



**Department of Business and Management**  
**Master of Science in Strategic Management**

Chair of Fashion Management

**The luxury grey market: an analysis of  
consumers' purchase-related behavior**

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## INTRODUCTION

The luxury industry is characterized by products' quality, uniqueness, and desirability. Despite representing the pinnacle of all markets, offering the highest quality and excellence across every market segment, luxury brands face significant challenges related to transparency deficiencies in their supply chains and to the supervision of their distribution channels. In particular, a branch of the illegitimate trades, namely the grey market, turns out to be particularly impactful and peculiar.

The purpose of this dissertation is to contribute to the literature to raise awareness and to investigate the phenomenon of luxury grey markets and how they impact consumers' purchasing behavior.

Specifically, the present study sheds light over the current size of this growing illegitimate market and, more importantly, over its potential influence on specific traits of luxury consumers' purchasing behaviors.

Luxury brands, and their CEOs, have always condemned the phenomenon by trying to discourage consumers from approaching it.

On the other hand, at the same time, the same brands have often resorted to the support of grey marketers to quickly dispose of goods by obviating potential issues that might have arisen about the storage or disposal of excess or unsold stocks.

The first chapter will initially introduce the consumer's behavior theories developed by scholars throughout the decades and then, will shift the focus towards a more luxury-centric discussion. As a matter of fact, drivers, forms, and consequences of luxury consumption will be identified while, contextually, consumers will be classified in groups according to their approach to luxury purchases.

Moreover, in this first part of the dissertation, consumption patterns will be disclosed. In particular, it will be proven the presence of a difference of stages characterizing life and the attitude towards the consumption of luxury goods for consumers belonging to different macro-areas, while the relationship between prices variations and demand will be discussed as well.

Lastly, the behavioral evolution occurred because of the pandemic will be analyzed by focusing on the specific case of luxury consumption.

Next, in the second chapter, in order to delve into the topic of the grey market, a first introduction to the illegitimate trade will be provided, so as to acquire awareness of the overall phenomenon from which the grey market originates.

In addition, projections about the size of the luxury grey market will be presented as a proof and warning of the increasing impact the phenomenon will retain.

Furthermore, it has been deemed necessary to include in the chapter an overview of how the phenomenon develops in different countries, such as Japan, Russia, and China.

Ultimately, for the sake of completeness and to further direct the reader towards the topic of the luxury grey market impact on the purchasing behavior, the effects of such market on consumers will be presented.

Chapter three will then take the direction of a specific grey market: the Chinese phenomenon of the *daigou*.

Therefore, the *daigou*'s evolutionary stages, their purchasing processes and the corresponding margins' composition will be described.

Moreover, to provide a better understanding of the subjects involved in the practice, an accurate description of the user persona will be presented so as to give to the audience the necessary tools to recognize such players.

Finally, a detailed data analysis about the top selling brands and the top selling platforms will be made available to complete the overview of the Chinese grey market phenomenon.

The last chapter will illustrate the research methodology to formulate the hypotheses, design the survey, and then to collect the data.

The quantitative analysis is performed with the objective to answer the selected research question: "How does the presence of a luxury grey market influence the customers' purchasing behavior?".

Additionally, to complete the research, managerial recommendations will be suggested to limit the grey market's development and to educate the customers.

The purpose of the thesis is to contribute to the debate about the relevance of the grey market highlighting the issue of its specific influence on the purchasing behavior of luxury consumers, so as to raise awareness about a phenomenon which is still not unanimously recognized as detrimental.

## CHAPTER 1 - THE CONSUMER'S BEHAVIOR

### 1.1 Introduction to the consumer's behavior

Throughout the decades, many have been the definitions of consumer's behavior, all presenting minor differences, but still with the same ultimate meaning.

Walters (1974) defined it as “the process whereby individuals decide whether, what, when, where, how, and from whom to purchase goods and services”<sup>1</sup>.

Engel, Blackwell & Miniard (1990) described the behavior as “those actions directly involved in obtaining, consuming, and disposing of products and services, including the decision processes that precede and follow these actions”<sup>2</sup>.

Solomon, Bomossy et al. (2006) stated that “consumer behaviour..... is the study of the processes involved when individuals or groups select, purchase, use or dispose of products, services, ideas or experiences to satisfy needs and desires”<sup>3</sup>.

Schiffman et al. (2007) recognized that “the behavior that consumers display in searching for, purchasing, using, evaluating, and disposing of products and services that they expect will satisfy their needs”<sup>4</sup>.

Overall, the common treat is that the consumer's behavior is the purchasing act, which also comprehends the decision-making behind the action, as well as the effort used to perform the activities that allow to extract the necessary information about the product or service, make the purchase, exploiting and evaluating the interested good.<sup>5</sup>

This topic has been the nucleus of much research over time, aiming at giving an answer to the question: *What process do consumers follow to make decisions?*

With the purpose to answer the above-mentioned question, starting from 300 years ago, different decision-making models have been developed, and the authors of the early developments are recognized to be Nicholas Bernoulli, John von Neumann, and Oskar Morgenstern.

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<sup>1</sup> Walters, 1974

<sup>2</sup> Engel, Blackwell & Miniard, 1990

<sup>3</sup> Solomon, Bomossy et al., 2006

<sup>4</sup> Schiffman et al., 2007

<sup>5</sup> Cornescu & Adam, 2015

In the eighteenth-century, Nicholas Bernoulli conceived the first consumer decision-making theory, assuming that consumers behave according to their expectations, picking whichever good or service will provide the maximum return in terms of satisfaction.<sup>6</sup>

Later, in 1944, Neumann and Morgenstern, starting from the *Bernoulli Utility Theory*, developed the *Expected Utility Theory*<sup>7</sup>. It presents four axioms which determine the distinctive feature of rationality for the decision maker: completeness, transitivity, independence and continuity<sup>8</sup>.

It can be said that  $\succeq$  is *complete* iff  $\forall x, \forall y \in X$  you either have  $x \succeq y$  or  $y \succeq x$  or both.<sup>9</sup> So, completeness means that any and every two elements of the choice set can be compared, and the decision maker has a specific preference between the two options.

*Transitivity* occurs iff  $\forall x, \forall y, \forall z \in X$ , if  $x \succeq y$  and  $y \succeq z$  then  $x \succeq z$ . Here, the consistency of the preferences is the key element.

For *continuity*, iff  $\forall x, \forall y, \forall z \in X$ , if  $x \succeq y$  and  $z$  is sufficiently close to  $y$ , it is true that  $x \succ z$ .

Lastly, the axiom of *independence* of irrelevant alternatives refers to the particular case in which if the consumer has to make a decision and either choose bundle  $x$  or bundle  $y$ , where  $x \succ y$ , for any additional bundle  $z$ , the preference will not vary:  $x + z \succ y + z$ .

In brief, the Expected Utility Theory assumes that consumers act as rational individuals able to make estimations of the outcomes of decisions made under uncertain conditions. However, it is known that complete rationality cannot be reached, and therefore, some limitations have emerged.

Given the above-mentioned premise regarding the limitations of the theory developed by Neumann and Morgenstern, in the 1950s Herbert Simon proposed a simpler alternative called *Satisficing*<sup>10</sup>.

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<sup>6</sup> Mandl et al., 2011

<sup>7</sup> Neumann & Morgenstern, 1944

<sup>8</sup> Ibidem

<sup>9</sup> The choice set is represented by  $X$ : an arbitrary set of objects such as a list of consumption bundles.

$X = (a, x, y, w, z)$

<sup>10</sup> Simon, 1956

The paradigm of the model is that, once the consumer has found the preferred option between the goods, he/she stops the research without further investigation of other options.<sup>11</sup>

To better understand the behavioral differences with the *Utility Theory*, in the latter case, the consumer evaluates every purchasing option with rationality in order to make the decision that maximizes his/her utility. Alternatively, with *Satisficing*, the consumer makes an investigation to pick the preferred good only between a fraction of all the alternative options, and once a “good enough” alternative<sup>12</sup> has been found, the research is ceased.

To further understand the decision-making process of consumers and to find a model that could remedy to the deficiencies of the two models described above (Expected Utility Theory and Satisficing), in the 1970s, the psychologists Daniel Kahneman and Amos Tversky elaborated the *Prospect Theory*. The main aim of the development of the new theory was to conceive something that could satisfy the “unmet” expectations of the previous ones.

By maintaining the congenial features of the two theories and, at the same time, focusing on the deficiencies, they identified two main concepts to be added to produce a more complete work. These two elements are recognized to be value and endowment.

The assumption of the theory is that consumers, when faced with a choice, perceive gains and losses in a non-homogeneous way. So, when facing a choice of two optional goods where one offers a potential gain and the other a potential loss, the decision-maker will pick the former choice.<sup>13</sup> The potential loss is detected as, potentially, emotionally more impacting, and so the consumer will divert to what seems to be, emotionally, safer.

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<sup>11</sup> Simon, 1956

<sup>12</sup> Richarme, 2005

<sup>13</sup> Kahneman & Tversky, 1979



## **1.2 The psychology behind luxury consumption**

Having analyzed how, theoretically, consumers behave according to the models developed throughout the decades, it is now necessary to set the focus on luxury consumption.

Historically, luxury was reserved to higher classes and leveraged by them so as to remark the separation between classes and the hierarchical order. Nowadays, however, luxury consumption is not purely driven by the need to emphasize social differences and generate a discriminative reality, but mainly by the research of social affirmation and need to belong to a group. Such a status-related need is connected to some drivers, occurring in different forms and leading to both positive and negative consequences.<sup>14</sup>

### **1.2.1 Drivers of luxury consumption**

In the latest years, different studies have been conducted to identify which are the factors that determine the desire for luxury goods, and three have been identified as the determinants: biological, socio-psychological, and structural factors.

Beginning from the *biological* factors, Nave et al. (2018) have proven how testosterone amplifies the attraction to luxury brands.

To prove this, their study started from the analysis of how the testosterone level varies according to the situation, and in particular it rises in contexts in which social rank is involved. As a matter of fact, when social status is involved, testosterone does not influence the behavior making the subject more aggressive, but rather positively influences generosity and social behaviors.<sup>15</sup>

The study analyzed the behavior of 243 male subjects when having to face two tasks after the administration of testosterone. For the first task, the participants had to give a preference when presented with five alternative goods which can be reconducted to different social ranks. Moreover, as a second task, they were presented goods with different characteristics which either enhanced status, power, or had a high quality, and

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<sup>14</sup> Dubois et al., 2021

<sup>15</sup> Nave et al., 2018

consequently, the way testosterone influenced the respondents behavior was studied. The results showed how the participants had a preference for brands with a higher associated social status and how testosterone positively influences people with respect to social-enhancing goods, and not to power-enhancing or high-quality ones.<sup>16</sup>

For what concerns *socio-psychological* factors, Kim et al. (2018) studied the link of political ideology and goals with the attraction to luxury goods.

Starting from the distinction of political ideologies in two macro groups: liberals and conservatives, the study classifies conservatives as the group characterized by a *status-maintenance* goal while, on the opposite, liberals are characterized by a *status-advancement* goal<sup>17</sup>.

Following the distinction made, the first group is the one which is more attached to a rigorous social status distinction and so, also to remark the point, they favor the purchase of well-known brands over unknown ones. On the opposite, liberals prefer non-luxury consumption.

Lastly, for *structural* factors, Walasek et al. (2018) mean income and wealth inequalities as drivers and enhancing factors for positional consumption.

Analyzing X's (ex Twitter) number of posts in regions with high income inequalities regarding luxury brands, the assumption made was that, in these regions, people would invest more time and resources posting and mentioning high status brands. Finally, the conclusion of the research confirmed the hypothesis, noticing how positional goods actually signal higher income and wealth in the particular case of visible and serious inequalities.<sup>18</sup>

It is necessary to underline that income and wealth inequalities in specific regions and so the research and interest for luxury goods is not necessarily strictly correlated with an increased availability of such positional products, but it may represent a driver for a potential supply increase.

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<sup>16</sup> Nave et al., 2018

<sup>17</sup> Kim et al., 2018

<sup>18</sup> Walasek et al., 2017

### 1.2.2 Forms of luxury consumption

Nowadays, following the trends, having luxury entered new markets and segments, it is being reshaped in different and new forms.

It is indeed possible to distinguish traditional and unconventional offerings ranging from loud or quiet luxury, to vintage and substitutes for luxury products.

Beginning from the traditional form of luxury consumption, two types of consumer's behaviors can be distinguished: loud luxury seekers, and quiet luxury seekers.

Newcomers to the luxury market generally are the ones who favor ostentation and garment with logotypes, so products that are socially recognizable through which they can loudly state their status. On the other hand, it can be distinguished the segment of consumers who are not seeking for a recognizable product for affirmation. They rather prefer a qualitatively remarkable product, whose appreciation goes beyond the logotypes or motifs, but rather focuses on the excellence of artisans and the quality of materials.

More in detail, Han et al. (2010) further classifies consumers in four groups: *patricians*, *parvenus*, *poseurs* and *proletarians*.<sup>19</sup> As the latter refers to the subjects who are not interested in signaling their social rank through status goods, the focus will be kept on the first three groups.

*Patricians* are identified as the wealthiest batch who has a preference for inconspicuous goods, characterized by extraordinary craftsmanship and materials' quality. Their aim is to be associated with other patricians rather than putting the effort to underline their separation from other groups of consumers.

*Parvenus* are those subjects who are certainly wealthy, but instead of researching pieces of high craftsmanship with just subtle signals of their extraordinariness, they prioritize, for example the Gucci "GG" or Louis Vuitton's "LV", which are clear and unmistakable identifying elements that quickly make their status clear.

*Poseurs*, like *parvenus*, are moved by the need to clarify their status. The difference is that they do not have the economic capabilities to possess such expensive goods. The consequence is that, to pursue their goal, they rather buy counterfeits as they are cheaper and not immediately recognizable as fake or imitations.

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<sup>19</sup> Han et al., 2010

### 1.2.3 Consequences of luxury consumption

After having disclosed the drivers and the forms of luxury consumption, it is necessary to analyze the consequences as well.

The most common and superficial consequences that derive from the purchase of such goods are related to the perception that others have of the subject who exhibits the garment or accessory, such as increased perceived competence and trustworthiness.

What is commonly kept aside are the many negative consequences connected.

As a matter of fact, everything comes at a cost, and the shady side comprehends psychological, social, and economic costs.<sup>20</sup>

For what concerns the psychological risks, the research shed light on them stressing how luxury consumption is a double-edged sword.

Researching self-authenticity is a driver for every human being who want to shape its identity and define its values, but it commonly comes into conflict with individuals' impulse to dream and aspire to bigger things. This conflictual relationship leads to an *impostor syndrome from luxury consumption*<sup>21</sup>.

Another consequence, deriving from the above-mentioned psychological pattern, is the identification of a group of consumers, or of potential consumers, who refuse to purchase luxury goods as it would make them feel inauthentic or as deriving from an undue privilege<sup>22</sup>.

Moreover, other feelings can be involved in the experience of the purchase. In particular, a common treat emerging is the fear of violence or judgement when displaying the luxury good, or even shame and guilt in relation to meeting expectations.<sup>23</sup>

Moving to the social costs, warmth perceptions and human interactions play a fundamental role.

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<sup>20</sup> Dubois et al., 2021

<sup>21</sup> Goor et al., 2020

<sup>22</sup> *Ibidem*

<sup>23</sup> De Barnier & Roux, 2019

There are two main drivers which are identified as the potential reason why people wearing luxury garment might be perceived as less warm: impression management motives, and envy.<sup>24</sup>

The first refers to the effort people put to give a positive impression of themselves, while the latter refers to the feeling arising in some individuals who wish to possess the same goods.

However, it is possible to affirm that, for luxury consumption, between the two, it is the impression management motives that generate lower perceptions of warmth. The reason for this is that, being envy only associated to the people who also need to affirm their status, it is only a fraction of the total population. On the contrary, being able to understand the impression management motives of luxury consumers does not require the need for status affirmation as a characteristic of the involved counterparts in the social interaction.<sup>25</sup>

Given this premise, it has to be kept in mind that such social costs are not inevitable. As a matter of fact, in Cannon & Rucker's study, the negative perception was removed as the respondents got rid of the unjustified belief that the reason for buying of luxury products was only driven by impression management motives.<sup>26</sup>

There is another particular case when such kind of consumption, also definable "*conspicuous consumption*"<sup>27</sup>, is morally accepted, and it is when consumption is not self-enhancing, but group-focused. This consumption refers to the contexts where moral values motivate the behavior, or at least mitigate others' perception. Historically, members of the royal families, who were clearly conspicuous consumers, were still morally accepted as they were supposed to be serving for the people with respect and loyalty.<sup>28</sup>

Finally, it is worth mentioning the danger luxury brands themselves are exposed to because of particular consumers' behaviors, generating economic costs.

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<sup>24</sup> Cannon & Rucker, 2019

<sup>25</sup> *Ibidem*

<sup>26</sup> *Ibidem*

<sup>27</sup> Goenka & Thomas, 2020

<sup>28</sup> *Ibidem*

As a matter of fact, brand dilution is a risk luxury brands have to take into consideration as a difficulty that could be very costly if exclusivity is not ensured and the products become overexposed.

Taking the example of the iconic Louis Vuitton Neverfull bag, many might say that they do not want to buy it anymore because it is mainstream. The consequence is that then they opt for very similar products like the Goyard, Moynat or Faure Le Page bags, which are similar in terms of price positioning and quality but, being known and used by niches, they transmit a sense of exclusivity and are perceived as status-enhancing.



Figure 1: Brands' exclusivity evolution.

Source: Personal Elaboration.

Therefore, beyond the history such a bag can tell, its quality and the craftsmanship which made it famous, people do not find it appealing anymore.

This purchasing behavior happens for the sake of diversifying, feeling more exclusive, but most importantly because the consumers carrying such an inflated bag, most probably, are not representatives of the brand. In particular, what is arguable is that the self-brand connection<sup>29</sup>, so the overlap between the brand and the person, is very low, meaning that probably the product is carried without the pride of embracing the lifestyle and values that the brand represents. Ultimately, this behavior is harmful for the brand itself for the negative associations people will generate.

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<sup>29</sup> Escalas & Bettman, 2003

### 1.3 Consumption patterns of luxury goods

#### 1.3.1 Luxury stages

After having briefly analyzed some of the psychological mechanisms behind luxury consumption, its drivers, forms and consequences, it is necessary to understand the approach towards this world throughout different stages of a person's life.

Radha Chadha and Paul Husband developed a theory which identifies five stages characterizing life and the attitude towards the consumption of luxury goods. It also allows to envision where certain countries stand in terms of development and inclination toward certain types of expenditures.<sup>30</sup>

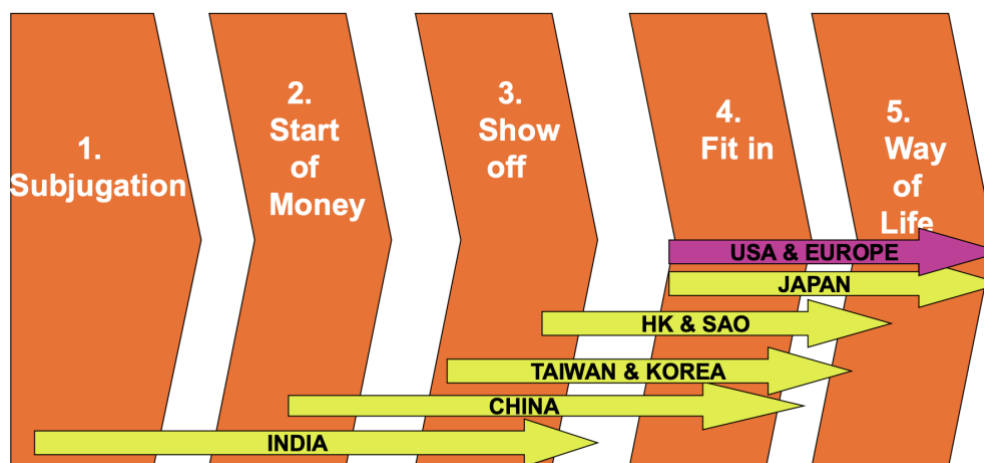


Figure 2: *The five luxury stages.*

Source: Chadha, R., & Husband, P. (2010).

*Subjugation* is the early stage of an adult's life; it is the phase where the attention is on the basic needs. Poverty characterizes the lifestyle and the feeling towards luxury is fascination for something that is still out of reach.

*Start of money* marks the beginning of the financial success of the person, who can now afford entry-level luxury products. Here, the intangible fascination starts turning into tangible possession.

