effect between Member States, All measures capable of hindering directly or indirectly, actually or potentially, such imports are considered as measures having equivalent effect to quantitative restrictions. These provisions do not preclude prohibitions justified on grounds of public morality, public protection of industrial and commercial*

*property, as well as mandatory requirements recognized by the Court of Justice* ('free movement of goods' section)

In other words, parallel imports cannot be hindered by any measure capable of hindering directly or indirectly, actually or potentially, such imports.

#### **4.1.3 Can't a manufacturer stop or restrict parallel imports?**

An answer from the European Commission:

*'The manufacturer or in general the owner of an industrial or commercial right may indeed ask national authorities or courts of the Member State of destination to protect the specific subject matter of these rights. In other words, a patent holder may seek protection of his exclusive right to use an invention with a view to manufacturing industrial products and putting them into circulation for the first time, either directly or by the grant of licenses to third parties.*

*Consequently, as soon as he markets his product for the first time his exclusive marketing right is exhausted within the Internal Market, i.e. the parallel importer may indeed buy the product at one place and market it at another'* (European Commission, 2003, p.20)

#### **4.1.4 Exhaustion principle**

According to a report of the European Commission, 'branded goods traded in the European Union are sufficiently protected by EU law against the threat of parallel imports' (as cited in Out Law, 2003, 'Trade mark law protects against parallel imports, says EU' section. Para 1). It is argued that that the exhaustion system, which was adopted with respect to trademarks, protects the manufacturer sufficiently. Within the European Union the exhaustion system is such that, 'in law, trade mark rights cannot be invoked to restrain the free movement of goods within the EU, but they can be used to restrain the entry of such goods into the EU' (as cited in Out Law, 2003, 'Trade mark law protects against parallel imports, says EU' section. Para 4). In other words, parallel imports within the European Union are legal, but parallel imports from outside the European Union are illegal.

There are three theories regarding exhaustion, namely: national exhaustion, international exhaustion and regional/community exhaustion:

- National exhaustion: the trade mark owner cannot use his trademark rights to prevent further distribution of goods in the same country, but may prevent distribution in other countries.
- International exhaustion: once goods bearing a trademark have been placed into commerce by, or with the consent of, the trademark owner, the trademark owner cannot use his trademark rights to prevent the further distribution of such goods anywhere in the world.
- Regional/Community exhaustion: the European Union has adopted the regional/community exhaustion which means that 'goods which are placed on the Internal Market, or imported into

the Community through a member state, can be freely exported and imported to all other member states' (Ladas & Parry, 2001, 'The European Union approach' section. Para. 1)

As stated before, parallel importing is legal within the European Union, but one cannot import goods from other countries than European Union countries. Nevertheless, 'products are still being bought in non-European countries as especially these prices are very attractive' (J. van Noord, personal interview, February 23, 2009). In countries such as China one can find many factories and prices of goods sold in such countries are significantly lower, which make the products likely for parallel trade. In addition, it is argued that one can buy large units at once and transport them rather cheaply to Europe by boat so that prices remain low. Although illegal, this is especially common in the perfume business.

#### ***4.1.5 Consumer protection***

Meglana Kuneva, EU Consumer Commissioner, states that 'yet there is an EU-wide lack of consumer confidence when it comes to cross-border shopping. She believes that consumers should be as confident about buying products from other countries as they are at home' (as cited in European Commission, 2009, A personal message from Commissioner Kuneva). These words by Meglena Kuneva also enforce the support of the European Union regarding parallel trade.

The European Union highly values consumer protection and believes that 'sellers of consumer goods within the European Union are obliged to guarantee the conformity of the goods with the contract for a period of two years after the delivery of the goods' (European Commission, 2009, 'Consumer sales and guarantees' section. Para 2). It is argued that if the goods are not delivered in conformity with the sales contract, consumers can ask for the goods to be repaired, replaced, and reduced in price or for the contract to be rescinded. Especially interesting in the light of this research is that the final seller is responsible to the consumer. 'The final seller, in turn, can hold the manufacturer liable in their business relationship' (European Commission, 2009, 'Consumer sales and guarantees' section. Para 2). This is regulated in the Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999. In the grey market no exception would be made. Parallel imported goods are sold by retailers that are not authorised by the manufacturer. Although these retailers are not authorized by the manufacturer, the manufacturer can still be held responsible for the products.

