



IT'S A GRAY AREA

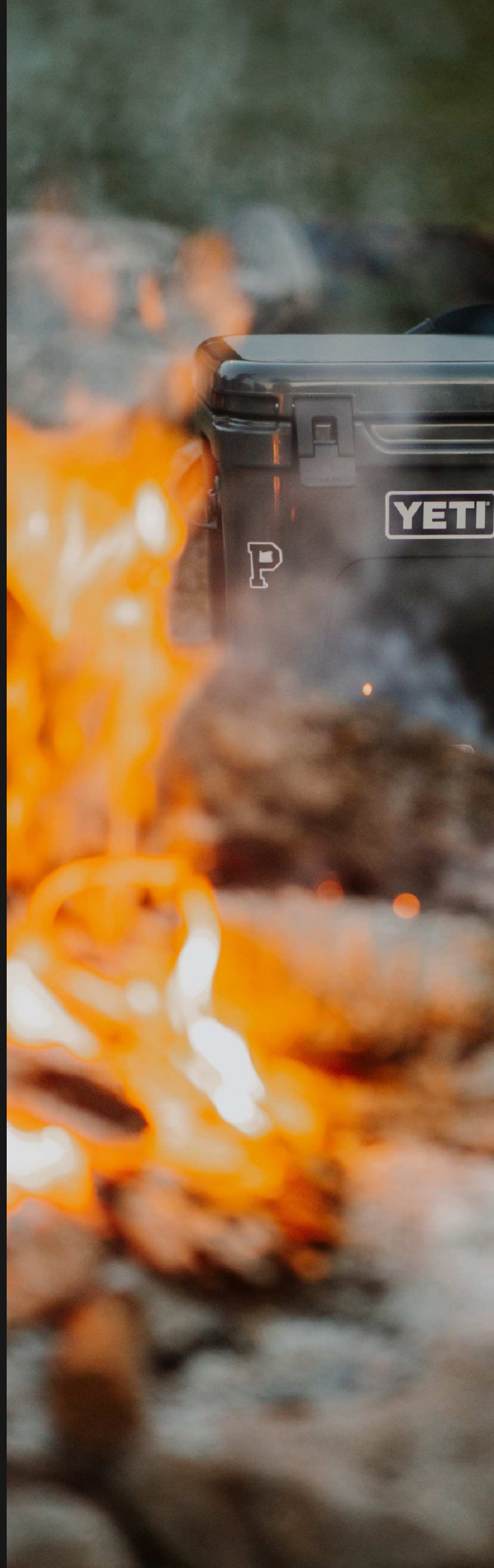
Understanding and protecting your
customers from gray market diversion

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Change the Channel

Understanding the many faces of gray market diversion

Gray market diversion, also commonly referred to as “parallel trade” and “diverted products”, refers to authentic goods sold through unauthorized and sometimes unregulated distribution channels. Oftentimes goods are bought in another country and imported to the US to be resold at higher cost than authorized distribution channels, thereby diverting sales from the regulated and approved channels.

With the rise of e-commerce throughout the pandemic, many brands have been turning to third-party marketplaces to get their products in the hands of hungry consumers. “However, many of these marketplaces do not have stringent procedures to authenticate their sellers and can often allow unauthorized sellers and counterfeiters to sell on their platforms. Some of them can also engage in an unsavory practice where they mix authentic products with counterfeit or imitation products in their fulfillment centers” (Forbes). While counterfeit products pose more of a direct safety risk, gray market products are more of a concern for a brand's bottom line and, when goods from other countries are being sold in the US, can also present issues for consumers

who assume they're receiving the US version of a product. Take the following example of skincare and beauty products being sold in a Target. Skincare brand Dermologica brought a class action lawsuit against Target for selling Canadian versions of their products in their US stores, and thereby contributing to gray market diversion. According to an article by JD Supra, “Dermologica alleges that the products sold in Target’s stores are gray market goods from Canada and are materially different from Dermologica’s U.S. products”. The fact that these products are materially different, in this case, meant they weren't FDA compliant in the US. Similar concerns have arisen in Costcos across the US, who have not been authorized by many beauty brands as a retailer (Refinery29).

Diverted products pull profit away from their intended channels, and in many cases with online retailers, can build consumer distrust since consumers believe they're being overcharged for the same product they're finding on a third-party site. Understanding gray market diversion and how it can affect your business is the first step to identifying how you can stop it. In the next section, we break down the ways parallel trade can affect your brand.

Are You On the List?

How diverted products affect your brand

Between supply chain logistics, navigating and maintaining partnerships throughout distribution channels, and connecting with consumers (among many other factors), brands these days have a lot to keep track of. Because parallel trade is, by nature, operating around authentic products, businesses have turned a blind eye to it in the past. However, more brands are understanding the financial impact and the impact on consumer trust, that gray market diversion can have.

"An adverse outcome of gray-market goods and counterfeits is the lost income for brands, manufacturers and authorized retailers. These unauthorized sellers eat into the margins and sales of brands by engaging in price gouging and heavy discounting, disrupting the market balance and resulting in frustrated retail partners and confused consumers." *Forbes*

Customer impact: The issue with gray market sales is that customers don't usually know they're purchasing a product that has been obtained via unauthorized means—which can "[create] issues with warranties and returns" (Kodak). Furthermore, a consumer can receive a product that was intended for use in another country, posing potential safety and usage issues and further customer dissatisfaction, which typically falls on the brand of the product they've bought and not the distribution channel through which they bought it (Kodak). The more widespread the distribution via unauthorized channels, the less control a brand has over where their product is being sold, and therefore cannot regulate it. Say there's a recall on a beauty product and a brand decides to pull it from all their authorized retailers. The same product that can negatively impact consumer safety could still be reaching consumers via parallel trade and diversion.

Brand Impact:

Gray market activity hurts a brand's profits and overall market share. It's estimated that up to \$63 Billion in revenue is lost each year in the US due to gray market diversion (Refinery 29). "Considering that manufacturers could be losing 4.5% of sales or more to gray marketers, it is no wonder that companies are now taking a hard look at their Brand Protection Strategies to combat this ever increasing problem" (Kodak). Let's see how you can take charge of your brand protection strategies, next.





Making it Black & White

How Vi3 helps you rein in parallel trade

Similar to the counterfeiting trade, gray market diversion impacts a brand's reputation amongst consumers and hurts their bottom line. Luckily, in today's world, there are technologies that can help brands tackle widespread issues such as these.

Like Forbes reported in an article on the topic, "brands can consider leveraging modern technology and automated compliance solutions that can monitor products and prices across regions, and identify and report violations in real time" (Forbes).

At Vi3, real-time authentication data is what we do. With our Brand Protection module, we can help provide you with pinpoint accurate data on your products, wherever they are in the world. Utilizing serialization and blockchain technology, you'll be able to track your products in live time throughout your supply chain, distribution channels, and into the hands of the consumers.

With this module, you'll have access to authentication insights that will allow you to determine if your products are being sold through unauthorized channels.

Vi3 is committed to helping brands with their most pressing brand protection and supply chain issues. Our team of experts is well-versed in the most pressing issues businesses are facing today—especially with the increasing complexities around real-life and digital marketplaces, it can feel overwhelming on where to start. Luckily, we're here to help.

Ready to connect?

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