<sup>30</sup> Chadha & Husband, 2010

Then, in the *show-off* stage, people want to announce their financial success and their new status by displaying recognizable pieces. Conspicuous consumption serves as a signal of success while seeking for validation from certain social circles.

During the *fit in*, the purchase of luxury goods is not made randomly, but in a selective and sophisticated way. The aim, in this stage, is the integration in luxury-oriented social circles.

Lastly, luxury becomes a *way of life*. Here, people get used to the fine quality of luxury and the consumption of luxury goods decreases. The main reasons are that the possession of the goods has already been achieved, and that the consumption of traditional luxury goods is not that attractive anymore.

The consequence for luxury brands of having different countries at different stages of “evolution”, is to be appealing for the people in all the stages. The product satisfying the needs of a person in the show-off phase, who would supposedly prefer visible logos for example, is different than the one designed for a person in the way of life stage who has a preference for classy garments.

### 1.3.2 The relationship between price and demand

Concerning consumers’ purchasing behavior, a binomial worth analyzing is the relationship between price and demand and, in particular, how variations of the first influence the latter.

Four main effects of price variations have been identified by scholars, which are: snob effect, bandwagon effect, Veblen effect, and Diderot effect.

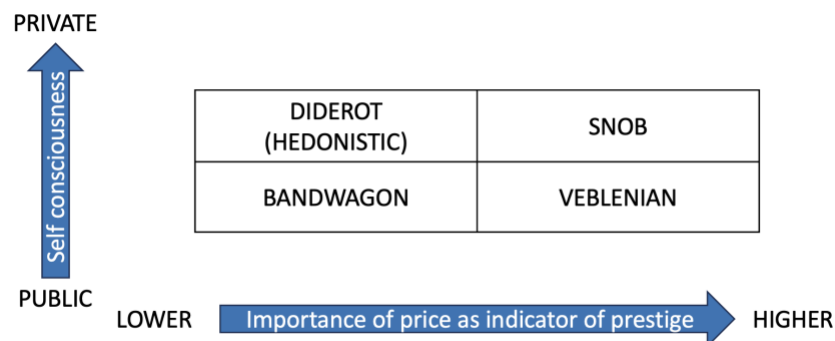


Figure 3: *The relationship between price and demand.*

Source: *Personal elaboration.*



### 1.3.2.1 Snob effect

The snob effect describes a decrease in the demand not related to a change (decrease) in price. The driver for such a behavior is the over request of the product, that makes it lose appeal for the “snobs” and more demanding customers who crave exclusivity and uniqueness. Therefore, there is a negative correlation between the individual’s consumer demand and the total market demand.<sup>31</sup>

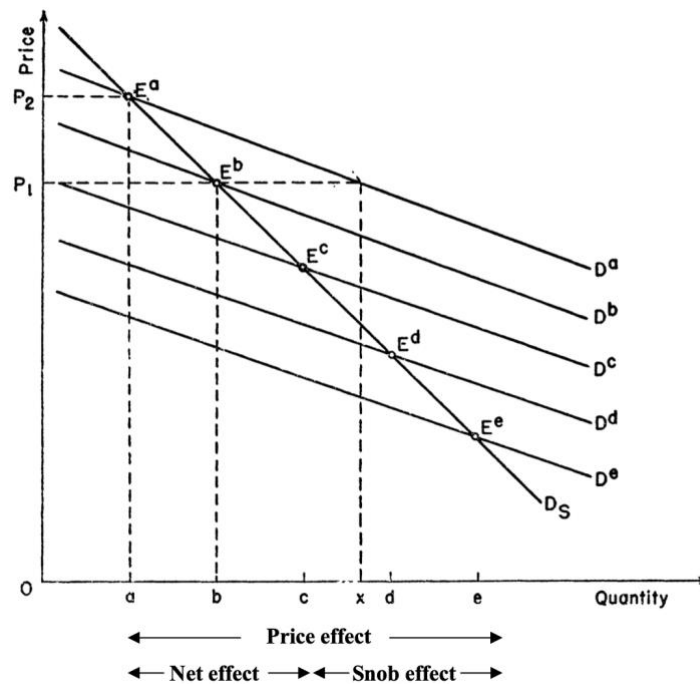


Figure 4: *Graphic representation of the Snob effect.*

Source: *Leibenstein (1950).*

To better visualize the phenomenon, initially, let  $D^a$  represent the demand curve reflecting the individuals’ perception that only one hundred individuals possess a good with a snob value. If this perception shifts to believing that two thousand individuals own the same commodity, the snob value diminishes, causing a decrease in demand, leading the demand curve to shift leftward to  $D^b$ .

Subsequently, if the belief expands to three thousand people owning the good, its prestige further diminishes, leading again to a leftward shift of the demand curve. If the perception reaches four thousand owners, the relevant demand curve becomes  $D^d$ .

<sup>31</sup> Leibenstein, 1950

Consequently, the snob effect causes a decrease in the quantity demanded of the commodity as more people are thought to possess it. Eventually, as the true ownership becomes known, connecting the points  $E^a$ ,  $E^b$ ,  $E^c$ ,  $E^d$  and  $E^e$  representing quantities wanted at various assumed ownership levels, we derive the market demand curve  $D_s$ , incorporating the snob effect.

### 1.3.2.2 Bandwagon effect

The bandwagon effect is a social phenomenon typical in fashion, and it means that, despite the price does not record any variation, the demand increases as more individuals see the product that they want being demanded by others. Thus, it is the opposite relationship of the snob effect, yet symmetrical.<sup>32</sup>

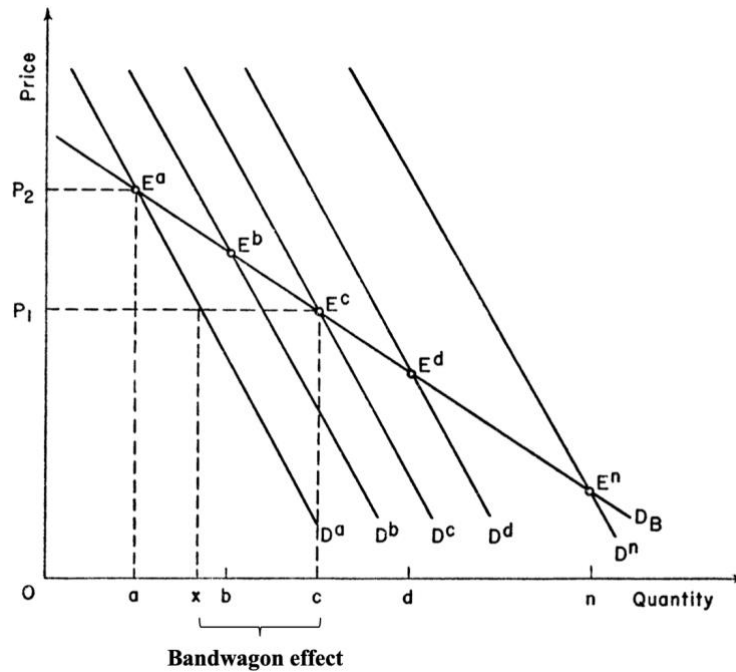


Figure 5: Graphic representation of the Bandwagon effect.

Source: Leibenstein (1950).

Visually, let  $D^a$  be the initial demand curve. Then, if individuals perceive that one thousand people have acquired the interested commodity, there will be an increase in its appeal. Consequently, the desire to acquire more of the good to align with fashion trends will increase. This growth in demand results in a rightward shift of the demand curve, denoted as  $D^b$ . Following this logic, if the perceived number of purchasers rises to two

<sup>32</sup> Leibenstein, 1950

thousand, the allure of the good escalates, causing the demand curve to shift right to  $D^c$ . Raising even more, the demand curve will rightward shift even more to  $D^d$  and  $D^n$ .  $E^a$ ,  $E^b$ ,  $E^c$ ,  $E^d$  and  $E^n$  are the points of equilibrium for each demand curve and, connecting all of them, it is possible to track the actual demand curve  $D_B$  of the good.

### 1.3.2.3 Veblen effect

The Veblen effect summarizes the previously cited conspicuous consumption, which serves as index of status and wealth.<sup>33</sup> It is the opposite of the elasticity curve theory as it is totally irrational: as prices increase, demand increase as well.

As the main concern of veblenian consumers is affirmation within social groups, and considering them the price as one of the most explanatory indicators of prestige, they will be attracted naturally by costly goods.

To better understand such a dynamic, first of all, it has to be taken into account that the utility of a good being attributable to conspicuous consumption is not given solely by the qualities of such a commodity, but also by its price.<sup>34</sup> Therefore, it is possible to divide the price in two parts: the real price<sup>35</sup> and the conspicuous price<sup>36</sup>.

Overall, the consumers' demand is function of both the real price and the conspicuous price.

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<sup>33</sup> Veblen, 1899

<sup>34</sup> Leibenstein, 1950

<sup>35</sup> Monetary price paid by the consumer for the good.

<sup>36</sup> Monetary value other people associate to the good a subject bought, that determines its utility.

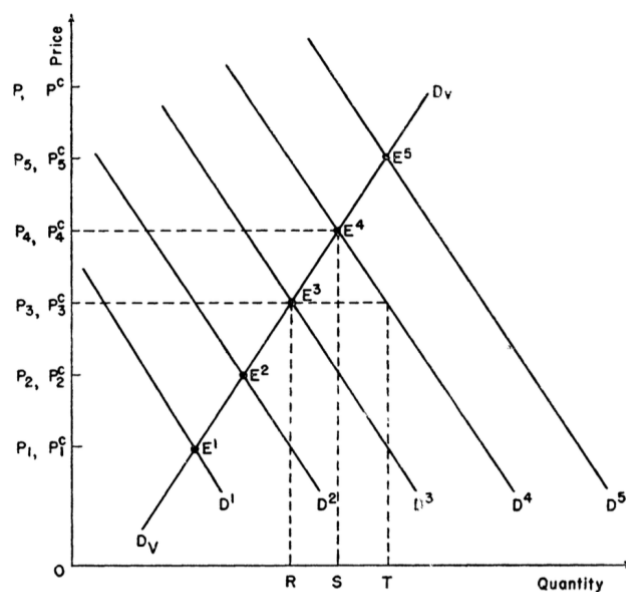


FIGURE 4  
 Price effect = ST  
 Veblen effect = -TR  
 Net effect = -SR

Figure 6: *Graphic representation of the Veblen effect.*  
 Source: *Leibenstein (1950).*

Graphically, the veblenian demand curve  $D_V$  is derived starting from the market demand curves  $D^1, D^2, D^3, D^4$  and  $D^5$ . Each demand curve represents the quantity requested for different levels of expected conspicuous prices ( $P_1^c, P_2^c, \dots, P^c$ ).

$E^1, E^2, E^3, E^4$  and  $E^5$  are the points of equilibrium for each demand curve and, connecting all of them, the actual demand curve  $D_B$  of the good is tracked.

Interestingly, unlike the  $D_S$  curve, the  $D_V$  curve can have both positive and negative inclination.

#### 1.3.2.4 Diderot effect

The Diderot effect, or collection effect, recalls an essay by Denis Diderot of 1769 “*Regrets for my Old Dressing Gown, or a warning to those who have more taste than fortune*”. The aim of the work was to present the effect produced by a simple gift on the purchasing behavior.

As a matter of fact, the philosopher Diderot informs that a gift, or the possession of a good, can influence the decision of a consumer and persuade to purchase related goods for the sake of completeness and to match the owned product.

Therefore, practically the demand increases because people who already own a matching product or a product from a specific brand, want to buy one more to complete the match and to have the same style of the already owned goods.

#### **1.4 Post-covid behavioral evolution**

The outbreak of COVID-19 shook world's economy and psychologically impacted the population from every point of view, from the private to the public sphere. Under an economic perspective, it translated in recession, scarcity, and decreased purchasing power, while psychologically, the most tangible consequences have been social distancing, discomfort and anxiety in public places, and preference for online purchasing.

The pandemic was not the first global crisis the luxury market had to face, but as for the 2008 financial crisis, when the interested market recorded an 8% decline<sup>37</sup>, it led to financial concerns, changes in lifestyle, and shift of consumers behavior towards more conservative and meticulous consumption.

Specifically talking about the fashion and luxury industry, being characterized by an experiential trait which shapes and enhances the purchasing process, all the limitations imposed by the pandemic reshaped the brands' offer and, contextually, consumers' purchasing behavior to adapt to the extraordinary situation.

The crucial point about COVID-19 is understanding the way it changed consumption patterns and preferences in order to indulge the new reality and, also, if this adaptation is only temporary while there will happen a complete comeback to pre-covid habits.

Scholars have, and still are, trying to address the issue and dig deeper into these dynamics in the luxury market, and the main topics emerging are the evolution of in-store shopping and online purchasing, the phenomenon of revenge spending, and "masstige".

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<sup>37</sup> Marcos Ceron & Monge, 2023

### 1.4.1 In-store shopping

The physical store plays a fundamental role in determining and shaping a customer experience journey. It is the only place where a luxury brand can make the difference, and brands are continuously investing in this, as a piece of image.

The store is a physical expression of the Brand and provides a powerful opportunity to make emotional connections and influence choices.

Today's customers are showing a preference for doing their research online about products and prices and, then, acquire the product (ROPO<sup>38</sup>) in order to physically enjoy the final purchasing experience in store.

Supporting the thesis that physically purchasing the good is still leading despite the past pandemic, the last Altagamma<sup>39</sup> findings show that, for personal luxury goods, the physical retail is growing more than the online and is expected to grow, in 2024, of +7.5%. The appealing factors of the in-store purchases, which increase the involvement and loyalty, are the many details that can only be ensured with the in-store experience, such as: the personalization, the involvement and transhuman touch, the dedicated showrooms and the in-store entertainment.

The 2023 Market Insights report by Statista<sup>40</sup> further underlines such a prevalence showcasing how, overall, the in-store revenue's share is three-quarters of the total, even though it is recording a slight decrease year on year.

In particular, in the luxury leather market and in the fashion market as well, the 2023 revenue's share accounted for 78%, and in 2024 is expected to be 76%.

Regarding the watches and jewelry market, in 2023 the revenue's share was 73%, and in 2024 will be around 72%.

Lastly, for the eyewear market, the revenue's share in 2023 has accounted for 80% of the total, while in 2024 it is expected to decrease to 77%.

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<sup>38</sup> The ROPO (Research Online, Purchase Offline) effect is the phenomenon that consists in doing the research about the desired product, store availability, and price online, and then finalizing the purchase in-store. Such a habit, however, represents a significant issue for online stores as the research but contextual the lack of purchases does not bring profits.

<sup>39</sup> Altagamma Consensus 2024

<sup>40</sup> Statista, Market Insights report 2023

### 1.4.2 Online purchasing

The pandemic outbreak, without any doubt, unveiled the potential of the online sales as a valid and certainly quicker solution to make the purchases.

In addition, following the Instant Gratification and Motivation theories<sup>41</sup>, luxury consumers have increasingly become attracted by the online alternative as it ensures a different yet more immediate sense of gratification that the in-store experience cannot ensure as the shopper, prior the purchase, should make the effort to physically reach the store and have longer interactions to take a decision.

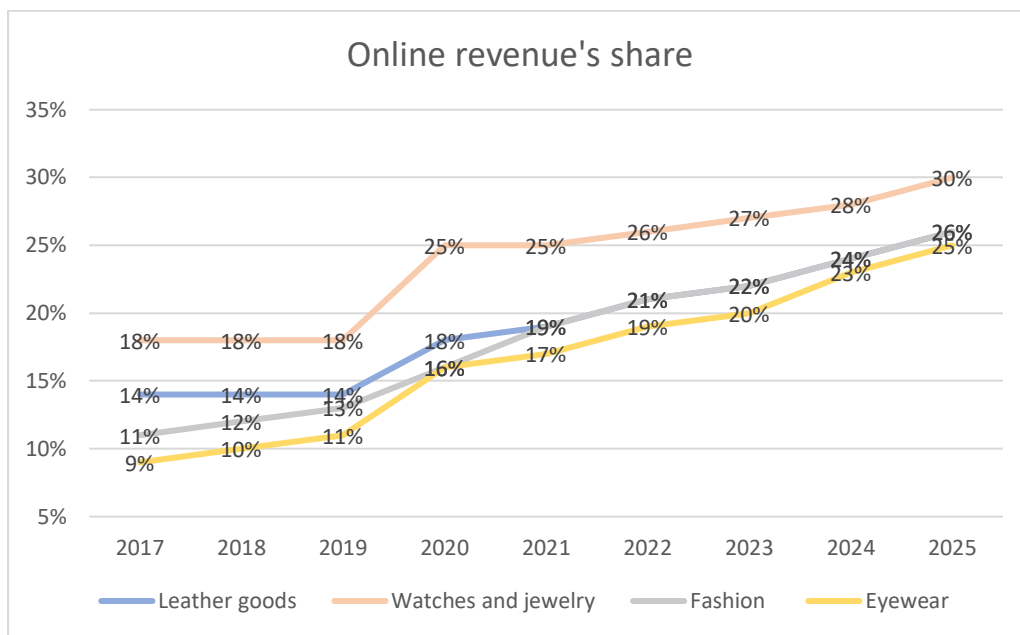


Figure 7: Online revenue's share.

Source: Statista, Market Insights report 2023.

Moreover, according to the data<sup>42</sup>, the graph above shows how the pandemic gave a great boost to the online revenue's share, meaning that there has been a sudden increase, of course, given by the necessity to readapt to a condition in which restrictions limited the visits to physical stores.

The point which is worth underlining here is how this event did not bring to a temporary effect led by readaptation. On the contrary, it seems to have boosted the development of a market which is congenial with today's shoppers and their needs, resulting in a constant

<sup>41</sup> O'Donoghue & Rabin, 2000

<sup>42</sup> Statista, Market Insights report 2023

growth year on year of the online channels which will, presumably, continue at the same pace in the following years.

### 1.4.3 Revenge spending

Another interesting, yet controversial, behavior that has emerged as a consequence of the virus is revenge luxury consumption.

It opposes to silent consumption, and it refers to the unusual purchase and consumption of luxury goods during particularly stressful time frames and to alleviate negative emotions<sup>43</sup>.

Revenge spending can reveal itself because of two main motivations. The first one is a *mood-alleviate consumption motivation*, occurring under the form of gifting to the self to fight back negative emotions; while the second one is the *social recognition consumption motivation*, happening with the final purpose of collecting positive impressions from others.<sup>44</sup>

However, being revenge spending linked to feelings strictly related to discomfort and danger in extreme situations, and having the pandemic emergency slowly dissolved, such a behavior might have had a direct impact on the luxury market in the short term, but in the long term this is a problem which should not be addressed as highly impacting on the current market situation.

### 1.4.4 “Masstige”

The word “*masstige*” is the combination of the terms “*mass*”, referring to the accessibility of the product for the masses, and “*prestige*”, with regards to the use of premium prices and visible logos.<sup>45</sup> Therefore, its meaning is mass consumption of luxury products.

The reason for doing this, for marketers, is the possibility of profits maximization. But, on the other hand, the reason for the resonance and appeal of such an offer of luxury

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<sup>43</sup> Park et al., 2022

<sup>44</sup> Kim and Chang, 2023

<sup>45</sup> Wang et al., 2022



goods from the perspective of consumers, it the type of audience to whom the offer is addressed.

As a matter of fact, as luxury consumption is perceived by many as an undue privilege that generates guilt and shame, by massively offering luxury goods, the negative emotions are alleviated because the perception of traditional luxury consumption is moderated by the acknowledgement that such a purchase is not a privilege, but a possibility for many. Because of COVID-19, the threats and risks to which people have been exposed generated a discomfort that, somehow, had to be rebalanced. The bigger the discomfort, the bigger the willing to find a solution to fight it back, and this is where the mass supply of luxury goods came into play by taking advantage of the above-mentioned logic.

So, in this case, the “*masstige*” is the answer to an evolution of the consumers’ behavior inducted by the pandemic, where there is a high, or massive, placing of products on the market to meet consumer needs.

## CHAPTER 2 – THE GREY MARKET AND THE IMPACT ON THE LUXURY INDUSTRY

### 2.1 Introduction to the illegitimate trade

After having analyzed the consumers' behavior and the possible consumption patterns of luxury consumers, the core topic of the dissertation, on which it is now necessary to put the attention, is the grey market and how such an illegitimate channel can be harmful for the luxury market by influencing consumers' decisions through the offering of alternative and cheaper options.

In general, and despite the common belief, illegitimate trade does not concern only the trade of counterfeited goods. It rather comprehends a pool of many non-authorized practices at the expenses of the brands.