In chapter 3, section 2 the pro-active approach was described. Hollensen (2007) argues that this 'requires that the product can be identified through the channel system by reducing, or even cancelling, the warranty period for grey market products' (p. 533). Cancelling the warranty period for grey market products would especially affect the consumer. However, as long as parallel imports are legal within the European Union, the warranty period cannot be cancelled under Directive 1999/44/EC.

Concerning consumer protection, one can conclude that the European consumer is protected against any danger that could arise from parallel imports. However, in practice, manufacturers argue that they have no full control over products when they end up in the grey market. On the one hand, the consumer may argue that the manufacturer should not have full control over products as the regional exhaustion rule is applicable in the European Union. On the other hand, safety should always be guaranteed. It is interesting that no law cases were found against manufacturers that were held responsible for the sales of products by the grey marketeer. This may show that manufacturers accept the responsibility over their products even when these products are sold in the grey market. One logical reason for this would be that the manufacturer does not want to be engaged in a law case in which the manufacturer is seen as not wanting to protect the consumer of the product.

#### **4.1.6 Dior case: Luxury battles with discounters**

The European Court of Justice ruled on 23/4/2009 in the case C-59/08 Copad SA v Christian Dior couture SA, Société industrielle lingerie (SIL). The question in this case was whether a trade mark licence may prevent the exhaustion of the owner's rights in the mark.

*'In 2000, Dior agreed on a trade mark licence agreement with Société industrielle lingerie (SIL) in respect of the manufacturer and distribution of luxury goods bearing the Christian Dior trade mark. The agreement states that in order to maintain the repute and prestige of the Dior trade mark, SIL agrees not to sell, in particular, to discount stores outside the selective distribution network, without written agreement from Dior' (European Court of Justice Judgment, 2009, C-59/08 Copad: Intellectual property).*

*'The court ruled that the proprietor of a trade mark can oppose the resale of luxury goods by discount stores. This is particularly the case where the discount store received the goods from a licensee in contravention of a licence agreement and where that contravention damages the allure and prestigious image which bestows on them an aura of luxury' (European Court of Justice Judgment, 2009, C-59/08 Copad: Intellectual property).*

In this case, C-59/08, the effects of a trade mark licensing agreement on the exhaustion of rights of the trademark owner are considered for the first time. The Court has ruled that trade mark law 7.2, which states that exemptions do include damage to the reputation of a brand in principle, is applicable. This recent ruling may have serious effects for the grey marketeer, as trade mark owners are now protected when their brand, allure and prestigious image are damaged. Now that the Court has ruled that the proprietor of a trade mark can oppose the resale of luxury goods by discount stores, other trade mark owners can win similar cases relying on jurisprudence.

## **4.2 Section 2 – Essential legal documents to protect the manufacturer**

In this section essential legal documents which would protect the manufacturer are discussed. However, no one has tried to draw up such documents, as most documents would contradict EC law and directives. Although it seems that the European Commission has not found any inadequacy in current legal provision relating to parallel trade, some attempts have been made to describe the need for new documentation which would protect the manufacturer.

A new legal document should be drawn up which protects the manufacturer when the manufacturer's intermediary decides to sell products to the grey marketeer, so that in this case the manufacturer of the branded goods cannot be held responsible.

On the contrary, one can also argue that European countries are already adequately protected against parallel imports compared to the United States and Japan, where the international exhaustion rule is applicable, which means that all goods which are sold in the entire world can be bought and sold in those countries.

