



# Gray Market and Discount Fraud

corma GmbH - we look deeper

## the gray market – losses amount to billions

While there is more and more awareness for brand and product piracy nowadays, another phenomenon remains largely unnoticed: the Gray Market. According to a study conducted by KPMG and AGMA in the year 2008, 58 million US dollars' worth of technology goods are distributed via unauthorized channels each year. This equals a sales share of six to eight percent. If you assume the same percentage for the semiconductor industry, another 20 million US dollars' worth of goods can be added. Of course, not only the high-tech industry is affected, but there are no reliable numbers yet.

## what is the gray market?

From the manufacturers' point of view, the Gray Market is every form of distribution of their goods beyond the authorized channels.

## why should manufacturers fight the gray market?

Primarily, it is all about protecting the own margin. Often there are significant differences concerning the prices for a certain product between different regions. Supporters of the Gray Market argue that clients in regions with higher prices are cheated, which makes in turn the Gray Market legitimate. But there are usually solid reasons for the differences in price, such as differentiating warranty conditions, environmental regulations or certain product requirements, as well as distribution and service costs.

Therefore, it is understandable that manufacturers want to avoid goods movements between countries or regions. The customers benefit from less authorized goods movements as well, because no one wants to find the wrong firm ware on their IT product or a handbook in the right language to be missing.

## discount fraud: another facet

Under certain circumstances, manufacturers are willing to give additional and often very attractive discounts. But these discounts are only given under certain, strictly defined and stipulated conditions. Considering that we are talking about millions of dollars, it is no surprise that there is a lot of fraud to be found in that area. Unfortunately, the problem often begins with the manufacturer, because the regional sellers largely pay attention to their own regional performance and the damage is usually done in other regions or countries. In some cases there is also corruption.

Since unauthorized dealers make use of every available source on the market and mostly focus on the lowest price, it is easily comprehensible that you can find a lot of counterfeiting on the Gray Market as well. There are also goods from known cases of theft regularly to be found.

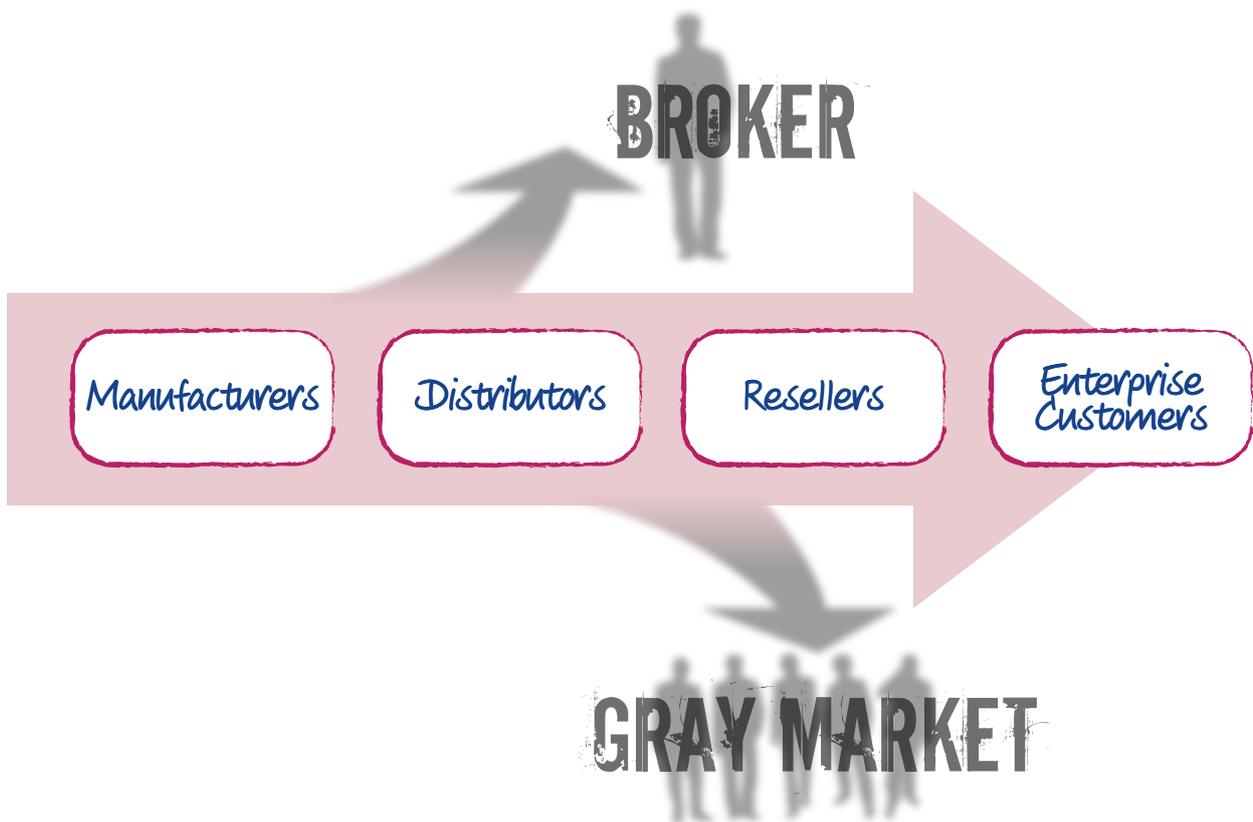
## legal aspects

The trade with Gray Market goods touches on legal aspects more often than not. For example, there can be breaches of contract by resellers who sell to unauthorized third parties, or fraud to benefit from certain attractive terms. The unauthorized entry of goods into the EEA (European Economical Area) from other states is also a statutory offense.

## what can corma do for you?

The corma GmbH helps you to identify key players, avoid financial losses and assert your claims against the offenders. Our investigative work includes:

- process analysis to find weak spots (partner contracts, audit clauses)
- development of strategies to recognize and avoid further damage (test purchases, serial-number tracking)
- link analysis to recognize networks of offenders
- operative investigations and online research
- partner audits
- professional editing of the investigative results for prosecuting authorities
- intelligence for a strategic fight against the Gray Market



## a cross-regional problem

Similar to brand and product piracy, the Gray Market is not a problem that should be considered solely on a local level, as the country of origin and the target market are often not the same and the goods change hands numerous times on their way.

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