To detect and explain ambiguous activities across the supply chain, the “legitimate-illegitimate supply chain” (LISC) model is a tool that detects the activities happening along the supply chain distinguishing them between *design, factory, warehousing, retail, and customer* stages.<sup>46</sup>

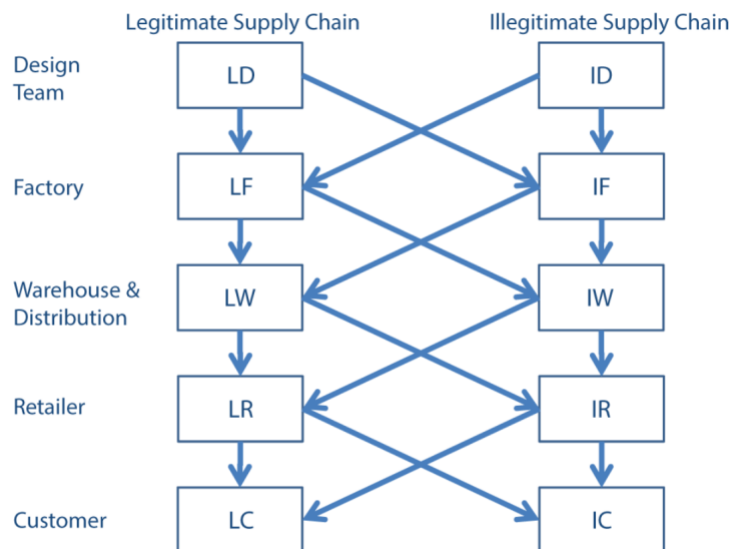


Figure 8: Graphic representation of the LISC model.

Source: D'Amato & Papadimitriou (2013).

<sup>46</sup> D'Amato & Papadimitriou, 2013

Moreover, the model distinguishes two alternative actors in the supply chain, with different characteristics:

- a) Legitimate actors, who have either a direct or an indirect relationship with the brand. Such as a logistic company operating for the brand, or a dealer authorized to sell the brand's products.
- b) Illegitimate actors, who act aside from an agreement with the brand formally empowering them to do so. Such as *daigous*.

To understand the figure above, it is important to acknowledge how each arrow represents an interaction between two stages of the supply chain. Every product will always follow a top-down path and, at any time, it can move from the legitimate supply chain (column on the left) to the illegitimate supply chain (column to the right), or vice versa.

Following these rules, it is now possible to classify and cluster all the realizable paths in three main scenarios:

- 1) All the interactions happen on the same supply chain, without invading the alternative (both legitimate and illegitimate) one.
- 2) At any of the five stages stage, the interactions that have occurred on the legitimate supply chain, divert on the illegitimate.
- 3) At any of the five stages, there is an infiltration of actors from the illegitimate to the legitimate supply chain.

More in detail, it is possible to distinguish five main interactions between illegitimate and legitimate supply chain.

- 1) *Counterfeits* are defined as follows: "Counterfeit trademark goods shall mean any goods, including packaging, bearing without authorization a trademark which is identical to the trademark validly registered in respect of such goods, or which cannot be distinguished in its essential aspects from such a trademark and which thereby infringes the rights of the owner of the trademark in question under the law of the country of importation."<sup>47</sup>

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<sup>47</sup> TRIPS Agreement, 1994

This means that a counterfeited good is a product which is the result of a completely illegitimate supply chain, throughout all the five stages, from the design (ID) to the customer (IC).

Overall, only referring to counterfeited and pirated products, between the years 2017 and 2019, among the top counterfeited products, the OECD registered apparel, leather goods, jewelry and watches to be in the top goods.

Perfumery and cosmetics complete the top ranking for the products that can be clustered in the fashion-luxury industry.

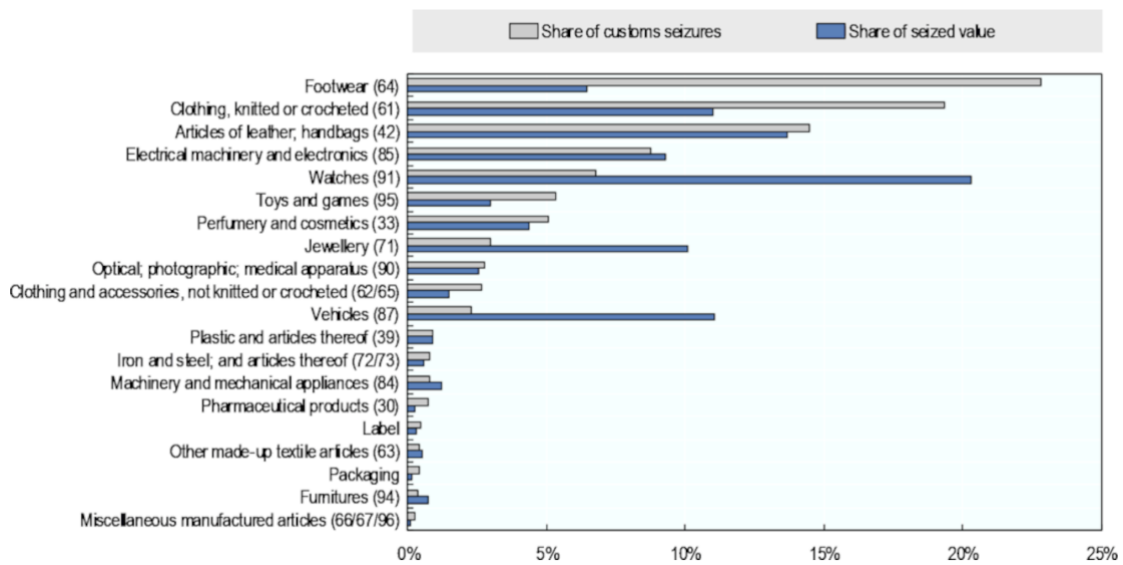


Figure 9: Counterfeited product categories' ranking.

Source: OECD/EUIPO database.

- 2) *Supply chain infiltration* occurs when a counterfeited good enters the legitimate supply chain for the final stages of retail (LR) and customer (LC).
- 3) *Retail service copycat* means that the product is a fake and that production and logistics are illegitimate as well. Lastly, even though the store is not authorized, the product is sold as legitimate. A vivid example is the famous case of the Supreme and Supreme Italia scandal.
- 4) *Factory overrun* refers to products which are original and made in an authorized factory that, because of overproduction by the manufacturer, end up on illegal channels.
- 5) *Grey market*, which will be analyzed more in detail in the following paragraph, is the sale of legitimate products through unauthorized and underpriced channels,

where the final customer has no guarantees nor buying experience typical of the legitimate channels.

The ultimate purpose of LISC is to present a clear and all-encompassing picture of all the possible illegitimate trades, highlighting all the touchpoints where the illegitimate actors have the possibility to make contact with the legitimate ones and raise awareness for companies to be conscious of the risks.

### **2.1.1 Focus on the grey market**

The sale of legitimate products through illegitimate channels of course represents a plague negatively impacting the brands' performances. It is therefore important to understand, besides the nature of the grey markets, also the reasons for the proliferation of such practices and why it interests some markets and nations rather than others.

There are two recurrent drivers for the growth of grey markets: prices and channel structure choices.

As prices and currency differences might generate price differentials between countries, some individuals could be motivated to take advantage of the situation to purchase the good in a country with lower prices, and then resell it in another country with higher prices for personal earnings.

Moreover, the evaluation of the best fitting pricing strategy is an aspect that companies have to take into account as opting for a uniform pricing policy instead of a strategic pricing strategy, or vice versa, could determine the behavior of potential grey marketers.<sup>48</sup>

A uniform pricing policy implies that the manufacturer set a uniform price across all the different markets in which it operates, while a strategic pricing policy implies the identification of different price points for different markets.

As a matter of fact, even though opting for the uniform pricing policy requires less effort, research, and markets' knowledge with the result of having determine an easier price setting, it also leads to the possibility of having to face the risks connected to price fluctuations due to exchange rates.

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<sup>48</sup> Ahmadi et al., 2015

For what concerns the manufacturers' channel structure choices, picking the right selling strategy is essential to avoid, or at least reduce, the grey markets-related risks.

Theoretically, there are three strategies that manufacturers can pick and which, if wrongly weighted and evaluated, can represent a danger in terms of exposure to grey marketers:

- (1) Simultaneously selling new products on different markets,
- (2) Limiting the sale only to specific markets,
- (3) Selling new products in different markets at different stages of the season.<sup>49</sup>

What is important to underline is that the choice of the strategy cannot follow a common logic, but rather has to be tailored for the company to fit in the contingencies so as to reduce at the minimum the exposure to grey marketers.

### **2.1.2 The harmfulness of the grey market**

The manufacturers who have to cope with such an illegitimate trade identify various costs they have to pay for.

The first one is the diluted exclusivity, caused by the presence of non-authorized sellers who increase the offer and, ultimately, reduce the exclusive appeal of such products. This leads to complaints both from the few authorized distributors who demand for actions from the manufacturer, and from the final consumers who complain about the false exclusivity of the product for which they have been willing to pay a high price.<sup>50</sup>

Secondly, also free riding comes at a cost. As a matter of fact, having legitimate dealers investing in campaigns and services for the clients to create more value and reasons for buying, grey marketers can omit this investment and take advantage of what is done by the authorized distributors. In the end, to avoid such a behavior, also the legitimate sellers will give up on certain investments so as to decrease their costs and reduce the competitive gap with the grey marketers.<sup>51</sup>

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<sup>49</sup> Huang et al., 2020

<sup>50</sup> Antia et al., 2004

<sup>51</sup> *Ibidem*

Then, grey markets also damage the relationships with distributors and partners, as the premises for the sound and profitable relationship agreed fail because of the appearance of non-authorized distributors undermining the business.<sup>52</sup>

Moreover, as also mentioned above, also the pricing strategies are influenced. If under normal circumstances a brand could have set prices according to specific criteria for each market, having to face a harmful contingency, such a strategic pricing policy cannot be used.

Lastly, costs connected to reputation and liability arise<sup>53</sup>, as the brand is of course held liable when products of its property are considered. The issue is that, when some of these goods exit legitimate distribution channels to enter illegitimate channels, keeping the control and maintaining certain quality standards becomes impossible.

## **2.2 The size of the grey market and its projected growth**

Given the premise that the quantitative research about economic estimations on the value of the grey market is very limited, the aim of the present chapter is to outline the evolution of the grey market in the latest years and quantify how much this illegitimate practice is subtracting to the legitimate luxury market.

Due to the lack of information available, in order to estimate the size of the luxury grey market worldwide, firstly the available data about the Chinese grey market value will be evaluated to then estimate the size of the global grey market by using the available data about the global luxury market so as to have a realistic portrait of the size of such an illegitimate trade worldwide.

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<sup>52</sup> Antia et al., 2004

<sup>53</sup> *Ibidem*

<b>Grey market projections</b>		
Year	2023	2030
Grey market in China	\$81B	\$129,6B
Global luxury market value	\$1508B	\$2000B
Chinese luxury market/ Global luxury market	22%	35%
Chinese luxury market value	\$331,76B	\$700B

Weight of the chinese grey market over the global legitimate luxury market	5,4%	6,5%
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Global grey market value	\$368,18B	\$370B
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Table 1: *Grey market projections*

Source: *Personal elaboration.*

The available data that will be used to estimate the value of the global grey market are referred to 2023, and they will also be the base to attempt a projection of the future of the illegitimate trade under investigation.

According to the Re-hub Daigou Index 2.0<sup>54</sup>, the Chinese daigou market for all luxury industries in 2023 was worth \$81B, registering a +40% compared to 2019.

Furthermore, it is estimated that the global luxury market in 2023 was worth \$1.508B, and that, by nationality, the Chinese population accounted for 22% of the total<sup>55</sup>. This means that the Chinese luxury market in 2023 can be estimated to have had a value of around \$331.76B<sup>56</sup>.

Given these values above, it is possible to calculate the weight of the Chinese grey market over the global legitimate luxury market, concluding that it is worth around 5,4% of the global luxury market<sup>57</sup>.

Finally, according to the data collected, the global grey market value can be estimated to have a value of \$368,18B<sup>58</sup>. This last result is particularly relevant as it shows the

<sup>54</sup> Piachaud et al., 2023

<sup>55</sup> D'Arpizio & Levato, 2023

<sup>56</sup> Result given by  $(\$1508B) \times (22\%) = \$331,76B$

<sup>57</sup> Result given by  $(\$81B)/(\$1508B) = 5,4\%$

<sup>58</sup> Result given by  $[(\$1508B)/(\$331,76B)] \times (\$81B) = \$368,18B$



potentiality of the grey market and, most importantly, the economic loss for the brands, as alone it is bigger than the Chinese legitimate luxury market.

To further understand the direction of the phenomenon, and how it could possibly evolve in the next years, a projection has been developed starting from the data disclosed by the Bain – Altagamma report 2023.

In particular, the global luxury market is expected to reach, at least, a value of \$2000B<sup>59</sup> in 2030, while the breakdown by nationality of the market sees the Chinese accounting for 35%<sup>60</sup> of the total.

Given the two previous estimated values, the 2030 Chinese luxury market value is expected to double and reach \$700B.

Then, considering that the Chinese grey market registered a +40% from 2019 to 2023, and with the aim to not overestimate the phenomenon in the future, a growth of another 60% in seven years, between 2023 and 2030, can be considered to be reasonable. Therefore, the grey market in China is expected to reach an economic evaluation of \$129,6B<sup>61</sup>.

As for the weight of the Chinese grey market over the global legitimate luxury market in 2023 and the global grey market value, the same calculation logics will be adopted also in this estimative case. So, in 2030, the weight of the Chinese grey market over the global legitimate luxury market is expected to register a +1,1% compared to 2023, reaching a 6,5%, while the global grey market value will increase to \$370B<sup>62</sup>.

In conclusion, the present estimations have to be intended as such, and they serve to depict an idea of the present and future troublesome situation of the luxury markets as a starting point to develop a discussion over the topic and to give it the necessary weight. On top of this, it is clear that the grey market is a relevant phenomenon to be addressed which is still growing year on year and is expected to keep doing so. The lack of data available, or at least the difficulty in accessing and understanding such information, is the clear signal

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<sup>59</sup> The lowest estimation has been picked for the study, as the Bain – Altagamma report 2023 actually set the value to be in a range between \$2000B and \$2500B.

<sup>60</sup> It is again, in the optic of not overestimating the phenomenon, the lowest estimation given in the Bain – Altagamma report 2023, as the percentage is set to be in a range of 35-40%.

<sup>61</sup> Result given by  $(\$81B) \times (1+60\%) = \$129,6B$

<sup>62</sup> Result given by  $[(\$2000B)/(\$700B)] \times (\$129,6B) = \$370B$

that there is need of much more attention over the issue so as to have a clearer picture of the dynamics that more and more brands and CEOs<sup>63</sup> are acknowledging and reporting.

## **2.3 The grey markets around the world**

Depending on the social and political situation of a country, the grey market gains and loses certain characteristics. This is why it is important to underline how it occurs in different countries, and especially how these countries relate with it.

### **2.3.1 The Japanese grey market**

Japan represents a strong market for luxury brands, but at the same time, being the request of luxury goods high, a grey market eventually started to develop throughout the years. In particular, the Land of the Rising Sun is a well-known stop-over for watches collectors to find great deals at modest prices.

Taking advantage of the price differentials between countries, the Japanese grey market is flourishing, making the EU luxury market suffer from such an instance. Without the grey market, legitimate distributors would be the exclusive operators in the market, but the presence of grey marketers is imposing them to compete by lowering the prices so as to keep their relevance.

There is one main reason for the development of this kind of illegitimate trade in the county, and it is the high tolerance ruled by the Japanese authorities.

Historically, in the 1960s, parallel imports were considered to be unlawful and not compliant with the IP rights.

Then, in 1970, it occurred the first case in which the Osaka District Court deliberated that, when specific conditions are involved, the parallel import does not constitute a violation of IP rights. Two years later, in 1972, it has also been stated by the Ministry of Finance that the parallel import of legitimate goods does not constitute a trademark infringement.<sup>64</sup>

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<sup>63</sup> In 2023, Bernard Arnault, LVMH's chairman and CEO, stated that "for your image, there is nothing worse. It's dreadful" referring to the grey market phenomenon.

<sup>64</sup> Clifford Chance, 2011

Moreover, of particular relevance is the 1947 Antimonopoly Act, that considers the parallel imports as beneficial for the final consumers. Analyzing the statement, it refers to the potential impeding enacted by an authorized distributor against parallel imports with the sole aim to preserve prices without having to reduce them to hinder grey marketers. This behavior is identified by the article 19 of the Antimonopoly Act as unlawful and not favorable for the final consumers.

On the contrary, what is condemned is defined in the article 2 of the Act, and it is the actions made to obstruct a competitor's transaction.

Practically, if a company aware of the practices of a grey marketer in Japan would try to make him desist, it could incur in the JFTC<sup>65</sup> filing an investigation with the ultimate goal to make the company owning the IP cease its actions.

Moreover, the protection of grey marketers and parallel importers is even more clear when referring to the possibility to use the brands' logos unless it harms the brands' reputation in Japan.<sup>66</sup>

Lastly, the judgement of the Supreme Court of the 27<sup>th</sup> of February 2003 specifically prescribed the particular cases in which the parallel importation of legitimate goods is not illegal: "(1) the trademark has been legally affixed to the import goods by a holder of a trademark right in a foreign country or a person licensed by the trademark right holder, (2) the trademark right holder in the foreign country and the trademark right holder in Japan are the same person or have a relationship wherein they can be regarded as being legally or economically identical with each other, and hence the trademark affixed to the import goods indicates the same source as that indicated by the registered trademark in Japan, and (3) since the trademark right holder in Japan is in the position to be able to control the quality of the import goods directly or indirectly, the import goods and the goods carrying the registered trademark held by the trademark right holder in Japan are judged to be not substantially different in terms of the quality guaranteed by the registered trademark."<sup>67</sup>

Overall, it is possible to state that there is high level of protection of grey marketers in Japan, all with the aim to put the interests of the consumers before everything else.

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<sup>65</sup> Japan Fair Trade Commission

<sup>66</sup> Clifford Chance, 2011

<sup>67</sup> Courts in Japan, 2002

### **2.3.2 The Russian grey market**

With the outbreak of the Russian-Ukrainian war, most international brands decided to cease the exportation in Russia, isolating the market.

In particular, the EU prohibited the supply of certain luxury goods adopting the Council Regulation (EU) n.833/2014.

The same happened in UK with the adoption of the Russia (Sanctions) (EU Exit) Regulations 2019.

Lastly, also the USA prohibited the exportation of luxury goods of US origin by issuing the Executive Order 14068.

As a result, the Russian government issued different resolutions regulating the importation of luxury goods in the country by mitigating the strict trademark policies so as to allow Russia to keep its supplies to fulfill the consumers' requests.

The first resolution issued was Resolution n.506, on the 29<sup>th</sup> of March 2022, and its purpose was that of making the Russian Ministry of Industry and Trade to define the goods of parallel import. Later, the 6<sup>th</sup> of May of the same year, through the Order n.1532, the Ministry defined a list of goods of parallel import sourcing from the most relevant western brands. Within the list of categories of goods, there are also watches, garments, footwear, cosmetics and automobiles.

Lastly, and most importantly, the 8<sup>th</sup> of March 2022, the enactment of the law 46-FZ gave the power to the Russian government to reshape the doctrine about IP rights in favor of the illegitimate importation of luxury goods.

Given such a complex situation, brands should consider an additional risk. As a matter of fact, because of the resolutions adopted by Russia, and as the illegitimate import of luxury goods is being encouraged, international brands have to make the extra effort to avoid being sanctioned for supplies of luxury goods which enter Russia, even without their consent, as western countries are trying to do their best in order to protect IPs by sanctioning every illegitimate behavior.

### 2.3.3 The Chinese grey market

The development of a luxury grey market in China is the consequence of the introduction of high customs duties, the tax policy of China's imports to discourage the consumption of foreign products and also the price policy of the various international brands. As a matter of fact, a Gucci bag, for example, can undergo a price increase of up to 70% compared to Italy.

Grey marketers in China are also well known as *daigous*, who are Chinese people residing in China or even abroad who travel around the world for the purpose of buying luxury goods and then reselling them in their home country profiting by avoiding customs duties and circumventing Chinese taxation. Most daigou, about 77%, are resident in China while only the remaining 23% are resident abroad<sup>68</sup>.