### ***4.2.1 Responsibility issue***

In the grey market parallel imported goods are sold by retailers that are not authorised by the manufacturer. Although these retailers are not authorized by the manufacturer, they can still hold the manufacturer responsible. Here the manufacturer should be protected. Though, this is a rather sensitive point as both the manufacturer and the manufacturer's intermediaries may decide to engage in parallel trade. When the manufacturer decides to engage in parallel trade, it is the manufacturer's choice, and the manufacturer should be responsible for the products, either in the grey market or in the regular market. However, when the manufacturer's intermediary decides to engage in parallel trade by selling products to the grey marketeer, this is without the knowledge of the manufacturer. The manufacturer should then be protected as in this case the manufacturer is still responsible for these products. Here a new document is necessary which protects the manufacturer when the manufacturer's intermediary decides to engage in parallel trade without the consent of the manufacturer. In this case, the manufacturer's intermediary should be held responsible for the products.

Unfortunately, this would be rather hard to achieve, as it is difficult to find out who has sold the products to the grey marketeer. As implied before, the network is very important in the grey market and no-one really gives information about their business. For example, the grey marketeer is not likely to tell from whom he has bought the products.

#### 4.2.2. *Brand damage*

The European Court of Justice ruled in the case C-59/08 Copad SA v Christian Dior couture SA, Société industrielle lingerie (SIL) that ‘the proprietor of a trade mark can oppose the resale of luxury goods by discount stores, if the contravention damages the allure and prestigious image which bestows on them an aura of luxury’ (European Court of Justice Judgment, 2009, C-59/08 Copad: Intellectual property). As implied, parallel imports do damage the brand, image and allure of the product and brand, and by means of this ruling the trade mark owner is protected. Now that the Court has ruled that the proprietor of a trade mark can oppose the resale of luxury goods by discount stores, other trade marks can win other cases relying on jurisprudence. Only time will eventually show whether this ruling has positive effects for the trade mark owner. Therefore, a recommendation is made for further research.

### 4.3 Section 3, answers to the research questions

In this chapter it is investigated what influences manufacturers have themselves and what they could do to prevent finding their products in the grey market.

Answer to research question:

- *What restrictions and possibilities are created by legal documents?*

It seems that the European Commission has not found any inadequacy in current legal provision relating to parallel trade and the possible misuse of parallel imports. In EC law, mostly restrictions can be found which magnify the grey market. However, a new ruling has created possibilities for the trade mark owner. First the restrictions are discussed. Then, the new ruling is introduced.

The European Union does not favour the manufacturer by means of protecting the manufacturer against parallel trade. Most importantly, the Internal Market guarantees the free movement of goods and all national barriers to the free movement of goods within the European Union should be removed. Articles 28 to 30 of the EC treaty forbid Member States from maintaining or imposing intra-Community trade barriers (European Commission, 2009, ‘free movement of goods’ section). Secondly, the European Commission argues that ‘branded goods traded in the European Union are sufficiently protected by EU law against the threat of parallel imports by means of the regional/community exhaustion rule’, which was adopted with respect to trademarks (as cited in Out Law, 2003, ‘Trade mark law protects against parallel imports, says EU’ section. Para 1). Lastly, the final seller is responsible to the consumer, which in turn, can hold the manufacturer liable in their business relationship. This is regulated in the Directive 1999/44/EC of the European Parliament and of the Council of 25 May 1999. It is interesting that no law cases were found against manufacturers that

were held responsible for the sales of products to the grey marketeer. This may show that manufacturers accept the responsibility over their products even when they are sold in the grey market.

New opportunities are created by the recent ruling in the case C-59/08, as the European Court of Justice has ruled that ‘the proprietor of a trade mark can oppose the resale of luxury goods by discount stores, if the contravention damages the allure and prestigious image which bestows on them an aura of luxury’ (European Court of Justice Judgment, 2009, C-59/08 Copad: Intellectual property). This recent ruling may have serious effects for the grey marketeer, as trade mark owners are now protected when their brand, allure and prestigious image are harmed and other trade marks owners can win similar cases relying on jurisprudence.