The most goods purchased and then resold are handbags. There are several factors that make this item preferred. First, they are much cheaper abroad than in China. In addition, their lighter weight compared to other products results in lower shipping costs. In addition, their attractiveness is not easily lost over time, and this is especially advantageous for daigou because the inventories will lose value less quickly. Finally, the problem of any returns is reduced with the bag trade since, since they are accessories, there are no difficulties arising from sizing.

Nevertheless, from 2019, the phenomenon began to slow down due to several reasons. First, a law was introduced by the Chinese government under which, starting in January 2020, daigou merchants are required to register as "market entities" and, therefore, pay taxes. At the same time, tariffs on luxury goods have been halved in order to incentivize purchases within the country.

A further obstacle to the development of the phenomenon arose with the advent of the pandemic, which severely affected daigou who were no longer able to travel and, consequently, make purchases.

After the end of the pandemic, and with the reopening of international borders, *daigous* have been able to start traveling again, and the phenomenon has kept spreading.

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<sup>68</sup> Peiro & Liang, 2021

However, a more detailed analysis of the phenomenon will be provided in the next chapter, in order to understand the dynamics characterizing the phenomenon, the products sold and the digital platforms that are allowing a quicker development of the issue.

## **2.4 Consumers' behavior towards the grey market**

After having assessed the size of the grey market and the many facets characterizing different countries' situations, it is appropriate to understand the consumers' attitude towards this phenomenon.

There are various aspects to be considered as binding in the consumers' behavior, which are specifically: price consciousness, price-quality inference, risk perception, perceived value, and social costs.

For what concerns price consciousness, consumers are characterized by varying degrees of price consciousness, focusing on obtaining lower prices to maximize benefits. Those who are more price-conscious tend to seek out lower prices compared to others who are not<sup>69</sup>. The determination of a product's price is influenced by both tangible and intangible causes, with tangible ones relating to the product's physical attributes and intangibles referring to attributes like prestige and novelty<sup>70</sup>. Price consciousness plays a crucial role in consumer behavior and interacts with other price-related features and consumer knowledge.

Moving on, referring to price-quality inference, consumers often infer product quality based on price, believing in correlations such as "high price equals high quality" or "low price means low quality". This belief influences consumer behavior, with price being compared to expected or referential prices determined by product quality and category norms<sup>71</sup>. The relationship between price and quality allows consumer to choose the suitable strategies, especially when information on product quality is limited. However, experimental research yields mixed results regarding the direct correlation between price and perceived quality.

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<sup>69</sup> Alford & Biswas, 2002

<sup>70</sup> Jalali & Moghaddam, 2014

<sup>71</sup> Ordonez, 1998

Then, when consumers make purchasing decisions, they consider the likelihood of encountering issues with a particular brand's product and the potential negative consequences of those issues<sup>72</sup>. This understanding of risk encompasses the severity and inconvenience of error making. Perceived consumer risk involves various dimensions such as performance, financial, safety, social, psychological, and time/opportunity aspects<sup>73</sup>. These perceived risks significantly have an impact on the consumers' behavior throughout the decision-making process, from problem recognition to post-purchase behavior.<sup>74</sup>

In particular, two are the main risks which the consumer could face: the risk of entering the black-market goods, so counterfeited ones, and also the risks connected to the post-purchase benefits that an authorized seller can ensure but that, on the contrary, a grey marketer cannot provide to the consumer.

Continuing, perceived value encompasses various concepts such as desirability, acquired advantages, worth, quality, and psychological price. Economic value, in particular, significantly impacts consumer satisfaction<sup>75</sup>. This is why concepts like price and quality should always be considered before the conception of a merchandising strategy so as to gain strategic advantages. Consumers with higher value awareness tend to evaluate gray market goods more favorably than those with lower awareness.

Summing it up, Zeithaml describes perceived value as follows: “perceived value is the consumer’s overall assessment of the utility of a product based on perceptions of what is received and what is given”.<sup>76</sup>

Lastly, the social costs deriving from the grey market arise with the proliferation of the sale of the illegitimate goods through unauthorized channels, generating a problem for companies but also depriving consumers of the expected services connected to the purchase experience. This unauthorized market growth leads to an influx of counterfeit and smuggled goods, fueling illegal activities and posing risks to both businesses and consumers.

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<sup>72</sup> Peter & Ryan, 1976

<sup>73</sup> Jalali & Moghaddam, 2014

<sup>74</sup> Mitchell, 1992

<sup>75</sup> Lee et al., 2007

<sup>76</sup> Zeithaml, 1988

In conclusion, according to Huang et al.'s work<sup>77</sup>, and concerning the price-quality inference, it negatively influences the behavior with regard to grey market goods. Moreover, as quality is the most important aspect observed by consumers, it is suggested to focus on implementing messages about the relationship between price and quality so as to stimulate the positive associations of the audience with the legitimate goods sold by the brand.

Lastly, as the differentiating aspects with the grey marketers are the possibility to produce qualitatively outstanding products and offer tailored services to the customer so as to make the customer really understand where the outstanding quality of the product and the maison stand, these aspects are the ones that will represent a competitive advantage for the legitimate marketers as counterattack against grey marketers.

## **2.5 Effects of grey market sales on the consumer market**

Apart from the effects of the grey market on consumers' behavior, it is necessary to mention another realm of touchpoints with this illegitimate trade. As a matter of fact, its nature is detrimental also for: the brands' pricing strategies, as grey marketers' competition has to be taken into account; the increase of consumers' skepticism towards products which are not surely legitimate; the harm provoked to the lasting brands' reputations; the legitimate marketers' economic difficulties generated; and lastly the legal battles to be undertaken by legitimate marketers to defend their brands.

First of all, having to adapt the pricing strategies so as to mitigate the effect of the competitive prices on the grey markets represents a huge cost for brands, as it implies both an economic investment and an investment in terms of human resources involved in the practices.

For example, in 2015 Chanel attempted to harmonize the prices of three of its most famous bags – the 11.12, the 2.55 and the Boy bag – so as to have a homogeneous offer all over the world. In detail, this strategy, which was structured with a 20 percent price increase on bags in the EU, was intended to combat illegitimate marketers who take advantage of the price differences.

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<sup>77</sup> Huang et al., 2004



Prior to the price harmonization, a Chanel Boy bag in China was priced at Rmb35,600 (around \$5,740). Following the change, the product under scrutiny had a reduced price of Rmb26,000 (-27%). In comparison, purchasing the same bag in Europe before the harmonization would have had a cost for a Chinese buyer of Rmb20,500. With the price increase in Europe, it increased to Rmb24,600.<sup>78</sup>

This move, however, occurred after Patek Philippe, the renowned watchmaker, decreased its prices by up to 14 percent in China.

Following the dynamics presented above, another scenery caused by the grey market, which is at least worth mentioning, is the confusion and skepticism felt by potential buyers when in presence of the same product listed with two different prices on different markets. Consequently, being attracted by the lower price, the customer might take the wrong decision to buy the cheaper product, not knowing that it is illegitimate and potentially not of extraordinary craftsmanship by presenting factory deficiencies, ultimately leading to a negative misconception of the brand due to having relied on an unauthorized retailer.

As introduced in the previous lines adopting the point of view of the consumer, the risk of eroding the reputation of the brand is something “tangible” that brands take into account, as the impossibility to control the branded products which enter the illegitimate channels does not allow them to ensure the buyers quality standards and post-purchase support. Consequently, as for the skepticism described above felt by the consumers with regards to some products, from the point of view of the brand, the inattentive consumers might end up buying products from illegitimate marketers and owning a not satisfactory product, leading to a bad perception of the brand’s values and quality.

This practice is also harmful for the retailers, as they eventually find themselves having to confront their prices with the ones of the grey marketers, that will certainly be lower. The result is that the retailers could register economic losses due to a decrease of sales given by an unfair competition.

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<sup>78</sup> Thomson & Waldmeir, 2015

The last effect produced by the phenomenon is the legal battle brands are forced to undertake to try to reduce the grey market power and development. Unfortunately, as the practice is borderline, according to existing legal regulations, gray-market goods are deemed illegal only if there exists a substantial variance between the items imported from abroad and those intended for distribution within the local market.

For example, in the US, grey markets are not unlawful per se, but they become considered as such only when a “material difference” can be identified. In particular, there is a well-known case discussed in the US District Court for the District of Puerto Rico<sup>79</sup> that perfectly explains the matter, and it concludes that the presence of just a single material difference leads to the presumption that the grey market goods can create confusion to the consumers about the quality or nature of the products. Hence, only when this described case happens, the unlawfulness of the good is accepted as such and indictable. However, in industries such as apparel and accessories, products may be identical across global markets, making them susceptible to unintended distribution channels and difficult to be recognized as goods presenting material differences.

Even though gray-market goods may not appear as detrimental to a brand as counterfeit goods, the ambiguous legal boundaries create opportunities for grey marketers and contribute to the erosion of a brand's values.

In essence, the grey market represents a multifaceted challenge which goes beyond the mere economic implications. As a matter of fact, its detrimental effects on brand reputation, consumer trust, and legal complexities highlight the serious need for comprehensive strategies to address and mitigate its impact on legitimate businesses and consumers alike.

Actions must be taken on both the side of the legitimate marketers and also on the side of consumers. The firsts must undertake omni-comprehensive strategies that can support the distribution channels and alarm the authorized retailers about the potential criticalities. The latters, simultaneously, should always adopt critical thinking while presented with a choice between two apparently equal products and prefer products purchased through authorized marketers.

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<sup>79</sup> US District Court for the District of Puerto Rico - 777 F. Supp. 161 (D.P.R. 1991) November 15, 1991

## CHAPTER 3 – FOCUS ON THE CHINESE GREY MARKET: THE DAIGOU PHENOMENON

### 3.1 Who are the daigou

#### 3.1.1 Etymology and characteristics

##### 3.1.1.1 The phenomenon at a glance

How many times while walking around the streets of the city center has it ever happened to encounter groups of Chinese people entering and exiting luxury shops loaded with bags containing accessories and clothing from iconic brands such as Gucci, Prada or Louis Vuitton? It is well known how much Made in Italy is appreciated in Asia, but the question may arise spontaneously whether all this is normal or there is something else hidden behind it.

Well, it's not always about simple purchases made for the pleasure of being able to show off high fashion clothes and accessories. Frequently, many of these customers are the so-called daigou (代购, literally: "shopping for others"), that is, Chinese residents in China or even abroad who travel around the world with the aim of purchasing luxury goods and then resell them in their country, making a profit, avoiding customs tariffs and avoiding Chinese taxation.

What is increasingly making daigous more popular is their reliability in providing legitimate luxury products by building a trustworthy relationship with both consumers and the suppliers of the luxury goods.

The main advantages attributable to the adoption of daigous as preferred merchants are: *the opportunity to save money*, as there is a substantial difference between the prices set by the daigous and those set by the brands; *the confidence in the legitimacy of the product purchased*, as daigous have developed direct relationships with the brands; *the variety of the offer*, given by the possibility for daigous to access different markets, and consequently also pieces that are not offered in China, or even limited editions; *the tailored service*, which is provided to each customer; *an innovative purchasing*

*experience*, made possible through the use of social-media platforms as means to share new availabilities and also to place orders.<sup>80</sup>

### **3.1.1.2 Hindering and enhancing aspects**

Moreover, as the figure of the daigou is highly dependent on socio-political developments, the pandemic and all the scenarios that resulted from it represented a huge shock for the business, both in positive and negative.

As a matter of fact, it is possible to outline factors that made it more difficult for daigous to flourish, but also aspects that enhanced the market and the interest in these purchasing opportunities.

Regarding the hindering aspects, having China been hardly hit by COVID-19 and by the restrictions imposed by both the Chinese government itself and by the foreign countries, daigous found themselves facing increasing logistic costs. This difficulty ultimately led to a reduction of small daigous. More in detail, for the subjects who lived abroad, bearing the increasing costs for purchasing, for logistic, and for the shipments, the profit margins decreased to the point that the smaller businesses had to shut down.

Moreover, also the government played its role by imposing new regulations to reduce the illegitimate sellers' action field.

In addition, unlike in the past, luxury brands expanded their businesses by opening new stores not only in “*Tier 1*” cities, such as Shanghai and Beijing, but also in minor cities around the country, like in Xiamen and Fuzhou. Apart from the mere store openings, the main investment made by the brands has been related to the staff training, aimed at the possibility to provide a tailored purchasing experience for the customers<sup>81</sup>. As a matter of fact, lately, daigous have been able to offer personalized services for their customers, and this is why now brands are putting a big effort to increase the experiential gap with the illegitimate sellers in order to subtract from them their attractiveness.

Lastly, luxury brands have realized the relevance of the digital sphere. While until some years ago not many brands used to offer their products on Chinese online platforms such

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<sup>80</sup> Piachaud, Zhang & Peiro, 2023

<sup>81</sup> *Ibidem*

as TMall and JD, since last year, many brands belonging to LVMH have started to take advantage of these platforms to capture a wider range of audience.<sup>82</sup>

The enhancing aspects, on the contrary, are related to the development of new online platforms, consumers' attention to expenditures, new generations' interests, and international pricing policies.

First, the development of online platforms in China such as DeWu<sup>83</sup>, made it easier for daigous to find channels through which the transactions and sale of items can be performed.

Then, as Chinese economy is living a stage of uncertainty caused by, among other causes, the Evergrande scandal, the citizens are adopting a more cautious behavior, which can often lead to the preference for grey marketed goods, as they are offered for lower prices. In addition to such a behavior, the new generations are showing increasing interest towards special products which are hardly available in China, generating an advantage for the daigous' development.<sup>84</sup>

As also previously mentioned, the pricing strategies adopted by the brands are the main causes for the flourishing of the grey marketers as price gaps with other countries keep increasing, consequently helping daigous gain appeal in the eyes of consumers.

### **3.1.1.3 Margin composition**

The purchasing process of a luxury good for a daigou does not follow a single path. On the contrary, it is possible to outline different scenarios that contextually identify different categories of daigous.

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<sup>82</sup> Piachaud, Zhang & Peiro, 2023

<sup>83</sup> The platform, targeting Chinese Millennials and Gen-Z, operates as both C2C and B2C, allows an easier exchange of items through its hybrid e-commerce and social media model. Notably, New Balance leveraged Dewu's influencer network to promote its '80s-inspired sneakers. With nearly 7,000 brands officially onboarded, including Coach, Michael Kors, Versace, Pandora, Swarovski, Adidas, and New Balance, DeWu, with its multi-level authentication process, certifies the authenticity of products sold globally, examining and verifying each item before shipment to prevent defects and counterfeit goods.

<sup>84</sup> Piachaud, Zhang & Peiro, 2023

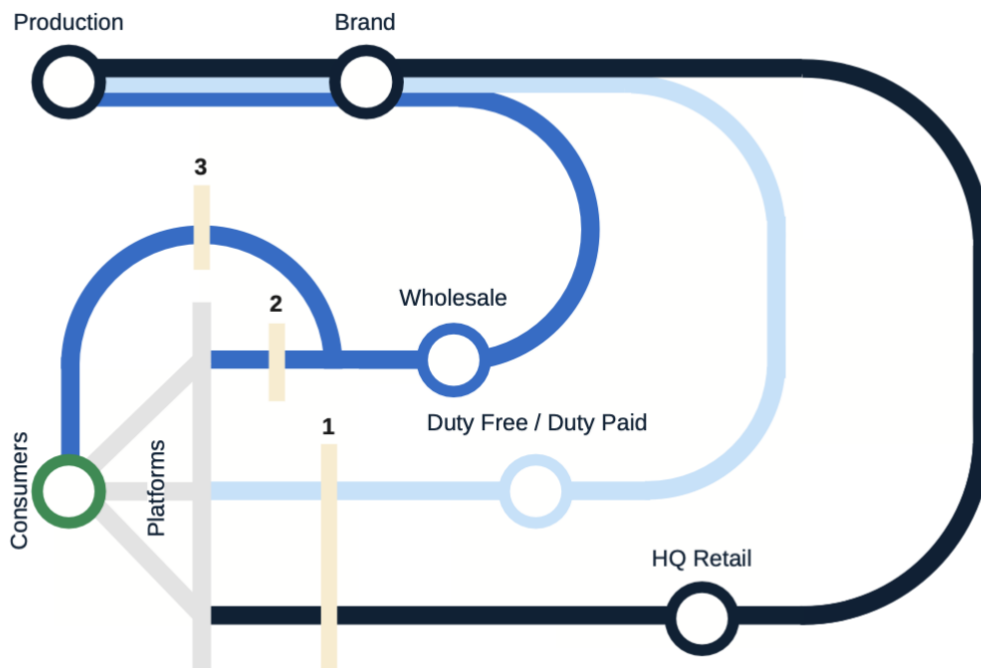


Figure 10: *Daigou's purchasing paths.*

Source: *The Daigou Index 2.0 (2023).*

As presented in the representation above, there are three main purchasing paths that daigous follow.

The first one, and also the longest, characterizes *individual daigous*, who buy the product abroad in retail stores at a convenient price (compared to the retail prices in China) and resell it in the home country to make a profit.

The second path characterizes *corporate daigous* who, unlike individual daigous, are able to purchase the goods at a wholesale price, extracting a higher profit.

Lastly, the third category is represented by *integrated daigous*. They take advantage of the use of online platforms to amplify the effect and obtain more savings and, consequently, higher profits.

Despite what has just been described, even though it might seem that individual daigous have no reason to operate because of their lower margins, they actually represent the majority of the total daigous.<sup>85</sup>

<sup>85</sup> Piachaud, Zhang & Peiro, 2023

### 3.1.2 Evolution throughout the decades and user persona

The characterizations of the daigou have undergone a clear evolution over the years, mainly due to technological innovations, adoption of certain pricing policies, and new government regulations.

In order to clearly identify the main evolutionary steps, the following chart provides a visual idea of the timeline and the pace at which daigous developed their business throughout the years.

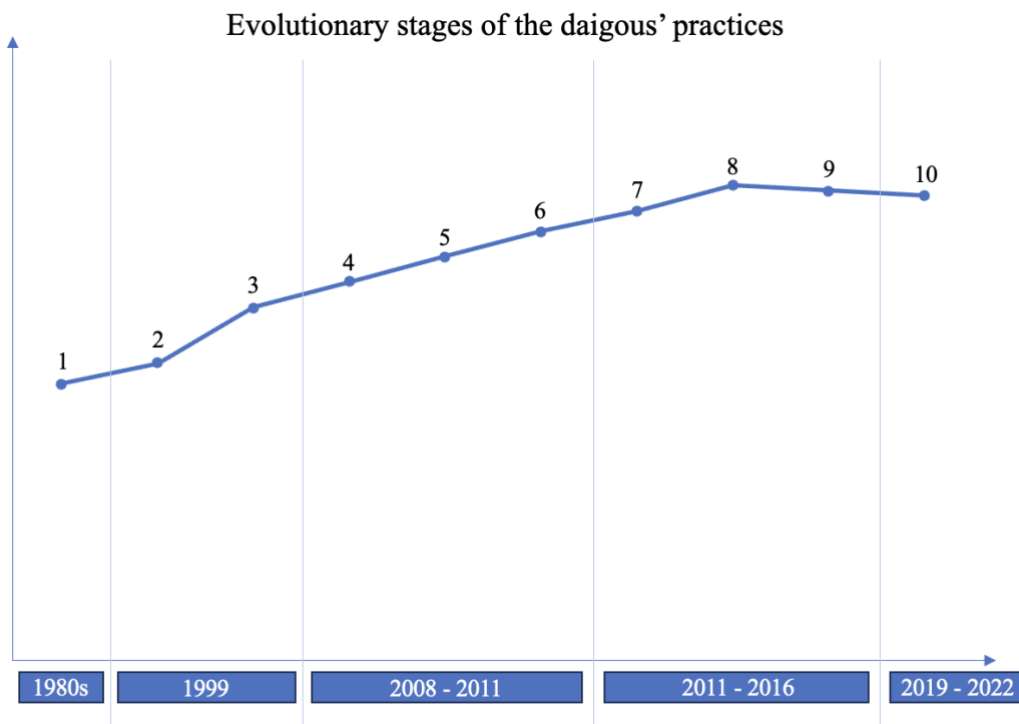


Figure 11: *Evolutionary stages of the daigous' practices.*

Source: *Glavas et al. (2023).*

Glavas et al. (2023) have recognized five main stages of evolution, which correspond to: the 1980s, 1999, the years between 2008 and 2011, then the six years between 2011 and 2016, and lastly the time frame between 2019 and 2022.

Each stage, contextually, has been characterized by one or more main turning points for the illegitimate practice.

Initially, during the 1980s, the activities (1) undertaken by early daigous were characterized by a relatively informal nature. These practices primarily involved the

procurement of discounted goods from the sole locations of Hong Kong, Macau, and border territories, followed by their distribution or resale within China to family and friends.

Later in 1999, the second step forward (2) towards a new conception of daigou was done by including in the interested goods, to buy abroad and sell back in China, pharmaceutical goods, products for infants such as powdered milk, and skin care products. The reason for their interest in such products was the scarcity in the Chinese market or the excessive prices. As a matter of fact, still after twenty-five years, going to Hong Kong to buy powdered milk under request of Chinese mothers is very common.

The third step forward (3) was allowed by the launch of the messaging platform “QQ” by Tencent Holdings Ltd in 1999, which provided daigous with a new means for communicating with the interested parties<sup>86</sup>.

Moving to the third stage of evolution, between 2008 and 2011, the fourth novelty introduced (4), which further pushed the daigous’ development, was represented by the establishment of service centers opened in foreign countries for daigous to have a more suitable way to pack and ship products in China at a cheaper cost<sup>87</sup>.

Then, daigous began to open physical stores (5) where both products and a mailing service were offered.

The last advancement (6) introduced during the third stage has been the creation of actual teams of shoppers physically active in foreign countries and reporting to a reference daigou. So, a more organizational characterization to the practice began to appear<sup>88</sup>.

Later, in the time frame between 2011 and 2016, the first daigou business, an Australian company named AUmake, was listed on the Australian stock exchange (7). The purpose of the company is to provide logistics support, e-commerce platforms, marketing support and travel support in Asia<sup>89</sup>.

Always in 2011, Tencent Holdings Lts launched WeChat (8), the renowned social media used in China for texting, calling, live-streaming and even as a marketplace. The 21<sup>st</sup> of January 2011 represented a turning point for daigous as nowadays it is one of the main

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<sup>86</sup> Glavas et al., 2023

<sup>87</sup> *Ibidem*

<sup>88</sup> Huang et al., 2019

<sup>89</sup> Australian Stock Exchange, 2020



platforms that is used to facilitate the interactions with customers and the consequent sales.

Then, the first fundamental moment for the international research and for the urge to raise awareness on the daigou phenomenon was in 2016, when Liu et al. (2016) published the first academic paper about the issue (9), that until that moment was never uncovered due to its shady and hidden connotation.

Lastly, the fifth evolutionary step happened between 2019 and 2022, when daigous acquired an entrepreneurial characterization (10), and started owning online channels, managing the logistics and warehousing, and creating marketing campaigns with the purpose to counterbalance the regulations introduced by the Chinese government.<sup>90</sup>

After having retraced the fundamental moments that characterized the evolution of such a controversial figure as the daigou, and before introducing their user persona, it is necessary to present some crucial characteristics about these individuals.

About the location of the daigous, 72% of them are based in China, meaning that the warehousing is kept within the nation and that the products are shipped from there. The remaining 28% of the daigous, on the contrary, are located outside China. In particular, 39% of them are in France, 24% in Italy, 7% in the UK, 6% in USA, 5% in Japan.<sup>91</sup>

Moreover, what is also interesting and appropriate to highlight is the size of the daigous' operations.

Even though the phenomenon began as characterized by small players, with its development and the contextual development of governmental regulations, the size of the operations increased accordingly. Even considering this, the data collected and presented in the Daigou Index 2020 show how there is still a predominance of small players.

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<sup>90</sup> Durkin, 2019

<sup>91</sup> Peiro & Liang, 2020

### Size of daigou's operations

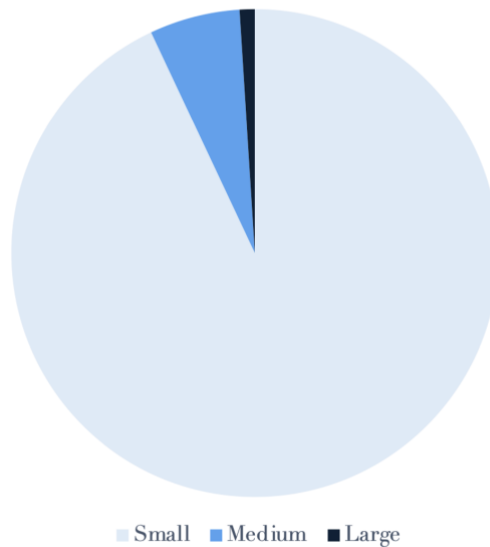


Figure 12: *Size of daigou's operations.*

Source: *Daigou Index (2020).*

In detail, according to Alibaba's data about the deposit paid to Taobao as merchants, the segmentation of the size of the daigous' operations is:

- Small-sized = Deposit  $\leq$  ¥5,000
- Medium-sized = ¥5,000 yuan  $\leq$  Deposit  $\leq$  ¥50,000
- Large-sized = Deposit  $\geq$  ¥50,000<sup>92</sup>

Bearing in mind the scenario described above, it is now pertinent to outline the daigous' user persona, so as to understand and recognize at least some typical characteristics of these individuals.

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<sup>92</sup> Peiro & Liang, 2020

### Persona Example – Luna, 28 y.o.



Figure 13: *Daigou's user persona.*

Source: *Personal elaboration.*

The user persona is a fictional representation of the typical consumer used to empathize and identify which are the common characteristics, needs and preferences of the interested group of people studied.

In the case of the daigou, as 68% of them are less than 44 years old<sup>93</sup>, our fictional individual, namely Luna, appears to be a young woman of 28 years old.

Based on the aforementioned data regarding deposits made to Taobao by merchants, it is conceivable that such an individual would likely be a small-sized daigou. Additionally, given that the majority of daigous are situated in China, it is possible to assume that it will be also Luna's location.

Alternatively, hypothesizing that she is a young individual, it is equally reasonable to imagine that Luna would be residing in Europe, where she pursues her studies while concurrently managing her luxury goods resale business in her home country.

Luna would embody the persona of a stylish, confident young woman with substantial financial resources, actively sharing content on social media platforms to promote her business endeavors.

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<sup>93</sup> Global Blue, 2023

Clearly, the present description has to be considered as a fictional representation that could potentially describe a young daigou, but not unconditionally and always correctly aligning with all individuals engaged in similar activities.

### **3.2 The difference between daigou and haitao**

Apart from the daigous, there is another phenomenon which is necessary to mention and not to be confused with the first one: the haitao (海淘).

It is the Chinese cross-border B2C e-commerce which is trending in China and that, since July 23<sup>rd</sup> 2014 it has been legalized by the Announcement No.56 of the General Administration of Customs.

Many Chinese online shoppers exhibit a preference for overseas brands for cross-border online shopping. Essentially this has brought the daigou offer to a new form, and this implies a Chinese consumer placing an order with an overseas-based online retailer, who consequently is in charge of shipping the purchased product from abroad to China.

Commonly, overseas brands have access to the Chinese market by relying on online marketplaces provided by local e-commerce superpowers like Alibaba and JD.com.

A typicality of this phenomenon is that buyers and sellers are not located in the same geographical area, and most likely do not speak the same language, don't have the same rules, and use different currencies.<sup>94</sup>

The haitao websites additionally create a community atmosphere, fostering engagement and encouraging users to share valuable insights and experiences regarding international purchases.

The company Frost & Sullivan, in 2018, published a white paper about the cross-border e-commerce in China, and there are two fundamental aspects emerging from their analysis, which are the reasons for buying and the preferred products purchased using this methodology.<sup>95</sup>

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<sup>94</sup> Caixia & Yunxia, 2019

<sup>95</sup> Frost & Sullivan, 2018

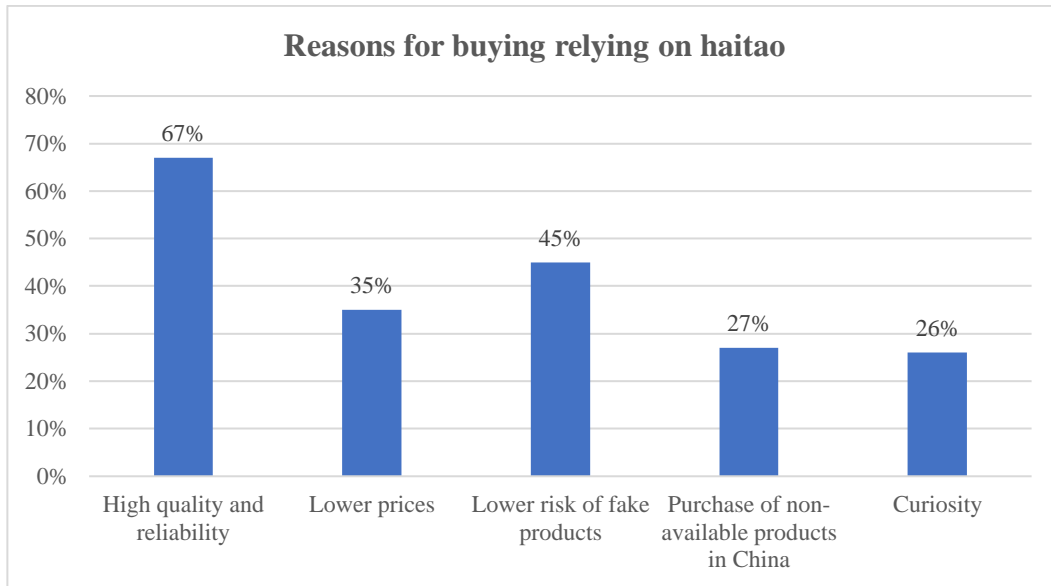


Figure 14: *Reasons for buying relying on haitao.*

Source: *Frost & Sullivan (2018).*

Regarding the reasons for buying, it emerges that quality and reliability are the two pivotal points that they associate to haitao when Chinese shoppers have to pick a purchasing path. Moreover, a little less than half of the respondents involved in the Frost & Sullivan’s survey give haitao credits for being a reliable way to purchase legitimate products. The other main reasons are the availability of products at lower prices than the ones in China, the availability of products that are not sold in the country, and lastly the curiosity of testing a new opportunity to make the purchases, possibly, in a more convenient way.

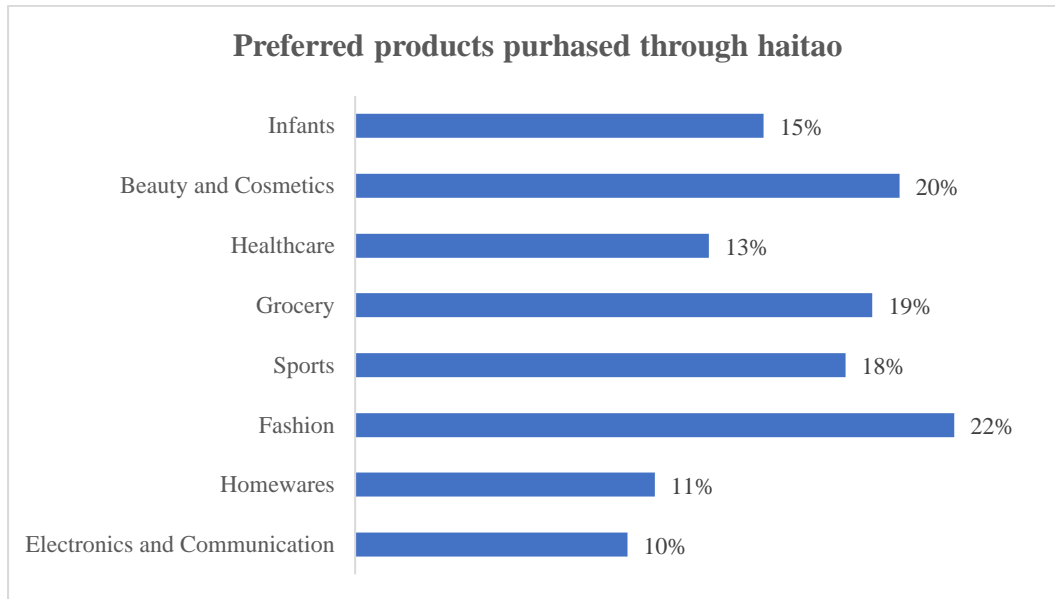


Figure 15: Preferred products purchased through haitao.

Source: Frost & Sullivan (2018).

Moreover, the research presents a division in product categories of the preferences of the respondents. Visibly, the fashion industry and the beauty and cosmetics industry are the most involved businesses in the haitao practice. The reason for such a result can be recognized as the same for the daigous: the pricing strategies' differences between countries and the limited availability of certain products in some countries rather than in others.

### 3.3 The main digital platforms used by daigous

The development of the daigous, however, is not given only by the different prices for luxury goods across countries to be leveraged or by the people's need for non-available products in China. The reality is that, behind such fast-paced phenomenon, there is the support of certain social media platforms that allow daigous to broaden their interpersonal relationships and acquire more clients interested in luxury goods.

Probably, the most important, and even most used, app for daigous is WeChat (*Weixin* in Chinese).

The reason for the popularity of the app among the illegitimate traders can be traced back to its extensive use by the majority of the population. As a matter of fact, in 2011 the

Chinese tech company Tencent launched the app, and it represented a disruptive innovation as it encompassed many different services that were perfectly in line with the daigous' needs: private chats, group chats, mobile payments, social gaming and live streaming.

Moreover, apart from the possibility to chat in private or in groups, WeChat also proposes to the users *Moments*. It is a section where users can create short contents, both text or visual, to be shared with the followers and that seems to be perfectly congenial for the daigous' need to share new arrivals or special sales with their customers to keep them constantly updated.

Apart from WeChat, the other platform widely used by daigous is Taobao. It is the biggest e-commerce used in China as alternative to Amazon and eBay. Having the users the possibility to easily list the products they want to sell, daigous took the opportunity to operate through this platform too.

According to the 2020 Daigou Index, the number of luxury products sold through this channel has been substantial, and the main brands interested were Louis Vuitton, Chanel, and Gucci.

The Daigou Index 2020 – Volume of links on Taobao		
Brand	Tot. product links	Percentage
Louis Vuitton	28,094	24%
Chanel	12,994	11%
Gucci	11,058	9%
Fendi	9,388	8%
Dior	9,24	8%
Bottega Veneta	8,511	7%
Prada	7,747	6%
Ferragamo	6,707	6%
Celine	5,944	5%
Saint Laurent	5,574	5%
Givenchy	5,569	5%
Miu Miu	4,273	3%
Alexander McQueen	3,592	3%

Table 2: *Volume of links on Taobao*<sup>96</sup>

Source: *Peiro & Liang (2020)*.

<sup>96</sup> Peiro & Liang, 2020

The number of product links are representative of the demand of the brands' products by Chinese on Taobao.

The data collected in 2020 by Re-Hub using AI and Machine Learning suggest how, noticeably, Louis Vuitton was the brand whose products registered the highest number of sales on Taobao, followed by Chanel and Gucci. However, an insightful data is that Chanel and Gucci's percentages summed together do not reach Louis Vuitton's percentage of links on Taobao.

Clearly, WeChat and Taobao are the main platforms used by daigous for their business, but not the only ones.

JD.com is the second biggest e-commerce of China, and it functions as a sort of daigou itself as it deals with unauthorized products from various fashion and luxury companies obtained from travel retail channels.

Then, *DeWu* is a platform catering primarily to Chinese Millennials and Gen-Z, and it serves as a dual-platform facilitating both C2C and B2C transactions. Its innovative hybrid e-commerce and social media approach streamlines the exchange of items, enhancing users' convenience.

Moreover, there is *Duoyin* (TikTok) that gathers live streamers who offer their products during the lives, acting both as entertainers and salespeople.

Lastly, RED (*XiaoHongShu* in Chinese) is a platform with similar dynamics to *Duoyin* yet focused on the makeup and beauty industry.

### **3.4 Top selling brands and items**

To deepen the comprehension of the scale and influence of the Chinese grey market, Re-hub's Daigou Index 2.0<sup>97</sup> selected a cohort of representative luxury brands and conducted an analysis of their listings across major Chinese e-commerce platforms in August 2023. The platforms considered to extract the listings for each of the investigated brands were: Taobao, JD.com, Duoyin, and DeWu. The other platforms previously mentioned have not been considered for specific reasons about their nature. RED was not included as it mainly deals with cosmetics, which are not part of the products analyzed in the study. Then

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<sup>97</sup> Piachaud, Zhang & Peiro, 2023



WeChat was not taken into account as it is a platform with too many complexities due to which extracting information about products' sales would have been unattainable.

Following the data collected by Re-hub, the listings on the platforms are going to be discussed first.

Listings	Taobao	JD.com	Duoyin	DeWu
Balenciaga	34,117	10,105	206	13,055
Celine	6,905	20	151	7,532
Chanel	11,841	1,858	194	11,806
Dior	12,013	0	67	15,303
Fendi	9,049	0	54	13,040
Gucci	38,994	0	509	28,920
Hermès	3,557	6,048	158	18,487
Louis Vuitton	3,438	0	185	18,039
Prada	17,950	83	120	17,149
Saint Laurent	18,307	2,171	89	11,571

Table 3: Listings on the main Chinese e-commerce platforms

Source: Piachaud, Zhang & Peiro (2023).

What is evident is that JD.com exhibits a dual nature concerning grey market goods. Indeed, while certain brands boast a significant number of listings, such as Balenciaga and Hermès, others, namely Dior, Fendi, Gucci, and Louis Vuitton, are entirely absent. Notably, this disparate pattern arises from the fact that these brands without listings have their own official online stores on the platforms, as a proactive measure against illegitimate marketers.

Duoyin, by selling second-hand or, according to the low prices even counterfeited goods, did not register the same numbers in terms of listings as the other platforms.

Overall, according to the numbers, Taobao and DeWu were, by far, the predominant platforms utilized by daigous in August 2023, whereas JD.com and Duoyin registered relatively lower volumes of traffic of illegitimate products.

Moving to the units sold per brand on each of the four platforms, the numbers reflect the trends presented in the listings' analysis.

Units sold	Taobao	JD.com	Duoyin	DeWu
Balenciaga	2,808	197	206	25,596
Celine	22,463	10	151	8,415
Chanel	12,631	193	194	10,191
Dior	22,506	0	67	9,648
Fendi	36,530	0	54	4,990
Gucci	15,534	0	509	81,742
Hermès	11,219	675	158	14,958
Louis Vuitton	9,328	0	185	45,599
Prada	28,926	38	120	6,516
Saint Laurent	4,840	448	89	7,601

Table 4: Units sold per brand on the main Chinese e-commerce platforms.

Source: Piachaud, Zhang & Peiro (2023).

Once again, JD.com and Duoyin did not emerge as influential sales platforms for either brand. However, the influence of the grey market becomes clear in the case of Taobao and DeWu.

A noteworthy observation is the nuanced balance between these two platforms: while Prada records approximately five times more units sold on Taobao compared to DeWu, Gucci and Louis Vuitton experience the opposite trend, with significantly higher sales on DeWu rather than on Taobao. This disparity can be attributed to varying price points, brand desirability, and the efforts of each brand to mitigate the grey market phenomenon on these platforms.<sup>98</sup>

Overall, by examining the grey marketers' behavior on each platform it is understandable that sellers on DeWu align more closely with corporate daigous' characteristics, whereas sellers on Taobao exhibit traits typical of individual daigous.

<sup>98</sup> Piachaud, Zhang & Peiro, 2023

Lastly, the revenues generated by each platform from each brand are again explanatory of the clear contrast between the two forces Taobao and DeWu, and the two slow movers JD.com and Duoyin.

Revenue (RMB)	Taobao	JD.com	Duoyin	DeWu
Balenciaga	12,730,269	1,962,769	680,709	126,360,235
Celine	66,864,442	33	533,730	48,849,152
Chanel	53,925,960	455,933	442,277	188,687,887
Dior	35,235,792	0	457,120	77,344,081
Fendi	99,171,004	0	82,076	24,078,543
Gucci	39,871,160	0	2,569,732	285,929,108
Hermès	17,229,744	313,671	153,360	97,437,070
Louis Vuitton	98,881,089	0	10,389,600	468,487,642
Prada	92,584,651	637,06	470,345	33,718,868
Saint Laurent	11,029,409	4,861,691	197,363	51,855,520

Table 5: Revenues per brand on the main Chinese e-commerce platforms.

Source: Piachaud, Zhang & Peiro (2023).

Upon scrutinizing the numerical data, it becomes evident that the scale of the subset of the grey market under investigation is significant. Within this sphere, Taobao and DeWu emerge as the dominant players. Specifically, Prada and Fendi exhibit noteworthy performance metrics on Taobao, while Louis Vuitton, Gucci, and Chanel stand out as leading brands on DeWu.