Answer to research question:

- *Are any legal documents desirable to favour the manufacturer?*

A new document should be drawn up which protects the manufacturer when the manufacturer’s intermediary decides to sell the products to the grey marketeer, so that in this case the manufacturer of the branded goods will not be held responsible for the products. Unfortunately, this would be rather hard to achieve, as it is difficult to find out who has sold the products to the grey marketeer.

Should European law concerning the free movement of goods and consumer protection not be changed, then there will not be any chance that parallel importing within the European Union will become illegal. Without a doubt, new questions keep emerging and old answers need more clarification.

## Chapter 5 – Conclusion

In the first chapter of this report parallel trade has been described as the ‘the legal importation of genuine goods into a country by intermediaries other than authorised distributors’ (Albaum, Duerr, Strandkov, 2005, p. 313). It has been concluded that parallel import is a result of price differences across European countries, which in turn, is the result of different price settings in adjacent markets by the manufacturer or fluctuating currencies. One can argue that every possible product can be found in the grey market; however, products likely to be found the grey market are products where production lies in one country and products which are characterized by high margins, high circulation and high brand awareness.

In this chapter an answer is given to the central question of this research: *‘Should parallel trade be prevented or be encouraged, taking into consideration the free trade of goods within the European market and, at the same time, the preferences of the manufacturer?’* Market related aspects; manufacturer related aspects; and legal aspects have been investigated. Sub questions have been answered in the last section of the corresponding chapter. Here most relevant findings in relation to the central question are discussed.

The authorised intermediaries and the manufacturer itself are most concerned with the grey market. Parallel importing affects their revenues; damages the reputation of the product and brand; the official intermediaries are losing motivation; and no control over the manufacturer’s product. Therefore, it is believed that the manufacturer wants to avoid finding products in the grey market. However, research has shown that the manufacturer itself may find it beneficial to engage in parallel trade. The following reasons have been found: over-production, cost advantage and sales volume. Here, one can already state that, concerning the central question of this research, the manufacturer, on the one hand, tries to prevent finding products in the grey market, while, on the other hand, the manufacturer encourages the grey market by supplying the grey marketeer with products.

The subject of standardization and adaptation is a recurring subject. The adaptation strategy is characterized by the adaptation of the prices and products to local circumstances. The standardization strategy, on the contrary, is characterized by standardized products and similar prices across member states. Before, it has been argued that the adaptation strategy is the perfect situation for the grey marketeer, as the grey marketeer benefits from different prices settings in adjacent markets. In addition, the grey marketeer states that ‘he does not face any difficulty selling adapted products in other countries, as people are willing to buy these products against reduced prices’ (J. van Noordt, personal interview, January 23, 2009). This research, however, has proven that the global strategy is even more beneficial to the grey marketeer as products are standardized. It is argued that products that are largely standardized, but with small adaptations to local preferences, are most successful in global markets. As implied, price is the element of the marketing mix that is most likely to be adapted for

local conditions. In the personal care market especially larger players such as L'Oréal, Unilever and Procter & Gamble can be found which do all pursue global strategies for their main products. Concerning the central question of this report, one can draw the conclusion that the larger manufacturers of personal care products prefer to pursue global strategies, although this means that their products are more likely to be found in the grey market.

Dove, product of Unilever, has often been taken as an example in this research. Dove products are often to be found in the grey market so it is interesting to see that Dove's products meet the criteria for products likely to come in the grey market. It has been found that 'the role of Dove for the consumer is consistent throughout the world and, therefore, Dove can successfully achieve a global strategy' (as cited in Van Grunsven, 2009, pp. 30-32). Moreover, Dove's marketing campaign is very successful as it is global and adapted to local circumstances. Concerning the price in the grey market, Dove products are sold against prices which undercut the established market price by about 25%-35%. Here one can see that Dove's prices do not remain in the same price category which results in brand destruction.