Although the dataset presented in the table only captures a fraction of the broader grey market landscape, its insights are extremely valuable. It sheds light on the pervasive nature of this illicit trade and underscores the detrimental impact it has on brands' potential revenues, as they contend with the challenges posed by daigous and the diversion of sales away from official channels. This analytical framework serves as compelling evidence to the multifaceted dimensions of the grey market phenomenon and emphasizes the urgency for brands to devise effective strategies to mitigate its adverse effects.

To conclude this comparative analysis of the performance of the main e-commerce platforms' sales of luxury goods, a closer look to specific and iconic pieces will be provided.

<b>Louis Vuitton - Carry All</b>	<b>Taobao</b>	<b>JD.com</b>	<b>Duoyin</b>	<b>DeWu</b>
Listings	94	0	10	7
Units sold	575	0	66	1,269
Revenue (RMB)	9,281,646	0	1,521,940	24,443,346
Avg. price	19,457	0	20,494	19,259

Table 6: *Louis Vuitton Carry All overview.*

Source: *Piachaud, Zhang & Peiro (2023).*

The iconic Carry All bag by Louis Vuitton serves as a vivid example of the dynamics characterizing the daigou market. Despite Taobao having the highest number of listings for this item, DeWu recorded greater revenues. This disparity in performance between listings and revenues can be attributed to the price differentials observed across the various markets where the product was sold. Specifically, while the bag retailed for 14,080 RMB in the EU, it was priced at 18,600 RMB on Taobao. In China, the retail price was 19,600 RMB, whereas on DeWu, it reached a price of 20,159 RMB.<sup>99</sup>

Of particular interest is also the pricing discrepancy observed on DeWu, where the price exceeded that of the Chinese retail market. This anomaly is likely attributable to the limited availability of the item on the market in August 2023, thereby inflating the cost of purchasing through DeWu.<sup>100</sup>

<b>Chanel - Classic Flap</b>	<b>Taobao</b>	<b>JD.com</b>	<b>Duoyin</b>	<b>DeWu</b>
Listings	861	95	69	421
Units sold	211	0	2	675
Revenue (RMB)	6,545,956	0	95,799	32,007,367
Avg. price	44,806	0	33,675	41,045

Table 7: *Chanel Classic Flap overview.*

Source: *Piachaud, Zhang & Peiro (2023).*

<sup>99</sup> Piachaud, Zhang & Peiro, 2023

<sup>100</sup> *Ibidem*

The pattern mentioned above, observed with the Louis Vuitton bag, is similarly replicated with Chanel's Classic Flap, where despite a greater number of listings on Taobao, significantly higher revenues were recorded on DeWu. Once more, the Chanel bags were sold at prices exceeding their retail value, with markups of up to 50%.

This phenomenon likely stems from the brand's cultivation of exclusivity and its stringent control over wholesale distribution channels.<sup>101</sup>

<b>Balenciaga Track</b>	<b>Taobao</b>	<b>JD.com</b>	<b>Duoyin</b>	<b>DeWu</b>
Listings	455	282	112	401
Units sold	284	26	20	3,663
Revenue (RMB)	1,274,577	180,61	96,510	18,220,133
Avg. price	5,847	13,497	4,126	5,128

Table 8: *Balenciaga Track overview.*

Source: *Piachaud, Zhang & Peiro (2023).*

In the case of Balenciaga's Track shoes, DeWu once again emerges as the platform generating the highest revenues. As a matter of fact, excluding JD.com and Duoyin due to their incomparable performance with Taobao and DeWu, it is observed that despite the similar average price of the shoes on both platforms, the latter recorded nearly thirteen times the number of units sold. This difference can be attributed to DeWu's established reputation as a seller of sneakers, facilitated by its provision of a wide range of sizes, virtual try-on capabilities, and a diverse range of SKUs<sup>102</sup>.

<b>Saint Laurent - Niki</b>	<b>Taobao</b>	<b>JD.com</b>	<b>Duoyin</b>	<b>DeWu</b>
Listings	244	42	37	137
Units sold	100	20	5	527
Revenue (RMB)	1,409,659	422,581	71,046	8,475,704
Avg. price	17,689	20,276	13,937	15,573

Table 8: *Saint Laurent Niki bag overview.*

Source: *Piachaud, Zhang & Peiro (2023).*

<sup>101</sup> Piachaud, Zhang & Peiro, 2023

<sup>102</sup> Stock Keeping Units. It is a unique code to identify the item, used also to track the inventory to facilitate the replenishments of the stores. This unique numerical sequence is applied to every product that can be purchased by customers.

Lastly, the pricing dynamics observed with another iconic bag, such as the Saint Laurent Niki, stand in contrast to those of the Louis Vuitton Carry All bag. In this instance, the Niki bag, with a retail price of 18,216 RMB in the EU and 23,600 RMB in the Chinese market, was listed for 16,029 RMB on DeWu and 18,000 RMB on Taobao. The variation in pricing may be attributed to the availability of the Niki bag, which was probably less limited in quantity compared to the Louis Vuitton Carry All bag.

In conclusion, the analysis of the illegitimate sale of products on Chinese e-commerce platforms offers valuable insights about the dynamics of the grey market. Through the examination of the platforms Taobao, DeWu, JD.com, and Duoyin, it has been possible to underline once again that the presence of unauthorized sellers significantly impacts brand performance and revenue streams. Furthermore, the investigation showed that daigous engage in transactions not only when they can offer products at prices lower than those in the Chinese retail market, but also when certain items are available in limited quantities, presenting a lucrative business opportunity to sell them at a markup relative to prices in the EU market.

### **3.5 Regulations to tackle the issue**

Prior to understanding the Chinese government's approach to addressing the grey market, it is essential to underline that the daigou phenomenon and the trade of grey market goods within China are lawful activities.

The government's intervention primarily revolves around regulatory measures aimed at safeguarding the interests of brands, ensuring consumer safety, and maintaining the integrity of the domestic market.

Starting from 2019, the Ministry of Commerce, in collaboration with the National Development and Reform Commission, the Ministry of Finance, the General Administration of Customs, the State Administration of Taxation, and the State Administration for Market Supervision, worked on the implementation of various policies to further regulate the retail e-commerce imports.<sup>103</sup>

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<sup>103</sup> PwC, 2019

These policies were designed not only to stimulate growth within specific product categories, thereby expanding market opportunities, but also to limit the proliferation of grey market activities.

The regulatory landscape underwent notable changes, particularly in sectors such as cosmetics, which had been previously penalized in the Chinese market. In particular, platforms like JD.com, which facilitate the sale of such goods, witnessed some regulative changes. Whereas sales on these platforms enjoyed certain privileges, such as duty-free importation and import VAT payable at reduced rates since 2014, the benefits were further increased from 2019 onwards.

Specifically, exemptions from product registration requirements were granted for certain product categories.<sup>104</sup>

Moreover, favorable adjustments were made to the value thresholds for imports per shipment and per customer, with products like cosmetics benefiting from revised limits (5,000 yuan per shipment with an annual cap of 26,000 yuan per customer).

Furthermore, overseas sellers were granted authorization to utilize Free Trade Zones (FTZ) to establish inventory for fulfilling customer orders.

Apart from the benefits, the regulations introduced in 2019 also entailed certain restrictions as well.

Firstly, the overseas sellers are obliged to choose a “Chinese Responsible Party” who is held responsible for the products’ safety. This measure aims to enhance consumer protection and ensure compliance with safety standards.

Secondly, mechanisms to ensure the traceability of products have been implemented, so as to be able to track down the location of the initial overseas sale.

Lastly, both the overseas seller and the Chinese counterpart (the Chinese Responsible Party) are intended to be liable in case the traded good appears to be harmful or illegitimate.<sup>105</sup>

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<sup>104</sup> PwC, 2019

<sup>105</sup> *Ibidem*

In addition, the regulations also intervene on the other parties involved in the practice. In particular, the e-commerce platforms have to pay attention to keep track of the identity of every buyer so as to, eventually, identify doubtful purchasing behaviors where big volumes of products are involved and the billing and shipping address do not correspond. Moreover, also logistics services are required to put an extra effort and identify possible suspicious dynamics and, when necessary, not to proceed with the delivery.<sup>106</sup>

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<sup>106</sup> PwC, 2019



## CHAPTER 4 – RESEARCH AND DATA ANALYSIS

### 4.1 Research motivations

The grey market is a phenomenon encompassing different industries: automobiles, software, apparel, electronics, pharmaceuticals and food<sup>107</sup>.

In particular, focusing on the luxury grey markets, scholars have addressed a wide range of issues regarding their impact, either direct or indirect, over the industry under scrutiny so as to raise awareness about such a widespread phenomenon and the consequences arising.

D'Amato and Papadimitriou<sup>108</sup> have shed light over the dynamics of the interaction between legitimate and illegitimate supply chain, and how easily products can end up in illegitimate channels at different stages of the chain.

Ahmadi et al.<sup>109</sup> discuss the impact of price differentials between countries and how to manage it to control grey marketers.

Kim and Park<sup>110</sup> demonstrate that in situations where there is significant variance of uncertain demand, a multinational company should adopt a decentralization strategy when facing competition from a gray market.

Moreover, Huang et al.<sup>111</sup> describe the attitude of consumers toward grey market goods, and the main reasons incentivizing people to approach the grey market.

However, the presented contributions have been picked as representatives of the macro themes which have been mainly at the center of the research throughout the years, but the overall contributions are much more and investigate different aspects of the same themes. Most of the studies are therefore focused on the pricing strategies, supply chain logics, selling channels decisions and consumers' attitude toward the grey market as determinant dynamics for the development of the grey market.

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<sup>107</sup> Eagle et al., 2003

<sup>108</sup> D'Amato & Papadimitriou, 2013

<sup>109</sup> Ahmadi et al., 2015

<sup>110</sup> Kim & Park, 2016

<sup>111</sup> Huang et al., 2004

Differing from the above-mentioned studies and their focus, this dissertation aims to focus on the gap of the literature related to dynamics relatively less placed in the spotlight when discussing the grey market, namely the impact of the grey market on the purchasing behavior and how this impacts luxury brands.

To the best of the knowledge, no existing studies have explored such dynamic in these terms.

This thesis thus contributes to the literature on the impact of grey markets on the luxury industry by addressing the issue of the potential impact of luxury grey marketers' offerings over potential and actual consumers' purchasing behavior and offers novel managerial insights for luxury brands facing grey market threats in the global marketplace.

## **4.2 Research question**

Aligned with the motivations outlined in the preceding paragraph, this research aims to investigate the extent to which the luxury grey market development influences the purchasing behavior of the consumers, and to comprehend the tangible impact of this phenomenon on the luxury industry.

The subsequent quantitative analysis has been designed to address the following research question: *“How does the presence of a luxury grey market influence the customers' purchasing behavior?”*.

## **4.3 Methodology**

### **4.3.1 Formulation of the hypotheses**

As mentioned above, among the research objectives, the main one is to identify the motivational and habit-related factors that drive the purchasing behavior of luxury consumers when the potential influence of a grey market is considered.

More in detail, previously in this dissertation it has been discussed the reliability of grey marketers. Despite the common thinking, it has been assessed that such marketers are

increasingly gaining reliability, as they are developing relationships with the brands, offering diverse products and, most importantly, setting lower price points.<sup>112</sup>

That being so, it is appropriate to study which consumers' attitudes towards luxury are the most affected by such illegitimate practice.

For the purpose of the present dissertation, three characterizations will be investigated as potential connotations influenced by the grey market appeal: price sensitivity, acceptance of fake products as substitutes (*poseurs*), and frequency of purchase of luxury goods (respondents who never purchased).

For what concerns price sensitivity, consumers exhibit varying degrees of sensitivity to prices. Those who are more price-conscious actively seek out lower prices compared to those who are less concerned with price. Reasonably, the more price-conscious consumers are, the more likely they are to make purchases on the grey market, particularly when they are aware of the lower prices available in the illegitimate market.

Then, being *poseurs* a cluster that put appearance before product quality and legitimacy and, therefore, is comfortable about purchasing fake products, it could be plausible an easier acceptance of the grey market as a valid alternative to pursue the goal of clarifying their status within society.

Lastly, as customer-brand interactions are a fundamental aspect when considering the strategy for customers' retention applied by luxury brands<sup>113</sup>, those who have never experienced such interactions in a luxury boutique might be vulnerable to what the grey market offers both in terms of economic and experiential benefits.

Therefore, in order to study how, and if, the grey market leverages customers' specific characteristics to influence their purchasing behavior, it is hypothesized that:

**Hypothesis 1a (H1a):** Price sensitivity is a connotation that makes customers feel safe purchasing on the grey market.

**Hypothesis 1b (H1b):** *Poseurs* are the ones who feel safer to purchase on the grey market.

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<sup>112</sup> Piachaud, Zhang & Peiro, 2023

<sup>113</sup> Choi et al., 2016

**Hypothesis 1c (H1c):** People who never purchased a luxury good are the ones who would feel safer to purchase on the grey market.

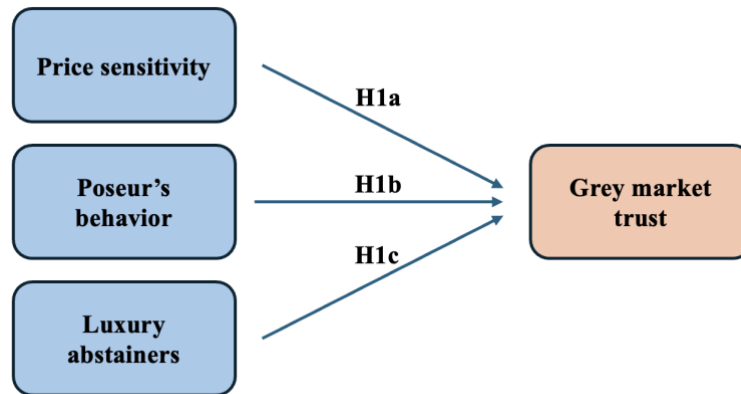


Figure 16: *Theoretical Framework 1.*

Source: *Personal Elaboration.*

In addition to grey market reliability, it is necessary to understand whether and how much consumer behavior, in terms of willingness to spend, is affected by the actions taken by brands to address this illegitimate practice and how it is perceived by consumers.

Firstly, being the grey market phenomenon such a shady practice which is not commonly discussed, the awareness about it and of its harmfulness is not given. Consequently, the conscious consumers recognizing the potential dangers connected to the practice could, presumably, consider the effort put by brands to stand against the practice as a practice positively influencing their perception of the brand and, consequently, as a valid reason to be willing to spend more on that specific luxury brand.

So, the described scenario will consider two variables: the influenceability of brand perception by brands' actions against the grey market, and the willingness to spend.

Thus, in order to properly define the presented scenario, it is hypothesized that:

**Hypothesis 2 (H2):** The consumers' willingness to spend more on brands that actively oppose to the grey market is influenced by their perception's influenceability by brands' actions against the grey market.

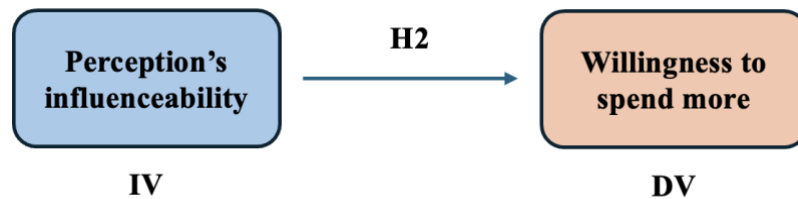


Figure 17: *Theoretical Framework 2.*

Source: *Personal Elaboration.*

Lastly, the frequency of purchases of luxury products may significantly influence customers' reactions upon discovering luxury goods offered through unauthorized channels.

Varying frequencies of purchase could lead to different responses: the less recurrent the purchases, the more detrimental their reactions are likely to be.

Therefore, so as to confirm, or to refuse the described dynamic, the following hypothesis is proposed:

**Hypothesis 3 (H3):** Individuals who rarely purchase luxury goods are more likely to exhibit detrimental behaviors towards a brand when they encounter one of the brand's products offered through unauthorized channels.

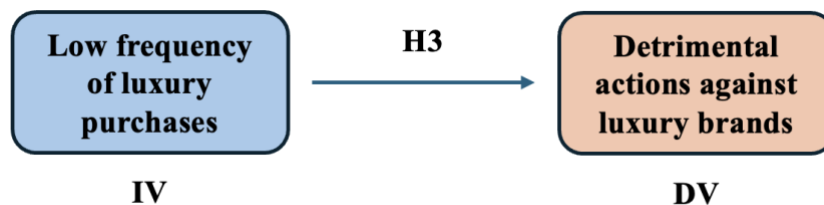


Figure 18: *Theoretical Framework 3.*

Source: *Personal Elaboration.*

### 4.3.2 Survey's design

The survey administered to the respondents, consisting of a total of 20 questions, is provided in its entirety in the appendix.

In order to give the possibility to the respondents to give conscious answers, a short but clear definition of grey market had been provided: the term “*grey market*” refers to the practice of the sale of legitimate products through unauthorized and underpriced channels, where the final customer has no guarantees nor buying experience typical of the legitimate channels.<sup>114</sup>

The formulated questions in the survey have been designed as:

- Dichotomic questions;
- Multiple-choice questions;
- Likert scales, to assess the degree of agreement/disagreement with regards to specific matters.

In section one (Figure 4), general questions about the respondents were asked so as to collect data to be used to extract insightful results about the respondents' diversity.

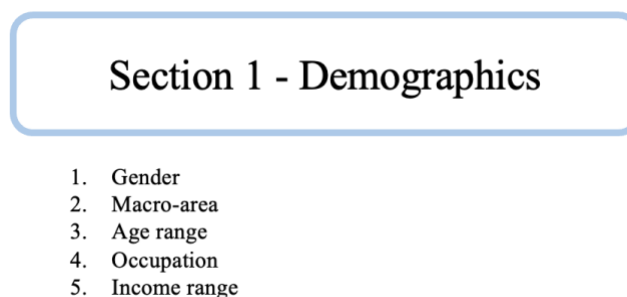


Figure 19: *Section 1 - Demographics.*

*Source: personal elaboration.*

In section 2 (Figure 5), in order to record useful data for the aim of the research, a first step deeper was made to investigate the general behavior of the respondents in the context of luxury shopping.

Apart from the first two questions and the fifth, which were designed to examine consumers' frequency of shopping, their preferences and their thoughts about the

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<sup>114</sup> Antia, Bergen & Dutta, 2004

experiential side of luxury shopping, the following questions have particular relevance as they uncover different facets of the purchasing behavior.

In detail, a dichotomic question have been asked about price sensitivity as it will be fundamental to assess a potential connection to the attraction with the grey market.

Then, a question about the possibility of having perceived unlawful behaviors of third-party sellers has been included to understand the familiarity with such shady dynamics.

Lastly, a multiple-choice question was presented to understand the characteristics of the respondents and their personal relationship with the luxury realm. In particular, the question aims to identifying the following four groups described in Chapter 1: *patricians, parvenus, poseurs, and proletarians*<sup>115</sup>.

## Section 2 – Purchasing behavior

1. Frequency of luxury purchases
2. Product preference
3. Price sensitivity
4. Perception of illegitimate seller's unlawful behavior
5. Purchasing experience importance
6. Self-identification in alternative descriptions

Figure 20: *Section 2 – Purchasing behavior.*  
*Source: personal elaboration.*

Ultimately, in section 3 (Figure 6), a last and even deeper step towards the respondents' behavior when influenced by the dynamics of the grey market was made.

In particular, Likert scales were used to investigate the respondents' level of awareness of the grey market, the confidence they would feel in purchasing through such illegitimate channel, the perception of how much effort brands are putting to deal with grey marketers, and brands' actions capability to influence respondents' perceptions.

Then, one dichotomic question was included to understand whether the fear for judgement from others could restrain the will to make a purchase on the grey market or not.

Lastly, multiple-choice questions were included with the peculiarity that the three of them are *conditional questions*.

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<sup>115</sup> Han et al., 2010

In detail, question 3 of this section, designed to comprehend the reasons for distrust with regards to the grey market, could only be displayed if the answer to the previous question revealed a rating between 1 and 3 (included).

Following the same logic, question 7 as well was a conditional question aimed at discovering who, of those having answered to question 6 with a rating between 4 and 5, would be willing to change purchasing behavior.

The last conditional question (9) aims at separating the respondents on the basis of their potential reaction when in presence of a grey marketed good. Only those who answered to the previous question with a positive response, hence believing that brands are responsible for the flourishing of grey markets, were given the possibility to access question 9.