If measures are to be found to help manufacturers prevent finding their products in the grey market, the question is whether these measures are effective. Different pro-active approaches have been described if the manufacturer prefers to avoid the grey market. First, to seek legal redress is no option, as parallel trade is legal within the European Union. Then, changing the marketing mix is an option. However, research has shown that both the nationally adapted strategy and the global standardized strategy magnify the grey market. The national strategy fosters the grey market by setting different prices in adjacent markets and the global strategy, on the contrary, fosters the grey market by not adapting the products. Thirdly, the warranty strategy cannot be cancelled as personal care products do not have one. In addition, consumers of personal care products, though, are fully protected by European law. Lastly, to sacrifice markets is probably the most effective measure, as the manufacturer does not accept any price reduction. Here one can conclude that it is rather hard to prevent finding the manufacturer's products in the grey markets, if European law is not changed.

If the manufacturer needs, or maybe wants, to engage in parallel trade, it is advised to trade with grey marketeers such as Strootman, grey marketeer in clearance goods specialized in personal care products. Strootman differentiates itself by offering an unique track and trace system, which guarantees business transparency. It is often argued that the manufacturer does not honour the safety of the consumer, as there is no control over the manufacturer's products or distribution. However, with this track and trace system the manufacturer is able to know where its products are distributed. So if parallel trade is to be encouraged within the European Union, manufacturers are recommended to trade with grey marketeers such as Strootman.

Here, the legal aspect is introduced. Firstly, parallel importing is legal within the European Union. The European Commission states that parallel imports are a 'direct consequence of price

divergence and the development of the Internal Market which guarantees the free movement of goods' (European Commission, 2003, p.19). Research has shown that the European Union does not assist the manufacturer in preventing parallel imports, as the European Commission believes that branded goods are sufficiently protected by EU law against the threat of parallel imports by means of the regional/community exhaustion rule.

Investigation has shown that consumer safety is a sensitive topic in the light of parallel trade. Here, the view of the European Union and the manufacturer oppose each other. The European Commission states in Directive 1999/44/EC that the final seller can hold the manufacturer liable in their business relationship. The manufacturer, on the contrary, argues that safety cannot be guaranteed as the manufacturer has no control over the distribution or products. It is interesting that no law cases were found against manufacturers that were held responsible for the sale by the grey marketeer. This may show that manufacturers accept the responsibility over their products even when these products are sold in the grey market.

Although the European Commission has not found any inadequacy in current legal provision relating to parallel trade and the possible misuse of parallel importing, one may argue that measures to protect the manufacturer are needed. As implied before, under Directive 1999/44/EC the manufacturer can always be held responsible. To favour the manufacturer and to protect the consumer, the European Commission may change the law, stating that the manufacturer can no longer be held responsible if products are distributed in the grey market by one of manufacturer's intermediaries.

Lastly, concerning the preferences of the manufacturer, manufacturers may prevent finding products in the grey market, but they may also feel the need to encourage the grey market. In fact, it depends on the situation. If the manufacturer opts for cost advantage and sales volume, it can stimulate the grey market by supplying the grey marketeer with products. If the manufacturer opts for selective distribution channels, then the manufacturer wants to prevent finding products in the grey market. This, again, depends on the manufacturer's preference. After all, one can conclude that the role of the manufacturer in encouraging parallel trade can be described as active and effective. The role of the manufacturer in preventing parallel trade, on the contrary, whilst it can also be described as very active, it is not at all effective.

Regarding the free trade of goods, the European Union supports parallel trade as the European market can be seen as one large market. The free trade of goods is one of the cornerstones of the European Union which has been created to favour European businesses. In fact, European and global businesses benefit from the European integration, but with regard to parallel trade the manufacturer should be protected in order to guarantee safety for the European consumer.

In conclusion, a balance should be found taking into consideration the preferences of the manufacturer on the one hand, and the European law on the other hand. Although parallel importing affects revenues of the manufacturer; damages the reputation of the product and brand; causes official

intermediaries to lose motivation; and leaves the manufacturer with no control over products, parallel importing is a result of the free trade between all member states, which is, in general, very beneficial to all international businesses. Moreover, the European Union believes that the European consumer benefits from parallel trade as their favourite brands can now be found against lower prices. Most manufacturers prefer to prevent finding products in the grey market. However, in some cases the manufacturer even supports the grey market. The manufacturer, in order to be successful, needs a change in EU law, stating that the manufacturer cannot be held responsible when the manufacturer's intermediary trades with the grey marketeer. This change would be the ideal situation for the manufacturer, and result in a win-win situation for both the manufacturer and the European consumer.

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Albaum, Duerr, Strandskov (2005). *International marketing and export management*. (Firth ed.)

England: Prentice hall.

The comprehensive content of this book gives a full insight in all aspects of marketing.

Although this book gives a short introduction to the subject of parallel trade, it provided an understanding of the economic factors influencing the grey market. This book has been written by three experienced authors: Gerald Albaum, research professor; Edwin Duerr, professor Emeritus of International business; and Jesper Strandskov, professor of International business.

Barents (2003) *Europees recht*. (sixth edition) Groningen/Houten: Wolters-noordhoff

Barents describes the principles of the European Union; economic integration; Internal Market; European law; production, trade and distribution; competition; and intellectual property rights from a legal point of view. *Europees recht*, which is written in Dutch, explains European law with the focus on economic issues. This book has given a good overview of European law, and the implications for the free trade of goods within the European Union.

Barschot. (1998, October 21) *Een land voor vrije jongens; Prijstransparantie en grijze handel in Euroland*. NRC. Retrieved 04/03/2009 from the website of NRC:

<http://www.nrc.nl/W2/Lab/Euro/981021.html>

This article, written by a reporter of the NRC, predicts the situation in the grey market after the introduction of the euro. Besides, he argues which products are likely to be found in the grey market; and what manufacturer can do to prevent finding products in the grey market. It is interesting that many of his predictions were right. NRC is a Dutch newspaper, which can be seen as a reliable and independent source.

Branch (1990) *Elements of import practice*. London: Chapman and Hall.

*Elements of import practice* deals with the theory and practice of importing on a cost effective and profitable basis, covering all aspects of successful import management. This book has not been referred to in this report, as much of the import practices have been changed the last years. It was interesting, for the scope of this research, to read chapter 3, 'import buying'.

Brassington & Pettitt. (2006). *Principles of marketing*. (Fourth ed.) England: Prentice Hall

*Principles of Marketing* offers a unique focus on marketing, as this book explains all the fundamental concepts and theories of marketing. *Principles of marketing* has been referred to

several times in order to give an economic understanding and to explain the aspect related to parallel trade. This book was especially useful to understand the marketing mix, as all four elements are discussed thoroughly. For this research the fourth edition has been used, which shows that *Principles of marketing* is extensively revised and updated.

El Kahal (1998) *Business in Europe*. England: McGraw-Hill Publishing Company

Business in Europe provides a wide understanding of the dynamic process of change and competition created by the European Union and the effects on contemporary Europe. Especially part two; 'Business operations in the new Europe' has given valuable information for this report. Part one, 'Business environment of the new Europe', has been very useful as background information. *Business in Europe* is characterized by the many interesting case studies. Sonia El Kahal has a PhD in International relations and is a principal lecturer in the same field. Sonia El Kahal has quoted several times interesting statements from other authors.

EUROPA (2009) *External trade*. Retrieved 03/25/2009 from the website of Europa:

<http://europa.eu/scadplus/leg/en/s05020.htm>

This website provides summaries of European legislation. Although used for many topics in this research, the 'external trade' section has been especially useful. This section describes the strategy for competitive Europe; and common trade policy regime, including the rules on import and export. The facts sheets on this portal are divided into 32 subject areas, covering all existing measures, legislative proposals. Summaries are comprehensive and up-to-date.