### Section 3 – Grey market influence

1. Awareness of the phenomenon
2. Confidence in purchasing through the channel
3. Reasons for distrust
4. Fear of judgement
5. Respondents' perception of brands actions against the grey market
6. Brands actions' influence over respondents' perception
7. Will to spend
8. Perception of brands' involvement in the illegitimate activities
9. Respondent's reaction to a grey marketed good

Figure 21: *Section 3 – Grey market influence.*

*Source: personal elaboration.*

#### 4.3.3 Data collection

In order to reach a number of respondents which could be considered as consistent to conduct an insightful analysis, the recruitment of the subjects willing to complete the survey was conducted through different channels throughout the month of May 2024.

Being an online survey, designed on the platform Qualtrics, the distribution was facilitated by the speed with which the URL could be shared across various online platforms and social medias.



Firstly, word of mouth was utilized, followed by the support of social networks, specifically WhatsApp, Instagram, and Facebook, where also dedicated questionnaire-sharing groups were involved to reach a larger number of users.

In addition, to enlarge the audience involved, the survey has been shared both in English and in Italian, so as to facilitate the answering process for the respondents.

## **4.4 Data analysis**

### **4.4.1 Demographics**

As previously introduced, in order to collect the data to perform an accurate and consistent analysis, during the month of May 2024 a total of 356 responses have been collected. On the other hand, some of the responses collected have been considered as not valid as they presented incomplete answers. In total, excluding the invalid responses, the respondents that will be considered for the following analyses are 304.

Regarding the gender diversity, almost two-thirds of the surveyed subjects were females (63,8%), with just two subjects (0,7%) preferring not to specify the gender.

Moreover, considering the origin of the respondents, the vast majority (92,1%) are located in Europe, while around 7,9% come from extra-European countries.

In addition, 49,7% of the interviewed belong to Gen Z, hence the youngest generation, who are now fundamental targets for the luxury brands as they represent the potential future, but also current, customers to be retained. Then Baby Boomers, Gen X and Millennials respondents are homogeneous clusters who account, each, for one-sixth of the total.

Considering their occupation, more than half of the subjects (56,3%) are employed, while another relevant cluster is represented by students, who account for 36,2% of the total.

Lastly, the annual income distribution is quite diversified. In particular, 24% of the respondents earn less than €15.000, while another 26,3% earns between €15.000 and €30.000. Contextually, a high percentage of the respondents (16,8%) preferred not to disclose their annual income range.

<b>Items</b>	<b>Categories</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Gender</b>	Female	194	63,8%
	Male	108	35,5%
	I prefer not to specify	2	0,7%
<b>Macroarea</b>	Africa	1	0,3%
	China	6	2,0%
	Europe	280	92,1%
	Middle East	5	1,6%
	Russia	1	0,3%
	South America	4	1,3%
	USA	7	2,3%
<b>Generation</b>	Baby Boomers (1946-1964)	48	15,8%
	Gen X (1965-1980)	55	18,1%
	Millennials (1981-1995)	50	16,4%
	Gen Z (1996-2015)	151	49,7%
<b>Occupation</b>	Unemployed	7	2,3%
	Worker	171	56,3%
	Retired	16	5,3%
	Student	110	36,2%
<b>Annual Income</b>	Less than €15.000	73	24,0%
	€15.000 - €30.000	80	26,3%
	€30.001 - €45.000	48	15,8%
	€45.001 - €60.000	28	9,2%
	More than €60.000	24	7,9%
	I prefer not to disclose	51	16,8%

Table 9: Respondents' demographics.

Source: personal elaboration.

#### 4.4.2 Respondents purchasing behavior's analysis

Following the analysis of the general characteristics of the respondents, the second section of the survey will be discussed. The objective of this section was to collect data about the general purchasing behavior of the interested subjects in normal conditions, without mentioning the potential interference of sales through illegitimate channels, so as to reach a starting point to further develop, at the latest stage of the survey, the analysis including the scenery of the possible influence of the grey market.

Specifically, what emerged from the answers is that almost half of the respondents (46,71%) rarely purchase luxury goods, while 31,91% answered “sometimes”. 17,43% of the respondents, on the other hand, appear to never buy luxury products. Lastly, only 3,95% of the subjects seem to be frequent buyers.

Frequency of luxury purchasing

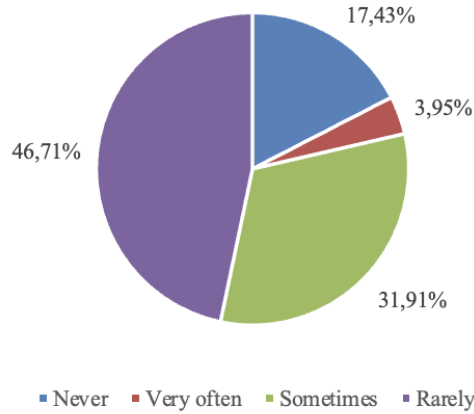


Figure 22: Respondents' frequency of luxury consumption.

Source: personal elaboration.

For what concerns the product preference, a clear predominance of the apparel is outlined (48,03%), while all the other categories share the remaining half of overall, with bags being the second preferred good (17,76%), followed by shoes (12,17%).

Product category's preference

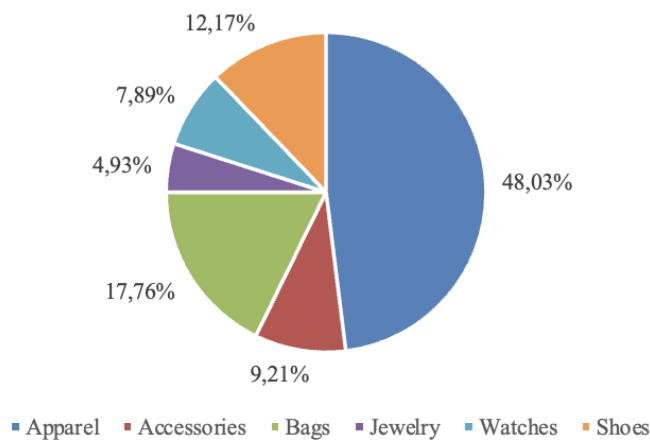


Figure 23: Product category's preference.

Source: personal elaboration.

Then, to understand the influence of prices over consumers' choices, the respondents' price sensitivity has been analyzed.

In particular, the vast majority, 89,90% of the subjects, defined themselves as price sensitive, which means that the variations of prices do have an impact on consumers' behavior.

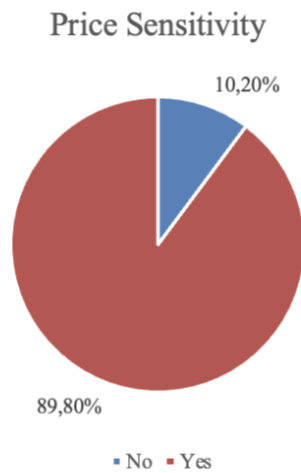


Figure 24: Respondents' price sensitivity.  
Source: personal elaboration.

Moreover, it has been verified whether respondents ever realized they were dealing with a grey marketer or not. Specifically, 54,93% of them confirmed that they felt that the product they were offered on a website or by a third-party retailer came from unauthorized channels, while 30,59%, which is still a high percentage, are not able to ascertain that this has happened.

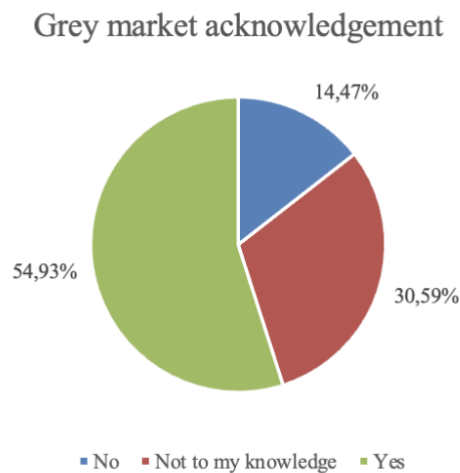


Figure 25: Respondents' grey market acknowledgement.  
Source: personal elaboration.

Continuing, to understand if the experiential feature of the in-store purchasing process represents a key feature for luxury brands and a potential leverage of differentiation to counter grey markets' activities, it has been assessed how much the luxury purchasing experience is relevant for the respondents.

Overall, on the one hand, only around 18% of the respondents believe that the purchasing experience is not important (5,26%) or of relative importance (12,83%). On the other hand, 28,26% of the subjects think it is moderately important, 34,21% that it is very important, while 19,08% consider it to be fundamental.

It is therefore possible to argue that the purchasing experience is a very valuable feature for customers.

Purchasing experience relevance

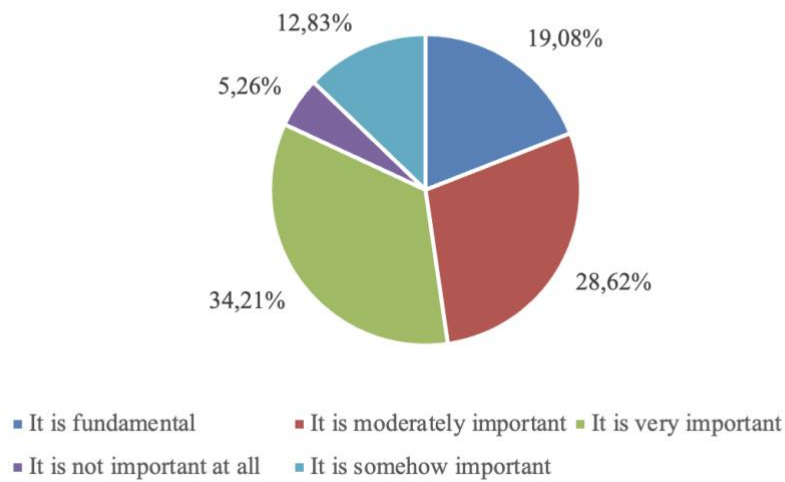


Figure 26: *Purchasing experience relevance.*

*Source: personal elaboration.*

Lastly, in section two it has been possible to identify the respondents and categorize them in four major clusters, which have been described in chapter 1.

In particular, as disclosed by Han et al. (2010), it is possible to classify consumers in four main groups: *patricians*, *parvenus*, *poseurs* and *proletarians*.<sup>116</sup>

The survey shows that more than half of the respondents (54,28%) identify themselves in the dynamics characterizing the patrician mindset.

<sup>116</sup> Han et al., 2010

As opposed to them, 30,59% of the respondents recognized themselves in the description of a hypothetical proletarian, who therefore is not interested in signaling the social rank through status goods.

Whereas, of relative incidence over the total are the ones who identify with parvenus (11,18%) and those who consider more relatable the description of poseurs (3,95%).

Respondent's self-identification

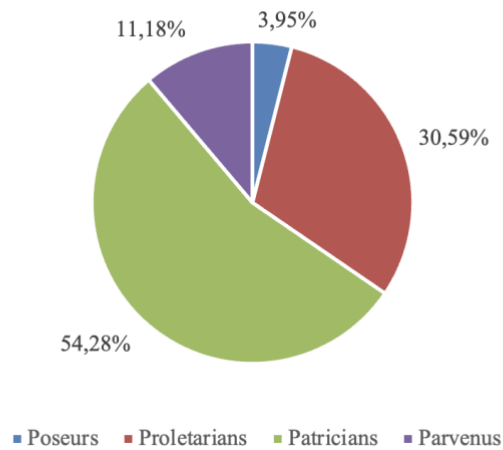


Figure 27: Respondents' self-identification.

Source: personal elaboration.

#### 4.4.3 Awareness of the grey market phenomenon

The issue of the respondents' awareness of the grey market merits a dedicated discussion. As a matter of fact, it is not taken for granted that people are aware of the phenomenon, and likewise it is also not certain that the awareness and knowledge of the dynamics characterizing the phenomenon are known in detail.

The data derived from the answers given to the question regarding this issue show how there are just a few respondents who are completely unaware of such illegitimate practices (3,95%), while there are still few subjects who affirm to have a clear overview of the phenomenon and its dynamics. In particular, 8,55% of them are extremely aware, and 20,39% are very aware.

All the other respondents are only partially aware of the phenomenon (for a total of 67,1%). This means that there must be an intensification of campaigns to raise more

awareness about the issue, which is the only practical way to effectively communicate the severity of such illegitimate practice.

#### 4.4.4 Data cleansing

The results of the questionnaire collected through Qualtrics were first exported to Excel. Here, since the responses were given in both English and Italian, it has been necessary to translate and harmonize the answers so as to prepare a file that could be readable once imported into IBM SPSS Statistic Data Editor version 29.0.2.0 (20).

Once the data have been imported on the program, they had to undergo a recodification that would have enabled the program to run properly in order to correctly perform the analyses.

In particular, the answers were recodified in dummy variables needed to perform the regression analyses.

<b>Hyp.</b>	<b>Items</b>	<b>Recodification</b>
<b>H1</b>	Price sensitivity	1 = Yes 0 = No
	Poseurs' behavior	1 = Parvenus 0 = All others
	Luxury abstainers	1 = Never 0 = All others
	Grey market trust	1 = 4-5 0 = All others
<b>H2</b>	Perception's influenceability	1 = 4-5 0 = All others
	Willingness to spend more	1 = willing to spend more 0 = All others
<b>H3</b>	Low frequency of luxury purchases	1 = "sometimes" or "very often" 0 = All others
	Detrimental actions against luxury brands	0 = "I would not do anything in particular" 1 = All others

Table 10: *Answers' recodification into dummy variables.*

*Source: personal elaboration.*

#### 4.4.5 Results

As previously anticipated, the present study aims to analyze the phenomenon of the grey market and to understand the dynamics between it and the purchasing behavior of luxury consumers, and how the latter is influenced by such an illegitimate practice.

In order to do so, three hypotheses have been presented, and they will be singularly tested to shed light on the issue.

The first hypothesis that is going to be discussed is referred to the understanding of which type of customer is generally more influenceable by grey markets:

**Hypothesis 1a (H1a):** Price sensitivity is a connotation that makes customers feel safe to purchase on the grey market.

**Hypothesis 1b (H1b):** Poseurs are the ones who feel safer to purchase on the grey market.

**Hypothesis 1c (H1c):** People who never purchased a luxury good are the ones who would feel safer to purchase on the grey market.

Therefore, three characterizations are under investigation as potentially influenced by the grey market appeal: price sensitivity, acceptance of fake products as substitutes (*poseurs*), and frequency of purchase of luxury goods (luxury abstainers).

Before analyzing SPSS's results, it is assumed:

**H<sub>0</sub>:**  $\beta_0 = \beta_1 = \beta_2 = \beta_3 = 0$

**H<sub>1</sub>:** at least one of the coefficients ( $\beta_0$ ,  $\beta_1$  or  $\beta_3$ )  $\neq 0$

$$\text{Grey market trust} = \beta_0 + \beta_1 * (\text{Price sensitivity}) + \beta_2 * (\text{Poseurs}) + \beta_3 * (\text{Luxury abstainers}) + \varepsilon^{117}$$

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<sup>117</sup>  $\varepsilon$  are the errors to be added in the equation as there are other independent variables to be considered in the model.



### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.168 <sup>a</sup>	0,028	0,019	0,234

a. Predictors: (Constant), Never\_Purchase, Price\_Sensitivity, Conspicuous\_Consumption

Table 11: *Model summary.*

*Source: personal elaboration.*

In order to proceed with the analysis, the validity of the model has to be examined. In order to do so, first the  $R^2$  is inspected.

In this case,  $R^2 = 0.028$ , which is not inside the range of 0.35 and 0.80, but still it is acceptable to proceed with the ANOVA analysis as valuable insights can be extracted.

### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,479	3	0,160	2,909	.035 <sup>b</sup>
	Residual	16,456	300	0,055		
	Total	16,934	303			

a. Dependent Variable: Trust\_In\_GM

b. Predictors: (Constant), Never\_Purchase, Price\_Sensitivity, Conspicuous\_Consumption

Table 12: *ANOVA Table.*

*Source: personal elaboration.*

Focusing on the ANOVA statistics, it is found that the significance is  $< 0.05$ , so the p-value is \*\*. Therefore, it can be affirmed that the error made rejecting the null hypothesis is very low, so it is possible to reject  $H_0$  and accept the alternative hypothesis  $H_1$ , which means that the regression model is valid and at least one estimator among  $\beta_0$ ,  $\beta_1$  or  $\beta_3$  is different from 0.

**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	0,151	0,044		3,444	0,001
	Price sensitivity	-0,114	0,045	-0,147	-2,543	0,011
	Poseurs	0,022	0,043	0,030	0,510	0,611
	Luxury abstainers	0,051	0,036	0,082	1,425	0,155

a. Dependent Variable: Grey market trust

Table 13: *Coefficients Table.*

*Source: personal elaboration.*

Ultimately, the regression model in the table of the Coefficients tells which variable affects the most the performance of our DV [Grey market trust].

As a matter of fact, by checking the significance values of the different IV, it is possible to derive their incidence over the DV:

- *Price sensitivity* is significant \*\*, having a p-value < 0.05;
- On the other hand, *Poseurs* and *Luxury abstainers* are both not statistically significant, as the p-value is too high.

The regression analysis reveals a negative relationship between price sensitivity and trust in the grey market. Specifically, the standardized beta coefficient for Price sensitivity is -0.147, and this relationship is statistically significant (p-value = 0.011).

This indicates that as consumers' price sensitivity increases, their trust in the grey market decreases.

To conclude, the equation with numeric data is:

$$\text{Grey market trust} = 0.151 - 0.114 * (\text{Price sensitivity}) + \varepsilon$$

Therefore, contrarily to what has been hypothesized, poseurs' behavior and luxury abstainers do not have a correlation with the degree of trust in the grey market, while consumers' price sensitivity does.

However, the results suggest that price-sensitive consumers, who are often driven by the desire to find the best and more convenient offers, may appear to be concerned about the

missing warranties during the purchasing process and the quality of luxury goods that are available on the grey market. It might occur an association of lower prices with higher risks, such as illegitimate products or poor service, which negatively influences their trust in grey market purchases.

In conclusion, in contradiction with the hypothesis H1a, there is evidence that the opposite dynamic can occur: price sensitivity is a connotation that makes customers feel less safe purchasing on the grey market.

The second hypothesis under scrutiny proposes to assess the incidence of grey markets over consumers' willingness to spend in the specific case when these subjects are influenceable by brands' actions to counter the illegitimate practice:

**Hypothesis 2 (H2):** The consumers' willingness to spend more on brands that actively oppose to the grey market is influenced by their perception's influenceability by brands' actions against the grey market.

Therefore, the independent variable "perception's influenceability", and the dependent variable "willingness to spend more", are identified.

In order to proceed, it is firstly assumed that:

**H<sub>0</sub>:**  $\beta_0 = \beta_1 = 0$

**H<sub>1</sub>:** at least one of the coefficients ( $\beta_0$  or  $\beta_1$ )  $\neq 0$

$$\text{Willingness to spend more} = \beta_0 + \beta_1 * (\text{Perception's influenceability}) + \varepsilon$$

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.641 <sup>a</sup>	0,411	0,409	0,230

a. Predictors: (Constant), Perception's influenceability

Table 14: *Model summary.*

*Source: personal elaboration.*

In order to proceed with the analysis, the validity of the model has to be ensured.

Firstly, by inspecting the  $R^2 = 0.411$ , it is noticeable that it is between 0.35 and 0.80, meaning the model is valid as the  $R^2$  suggests that approximately 41.1% of the variance in “willingness to spend more” can be explained by “perception’s influenceability”, and it is possible to further proceed with the ANOVA analysis.

#### ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	11,102	1	11,102	210,372	<.001 <sup>b</sup>
	Residual	15,938	302	0,053		
	Total	27,039	303			

a. Dependent Variable: Willingness to spend

b. Predictors: (Constant), Perception's influenceability

Table 15: ANOVA Table.

Source: personal elaboration.

Looking at the ANOVA statistics, it can be affirmed that the linear regression analysis between the *Willingness to spend more* and *Perception’s influenceability* is statistically significant, as p-value < 0.001 (p-value is \*\*\*) and, subsequently, that the error made by rejecting the null hypothesis is very low.

Given these conditions, it is possible to reject the null hypothesis and accept the alternative one. Therefore, it means that at least one estimator among  $\beta_0$  and  $\beta_1$  is different from 0.

#### Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3,05311E-16	0,015		,000	1,000
	Perception's influenceability	0,469	0,032	0,641	14,504	<.001

a. Dependent Variable: Willingness to spend

Table 16: Coefficients Table.

Source: personal elaboration.

Finally, the regression model in the table of the Coefficients, tells if the IV (Perception's influenceability) affects the performance of our DV (Willingness to spend).

The regression analysis reveals a positive relationship between perception's influenceability and willingness to spend. Specifically, the standardized beta coefficient for Perception's influenceability is 0.641, and this relationship is statistically significant (p-value < 0.001).

This indicates that as consumers' perception influenceability increases, their willingness to spend more on brands demonstrating to actively stand against grey markets increases.

$$\text{Willingness to spend} = 0.469 * (\text{Perception's influenceability}) + \varepsilon$$

In conclusion, in line with what has been hypothesized in H2, the grey market indirectly influences buying behavior. Specifically, individuals who report being influenced by the actions that luxury brands put in place to cope with the grey market turn out to be willing to spend more to purchase products attributable to those brands.

Lastly, the third hypothesis under scrutiny aims to assess whether there is a correlation between people who purchase luxury goods less frequently and possible detrimental actions, such as negative word of mouth or switching to other brands when having to make a purchase, enacted upon discovering luxury goods offered through illegitimate channels:

**Hypothesis 3 (H3):** Individuals who rarely purchase luxury goods are more likely to exhibit detrimental behaviors towards a brand when they encounter one of the brand's products offered through unauthorized channels.

Therefore, the independent variable "Few luxury purchases", and the dependent variable "Detrimental actions", are identified.

In order to proceed, it is firstly assumed that:

$$\mathbf{H_0:} \beta_0 = \beta_1 = 0$$

$$\mathbf{H_1:} \text{at least one of the coefficients } (\beta_0 \text{ or } \beta_1) \neq 0$$

$$\text{Detrimental actions} = \beta_0 + \beta_1 * (\text{Few luxury purchases}) + \varepsilon$$

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.266 <sup>a</sup>	0,071	0,061	0,45927

a. Predictors: (Constant), Few luxury purchases

Table 17: *Model summary.*

*Source: personal elaboration.*

Following the same procedure applied in the previous two analyses, the validity of the model is firstly examined. In this respect, the first aspect to be inspected is the  $R^2$ .

In the scrutinized case,  $R^2 = 0.071$ , which is not inside the range of 0.35 and 0.80, but still it is acceptable to proceed with the ANOVA analysis as valuable insights can be derived from the analysis.

**ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1,506	1	1,506	7,139	.009 <sup>b</sup>
	Residual	19,827	94	0,211		
	Total	21,333	95			

a. Dependent Variable: Detrimental actions

b. Predictors: (Constant), Few luxury purchases

Table 18: *ANOVA Table.*

*Source: personal elaboration.*

By analyzing the ANOVA table, it can be stated that the linear regression analysis between the *Detrimental actions* and the *Few luxury purchases* variables is statistically significant, given that  $p\text{-value} < 0.05$  ( $p\text{-value}$  is \*\*) and, consequently, that the error made by rejecting the null hypothesis is very low.

Given these conditions, it is possible to reject the null hypothesis and accept the alternative hypothesis. Therefore, it means that at least one estimator among  $\beta_0$  and  $\beta_1$  is different from 0.

<b>Coefficients</b>						
<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	(Constant)	0,549	0,064		8,537	<.001
	Few luxury purchases	0,251	0,094	0,266	2,672	0,009

a. Dependent Variable: Detrimental actions

Table 19: *Coefficients Table.*

*Source: personal elaboration.*

Finally, the regression model in the table of the Coefficients, tells if the IV (Few luxury purchases) affects the performance of our DV (Detrimental actions).

The regression analysis indicates that there is a statistically significant but weak positive relationship between the dependent and the independent variables. In detail, the standardized beta coefficient for Few luxury purchases is 0.266, and this relationship is statistically significant (p-value < 0.001).

This indicates that the less frequent luxury purchases will be, the more will be the detrimental actions enacted at the expenses of the involved brands.

$$\text{Detrimental actions} = 0.549 + 0.251 * (\text{Few luxury purchases}) + \varepsilon$$

In conclusion, validating the hypothesis H3, again the grey market is confirmed to influence additional dynamics to those already discussed.

The presence of grey marketed goods represents a danger for the luxury brands as the latter could appear as guilty and liable for the presence of their products on illegitimate channels. In particular, it has been assessed that those who purchase luxury goods less frequently might easily enact detrimental actions against luxury brands whose products are involved, supposedly unknowingly, in illegitimate sales on unmonitored channels.

#### **4.5 Discussion and managerial implications**

The purpose of the research was to understand whether and how much the grey market influences the purchasing behavior of luxury consumers. Specifically, whether they are negatively or positively affected by such illegitimate dynamics.

Previously in the dissertation it was assessed how the purchasing behavior is influenced by multiple factors: biological factors, socio-psychological factors, and structural factors. It was therefore deemed appropriate to study the extent to which a phenomenon such as the grey market can also go to affect these factors and, therefore, alter normal consumer behavior.

In detail, all of the hypotheses that were formulated helped to determine a much clearer picture of the situation and to shed light over shadowy points that the literature had not previously been able to address. As a matter of fact, reviewing the literature, no studies which openly question a direct correlation between the grey market and consumers' purchasing behavior have been found.

Specifically, three main findings have emerged from the analysis of the survey.

First of all, surprisingly, in contrast with the initial hypothesis and with what could appear to be a logical reasoning, it emerged that there is no correlation between the behavior of poseurs and luxury abstainers and the degree of trust in the grey market. Practically, it means that no influential relationship can be defined between the grey marketed goods and the behavior of the respondents who do not purchase luxury goods for various reasons or the respondents who would rather buy counterfeited products just with the purpose of showing off and for status enhancement.

The only variable which resulted to be correlated with the dependent variable *Grey market trust*, was *Price sensitivity*. But, contrarily to H1a, a negative correlation between the two variables was revealed, which suggests that the grey market does have an influence on consumers' purchasing behavior, but such an influence negatively impacts the grey marketers' appeal.

The findings suggest that price-sensitive consumers, in this case, might associate the lower prices to higher concerns about, for example, product quality and purchasing experience. This ultimately results in a decrease of trust in the grey markets as price sensitivity increases.

Furthermore, it was revealed that the presence of grey markets has another indirect positive impact on specific luxury brands' appeal under certain conditions. The



specificity refers to those brands which are actively involved in the fight against grey marketers to preserve the value of the brand itself, whose actions result to be valuable and influential toward those consumers who are influenced by these actions.

As a matter of fact, in line with the hypothesis H2, luxury consumers who declared to be influenced by the actions that brands enact to counter the grey market underlined their willingness to spend more in favor of the above-mentioned brands. In this case, therefore, brand perception plays a fundamental role as it enhances the value of the effort demonstrated by certain luxury maisons, consequently resulting in an economic benefit for the latter as it will attract more purchases.

Lastly, the effect provoked by the presence of grey marketed luxury goods when consumers who rarely purchase such products are involved in the dynamic has been proven.

In detail, following the hypothesis H3, grey marketed goods have a negative impact on non-frequent consumers who, evidently, directly blame the luxury brands for having encountered products on illegitimate channels. This ultimately results in actions which are detrimental for the brand image and values, as a distorted brand identity is shared within the audience.

Apart from the three hypotheses which have been tested and which confirmed the influence of the grey market over consumers' purchase-related behavior, it is necessary to discuss the results that emerged with regards to the general level of awareness about the topic under investigation. When asked to quantify their awareness of the grey market, 71.1% of the respondents<sup>118</sup> answered that they are somehow aware of it or even less. This result perfectly explains the dangerous condition luxury brands have to deal with. As a matter of fact, this is still a very poorly known issue that, unless described to the luxury consumers, will keep represent a serious problem and a barrier for a sound development of luxury brands and their values around the globe.

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<sup>118</sup> The percentage is the result of the elaboration of the answers given to question 1, section 3, of the survey.

In conclusion, the present research supports the thesis that the grey market influences consumers' purchase behavior and, in addition, that, despite its size in terms of economy and social impact, it is not a well-known phenomenon.

#### **4.5.1 Managerial implications**

In the global luxury market, brands have to proactively intervene in order to solve the grey market plague or, at least, to raise awareness so as to give consumers all the tools to rationally approach the market and distinguish legitimate and illegitimate channels.

The results of the study provide key information that would enable luxury brands to recognize their weaknesses and, more importantly, to readjust their strategies to the behavioral characteristics of customers with the aim to reduce the influence of the grey market and attract more consumers to purchase through legitimate channels.

First and foremost, as it has been proved that many ignore the existence of the grey market, and many others vaguely know what such a practice implies, publicly disclosing the actions performed to counter the practice, or at least to shed light over its existence, would be a meaningful step towards more favorable scenarios for the brands.

In particular, producing annual reports to disclose the evolution of the company's practices to impact the illegitimate practice under analysis and gradually reduce its influence would be valuable both for the consumers and also for the employees who would be kept updated about their contribution with respect to the grey market fight.

Simultaneously, an improvement and redesign of the communication channels would be highly recommended as, nowadays, proving the positive impact that brands provoke can represent a valuable leverage to educate the audience to recognize the phenomenon and to give value to the products sold through legitimate channels.

These campaigns, for example shared through social medias, would also have the purpose of downplaying what was proven by confirming the truthfulness of the hypothesis H3<sup>119</sup>. As a matter of fact, sharing contents would certainly serve as an introductory mean the topic of the grey market to those who rarely purchase luxury goods and, unaware of the

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<sup>119</sup> H3: "Individuals who rarely purchase luxury goods are more likely to exhibit detrimental behaviors towards a brand when they encounter one of the brand's products offered through unauthorized channels".

phenomenon, would spontaneously blame the involved luxury brand for the unpleasant event of having discovered luxury goods offered through illegitimate channels. The expected result would be the decrease of detrimental actions taken by the non-frequent luxury consumers who irrationally react to the grey market phenomenon.

Moreover, as price-sensitivity has been said to be negatively correlated to consumers' trust in the grey market, the interested companies should be able to induce these price sensitive consumers to fully understand and appreciate the uniqueness of the luxury experience which only legitimate retail stores can provide. This would ultimately lead to the understanding that, although price is the primary driver influencing their purchasing behavior, there are other tangible and intangible facets that make brands unique and that make the higher price point set meaningful and worth the expense.

Having been proven that individuals who report being influenced by the actions that luxury brands put in place to cope with the grey market are willing to spend more on the latter, it is suggested to take advantage of it by using the company's CRM tools.

In particular, as all luxury companies possess well established CRM systems which are used to profile consumers and extract information about their preferences and their purchases, an alternative use is proposed. With the help of the store assistants' expertise, through a process of data collection and profiling about which customers might fit the consumer's profile description provided in the hypothesis H2<sup>120</sup>, it would be extremely relevant to create a database of such subjects. The usefulness of the database would lie in the possibility to extract a list of these types of clients to whom the brand could send ad-hoc newsletters with the intent to provide updates on the grey market in the luxury industry, and how the brand is moving and evolving to address it so as to finally induce the specific audience to increase the average basket<sup>121</sup>.

Lastly, it is acknowledged that illegitimate channels, therefore also grey markets, can sometimes support luxury brands. It is the case of overproduction or obsolete products

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<sup>120</sup> Consumers' profile description: individuals who report being influenced by the actions that luxury brands put in place to cope with the grey market.

<sup>121</sup> The average basket is the average value of tickets. While the average ticket is the number of transactions.

which are diverted to these channels which provide an unmonitored outlet for such unwanted goods, thereby preventing the growth of unsold stock for luxury brands or the need to destroy the excess inventory. However, brands should recognize that by investing more in production monitoring, in reorganization of the production processes, and in the redefinition of the buyers' strategies, they would ultimately eliminate the need to rely on grey markets for the disposal of excess inventory. In the long term, the initial investment in better production and distribution oversight would be offset by the savings generated from reducing the necessity to engage with illegitimate channels such as grey marketers and, contextually, also the need to find strategies to limit the development of the latter.

#### **4.5.2 Future research**

This dissertation suffers from some limitations due to the origin of the data and the analysis's scope.

The first limitation is that, although the survey has been shared both in Italian and in English, the majority of the respondents are Europeans. Therefore, future research should broaden the scope and provide for a more homogeneous collection of responses in order to give a more general view of the phenomenon or, alternatively, focus on a different macro-area so as to be able to compare the data and derive insightful conclusions.

The second limitation is represented by the multiple regression that has been performed to verify the first hypothesis. As a matter of fact, it only considered three independent variables, with only one of them being significant. Therefore, further research might focus on exploring other independent variables as potentially significant so as to explain even more accurately where the trust in the grey market finds its foundations.

The same limitation is found in the linear regression performed to verify the third hypothesis. In detail, while the low frequency of luxury purchases is a significant predictor which influences consumers' inclination to take detrimental actions at the expenses of the luxury brand involved in grey market dynamics, other variables not included in the model might play a substantial influential role as well. Therefore, further research including additional variables might enhance the explanatory power of the model. Lastly, another limitation has been found in the difficulty in include in the study respondents who are directly involved in grey market dynamics (such as daigous). Being

able to have insights from them would be of immense value in proving the effects of the grey market on consumers' purchasing behavior. For this reason, further research could focus on developing a research model that features a smaller but far more knowledgeable sample of people directly involved in grey market activities.

## CONCLUSIONS

The grey market phenomenon has developed, as demonstrated, over the decades in a subtle and silent manner, avoiding the foreground but expanding its relational network only with those directly involved and without attracting the attention of an inappropriate audience. This is why even today most people are still unaware of the complex machinery that moves the illegitimate goods market: it has always been about those who, interested in finding alternatives, have discovered the grey market, without the latter ever having to find strategies to increase its attractiveness.

Its capacity to emerge as a significant, albeit illegitimate, segment of the luxury market, coupled with its ability to provide legitimate goods at prices lower than those in local retail markets, has significantly influenced consumers' purchasing decisions. As a matter of fact, this phenomenon has enabled consumers to encounter a broader array of product offerings.

Therefore, in order to answer the research question, it has been deemed appropriate to conduct a quantitative analysis sourcing data from a survey distributed to an adequate and heterogeneous number of respondents to conduct a valid and insightful analysis.

As previously discussed, the results of the analysis give an answer to the research question validating the hypothesis of a real influence of the grey market over the consumers' purchasing behavior.

One of the most relevant aspects that emerged is the complex relationship between price sensitivity and trust in the grey market. The negative correlation between these two variables indicates that consumers who are more price-sensitive display greater distrust of such unofficial channels, suggesting that the grey market, while influencing purchasing choices, fails to fully gain the trust of a significant portion of consumers.

In parallel, the study highlighted how luxury brands' proactive actions against the grey market can strengthen brand perception among consumers. This phenomenon highlights the importance of pursuing sound branding strategies aimed at protecting brand value.

In addition, there is evidence of a significant negative impact of the grey market on casual consumers of luxury goods. These consumers, finding luxury products on illegitimate channels, tend to blame official brands for this, thus damaging brand image and values.

This negative effect demonstrates the need for brands to educate consumers and increase awareness regarding the risks associated with grey market purchases.

Finally, the analysis found a low level of general awareness regarding the grey market phenomenon among luxury consumers, which implies the urgency for luxury brands to step up informational and educational efforts, as low awareness of the problem poses a significant threat to the integrity and sound development of luxury brands.

In conclusion, the luxury grey market, with its ability to offer authentic goods at competitive prices, continues to significantly influence consumers' buying behavior. However, this influence is complex and multifaceted, incorporating both economic attraction and distrust of unofficial channels. For luxury brands, the answer to this challenge lies in integrated strategies that combine readaptation, brand protection, consumer education, and clear and transparent communication.

However, it is important to underline that there is not a unique strategy that fits every brand's condition, as each circumstance is characterized by different levels of influence of the illegitimate market under investigation. In any case, the present dissertation serves as a reflection and as a common starting point for luxury brands that draws recurring guidelines which overlook the specific dynamics.

If the luxury industry is indeed interested in seeing this phenomenon fade away, brands must become aware that it is necessary to take a stand, expose themselves and, above all, be willing to make sacrifices in economic terms. This is the only effective way to see a return in the medium to long term, which will certainly be able to repay the efforts and open the door to new opportunities.

Only through continuous and proactive efforts it will be possible to mitigate the negative effects of the grey market, protect brand value, and ensure a prosperous and sound future for the luxury industry.

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## APPENDIX – SURVEY

### SECTION 1: PERSONAL DATA

1. What is your gender?
  - Man
  - Woman
  - I prefer not to specify
  
2. Which macro-area are you located in?
  - Europe
  - USA
  - South America
  - Middle East
  - China
  - Africa
  - Russia
  - Japan
  - APAC (except China and Japan)
  
3. What generation do you belong to?
  - Baby boomers (1946-1964)
  - Gen X (1965-1980)
  - Millennials (1981-1996)
  - Gen Z (1996-2015)
  
4. What is your occupation?
  - Student
  - Worker
  - Unemployed
  - Retired
  
5. What income range do you belong to?
  - Less than €15.000
  - €15.001 - €30.000
  - €30.001 - €45.000
  - €45.001 - €60.000
  - More than €60.000
  - I prefer not to disclose

## **SECTION 2: GENERAL QUESTIONS ABOUT PURCHASING BEHAVIOR**

1. How often do you purchase luxury goods?
  - Never
  - Rarely
  - Sometimes
  - Very often
  
2. Which is the product category you prefer purchasing?
  - Apparel
  - Shoes
  - Bags
  - Accessories
  - Jewelry
  - Watches
  
3. Do you consider yourself as a price-sensitive consumer?
  - Yes
  - No
  
4. Have you ever felt that the product being offered to you on a website or by a third-party retailer came from unauthorized channels?
  - Yes
  - No
  - Not to my knowledge
  
5. How important is the purchasing experience for you when entering the boutique of a luxury brand?
  - It is not important at all
  - It is somehow important
  - It is moderately important
  - It is very important
  - It is fundamental



6. Select the statement you most identify with:

- I rather buy inconspicuous goods, of extraordinary craftsmanship and materials' quality. Not for the sake of elevating myself from others, but rather for the appreciation of the product and to be part of a group of people with the same tastes.
- I prefer pieces with logotypes (for example the Gucci "GG" or Louis Vuitton's "LV") or recognizable patterns of the brand, that are unmistakable elements known by everybody.
- I like brands producing conspicuous goods which are recognizable, but the prices are excessive. I would rather buy a counterfeited but cheaper version which is not easily recognizable as such by most of the people.
- I am not particularly interested in buying "status goods", unbranded clothes are much cheaper and they perform the same function equally, if not better.

**SECTION 3: SPECIFIC QUESTIONS ABOUT GREY MARKET**

1. To what extent are you aware of the phenomenon of the grey market in the luxury industry?

*(Express a grade from 1 to 5, where 1 is not aware at all and 5 is extremely aware)*

1	2	3	4	5
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2. How confident would you feel to make a purchase of a grey marketed good?

*(Please express a rating from 1 to 5, where 1 means "not confident at all" and 5 is "extremely confident")*

1	2	3	4	5
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3. Which would be the aspects retaining you from trusting a grey marketer?

- Non-certified product quality
- Not having warranties
- No services provided to support you during the purchasing process
- The lower price
- Other (insert answer)

4. Could the fear for judgement from others restrain your will to make a purchase on the grey market?

- Yes
- No
-

5. On a scale from 1 to 5, how much do you think brands are doing to fight grey marketers?  
*(Express a rating from 1 to 5, where 1 is “nothing” and 5 is “the most they can do”)*

1	2	3	4	5
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6. To what extent do the actions that brands are enacting to combat the grey market influence your perception of them?  
*(Express a rating from 1 to 5, where 1 means “it does not influence my perception” and 5 means “it extremely influences my perception”)*

1	2	3	4	5
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7. Having the actions implemented to combat the grey market by luxury brands great influence on your brand perception of the brands, would you be willing to spend more or less on the products sold by them?

- I would be willing to spend more because the actions taken express the brand’s seriousness and increase its appeal
- I would spend the same amount
- I would spend less, because I do not appreciate the competitiveness of brands that limit other retailers in their activities

8. Imagine you recently saw a bag you really want to buy offered on the grey market for a competitive and cheaper price. Would this make your perception of the brand negatively change?

- No, it’s not their fault
- No, I am not interested in such dynamics
- I would remain neutral
- Yes, but only partially
- Yes, it makes the brand appear as not too serious

9. If your brand perception was negatively affected by the dynamic presented in the previous question, which of the following would be your reaction?

- I would change brand of reference
- I would not purchase the product anymore
- I would share a negative feedback about the brand with my acquaintances
- I would not do anything in particular