European Commission (2003), *Commission communication on parallel imports of proprietary medicinal products for which marketing authorisations have already been granted*. Retrieved 04/04/2009 from the website the European Commission, EurLex: [http://eur-lex.europa.eu/smartapi/cgi/sga\\_doc?smartapi!celexplus!prod!DocNumber&type\\_doc=COMfinal&an\\_doc=2003&nu\\_doc=839&lg=en](http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&type_doc=COMfinal&an_doc=2003&nu_doc=839&lg=en)

This is a Commission Communication on parallel imports of property medicinal products for which marketing authorizations have already been granted. Although this report is written for the medicines branch, it gives relevant answers concerning the regulation and legalisation of parallel imports.

European Commission (2003). Commission Communication. Retrieved 04/17/2009 from the website of the European Commission, EurLex : [eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0839:FIN:EN:DOC](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2003:0839:FIN:EN:DOC)

This word document is a Commission Communication on parallel imports of property medicinal products for which marketing authorizations have already been granted. Although this report is written for the medicines branch, it gives relevant answers concerning the regulation and legalisation of parallel imports.

European Commission (2009) *Free movement of goods*. Retrieved 04/25/2009 from the website of the European Commission: <http://ec.europa.eu/enterprise/regulation/goods/>

This web site has provided background information to the European Union and the regulation concerning the free movements of goods. All information which can be found on the website of the European Commission is clearly written and presents a clear overview of relating subjects. Besides, useful links are provided.

European Commission (2009) *A personal message from Commissioner Kuneva*. Retrieved 04/13/2009 from the website of the European Union: [http://ec.europa.eu/consumers/index\\_en.htm](http://ec.europa.eu/consumers/index_en.htm)

On this website a personal message of the EU Consumer Commissioner, Meglena Kuneva, can be found. In addition, this website describes shortly the rights of the consumer and consumer protections policies which have been used for chapter 4.

European Commission (2009) *Consumer sales and guarantees*. Retrieved 04/25/2009 from the website of the European Commission:

[http://ec.europa.eu/consumers/rights/gen\\_rights\\_en.htm#gar](http://ec.europa.eu/consumers/rights/gen_rights_en.htm#gar)

This website of the European Commission describes in more detail the right of the consumer and consumer protection policies. Especially section 'Consumer sales and guarantees' has been useful for this reports and introduces Directive 1999/44/EC.

European Commission (1999) Directive 1999/44/EC. Retrieved 04/25/2009 from the website of the European Commission: [http://eur-](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31999L0044:EN:NOT)

[lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31999L0044:EN:NOT](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31999L0044:EN:NOT)

On this webiste Directive 1999/44/EC can be found in detail. All articles and relationships between other documents are mentioned.

European Court of Justice Judgment (2009) *C-59/08, Copad: Intellectual property*. Retrieved 04/18/2009 from the website of the European Commission:

<http://ec.europa.eu/avservices/services/showShotlist.do?out=PDF&lg=En&filmRef=63287>

On this website the ruling of the European Court of Justice Judgement concerning C-59/08 can be found.

Griffin & Ebert (2006) *Business*. (Eight ed.) New Jersey: Pearson Prentice Hall

This book has not been used as a reference for this report. *Business* provides in-depth information on the business environment, mainly in the United States of America. It describes the process of taking decision within an organization, taking into consideration all influencing factors. Especially the pricing part of this book, chapter 11, has been useful in order to fully understand management decisions.

HBD, Hoofdbedrijfshandelsdetailhandel (2008) Omzetontwikkelingen in de Europese detailhandel.

Retrieved February 2, 2009 from the website of HBD: [http://www.hbd.nl/pages/14/Trends-en-ontwikkelingen/AGF-groentezaken.html?branche\\_id=3&hoofdonderwerp\\_id=31](http://www.hbd.nl/pages/14/Trends-en-ontwikkelingen/AGF-groentezaken.html?branche_id=3&hoofdonderwerp_id=31)

HBD is an independent and reliable Dutch organization, which delivers many reports based on own investigation concerning the retail branch. The section 'trends and developments' was very useful for this research. Other HBD reports have been used as background reading. The report used for this research described the turnover trend in the European detail branch. Unfortunately, HBD has not published any specific information on the grey market.

Hekking, (2009, April 24) 'Dior krijgt steun Hof bij aanpak discounter'. *Financieel dagblad*. Page 5

This article reports that Dior won the case against Copad and Sil. After this article has been published, the case has been searched on the official website of the European Court of Justice. The *Financieel dagblad*, in general, is an informative and reliable newspaper, which reports all important economic world news. This newspaper has been a helpful source for this research, providing relevant information concerning the fast moving consumer goods business.

Hollensen. (2007). *Global marketing*. (Fourth ed.) England: Prentice hall.

This book offers a contemporary thinking in marketing and strategic decisions, with many appealing business cases. Reading this book, one notices that the book is very internationally orientated and contains examples of many international businesses. Svend Hollensen is an associate professor at the University of Southern Denmark. More than in any other marketing book, the subject of parallel trade/grey market has been discussed and has given a useful input for this research.

Ladas & Parry (2001) *Preventing parallel imports under trademark law*. Retrieved from the website of Ladas & Parry: <http://www.ladas.com/IPProperty/GrayMarket/GrayMa02.html>

Ladas & Parry is a law firm mainly engaged in intellectual property law. On the website of Ladas & Parry one can find a lot of information on trade marks; patents; and intellectual

property right. Particularly the latter has been very useful for this research, describing the possibility to prevent parallel imports under trade mark law. This source gives detailed information on a wide range of subjects regarding intellectual law. Ladas & Parry, an experienced law company, can be seen as a trustworthy source.

Out-Law. (2003) *Trade mark law protects against parallel imports, says EU*. Retrieved 04/10/2009 from the website of Out-Law: <http://www.out-law.com/page-3634>

Out-Law.com is part of Pinsent Masons, which is ranked in the Global 100 of law firms. Pinsent Masons is a full-service commercial law firm acting for private and public sector clients worldwide. Their website provides free guides, articles and news stories relating. This website has been used as they published an article regarding an European Commission report on trade mark law.

Strootman (2009). *Waarom Strootman Group?* Retrieved 03/23/2009 from the homepage of Strootman: <http://www.strootman.com/nl/over-ons/waarom-strootman>

Many websites of grey marketers have been investigated for this research. References were made to the website of Strootman, as it mentions the 'track and trace system'. The website of Strootman reflects the transparency of this company. In contrast to other grey marketers, Strootman has a very informative website; however, it only mentions the information which is beneficial to them.

Van der Zwart & Eenennaam (1998) *Internationale marketing*. Deventer: Kluwer bedrijfsinformatie B.V.

This book provided useful information concerning the segmentation, positioning and product strategy in the European Union, as it focuses on the trade possibilities and developments. *Internationale marketing* is composed of several articles, expressing the opinion of many authors, besides Van der Zwart and Eenennaam. Van der Zwart & Eenennaam are both teaching at the Vrije Universiteit of Amsterdam and the Nijenrode University. As this book is published in 1998, one should be aware of outdated information.

Van Grunsven, M. (2009, March 19) 'Ik besef dat ik een rijk leven heb'. *FEM Business & Finance*. Volume number 13. Pages 30-32.

FEM Business & Finance is a Dutch business magazine with informative articles, covering most actual economic topics. This article, 'Ik besef dat ik een rijk leven heb', has been written by Van Grunsven, reporter of FEM Business & Finance. Van Grunsven has written this article

of three pages after an interview with Marc the Swaan Arons in New York. FEM Business & Finance magazine is a reliable source.

Welord & Prescott (1996). *European business* (Third ed.) London: Pitman Publishing

This book focuses on the complexities of the European Union. Chapter 5, competition policy; chapter 8, marketing in Europe; and chapter 11, Central and Eastern Europe, have been practical for writing this report. Although this book has already been published in 1996, it is still very useful and up to date. Besides, *European business* is comprehensively written and was a practical tool in order to get acquainted with this subject.

## **Appendices**

Appendix 1 - Grey marketeers in the Netherlands

Appendix 2 - Price differences

Appendix 3- Description of the Dutch consumer market personal care products

Appendix 4- Results questionnaire