

## The BIG lie about the Gray Market By Joseph Marion

Recent articles in the computer trade publications seem to be competing with each other to come up with “that killer story” about “the gray market.” But the truth is that it is hard to write a story when none of the participants you are interviewing will tell you the truth.

That is why while every trade publication in the IT industry is writing about the gray market, none of the stories ring true.

You can’t hold these authors responsible for the misinformation. They are simply victims of the spin doctors in our industry. And boy can they twist the truth!

### Spin from the Gray Marketers

First there is the spin from the gray marketers. In a recent article published in CRN called “Gray Matters,” the author talks about “independent distributors” gaining a foothold in the new equipment market. Independent distributors? Foothold? Who are they kidding? Whoever came up with the term “independent distributor” is a marketing genius. Please call them what they are. “Gray market dealers.” And as far as a foothold is concerned, gray market dealers have been around since manufacturers started selling their products through resellers. It started with Mercedes Benz twenty years ago and soon spread to the IT Industry. Whenever you have a distribution process where the same product is sold at different prices there will be a gray market.

I remember when I sold IBM systems back in the “green screen” era. IBM had a program called a Volume Purchase Agreement (VPA) where it offered its major customers a discount if they ordered several hundred terminals at one time. My company (a reseller) used that program and ordered a few thousand terminals at a major discount and then we resold each and every one. After several years of taking advantage of this loophole in IBM’s marketing plan, IBM got wise. They wrote into our contract that we had to certify that we were the end user in order to earn the discount. And so went the IBM VPA program.

### Spin from the Manufacturers

But back to the spin issue. The other spin comes from the manufacturers who want you to believe that they really want to shut down the gray market. Companies like Hewlett-Packard, Sun, and Cisco are all over the press showing everyone what they are doing to control the gray market. HP recently sued two companies in Tennessee Federal court for dealing in the gray market. Sun did a similar thing in the UK. CISCO too has made a lot of public statements about shutting down the gray market. Why, if they are so tough on the gray market, can you find gray equipment everywhere you look? There can be only one answer. These actions by manufacturers are more for show than anything else.

Every piece of IT equipment has a serial number on it. Manufacturers can very easily trace the source of a gray market machine. And it will ALWAYS lead back to one of their authorized distributors. If they wanted to shut down the source of the gray market, it really would not be that hard. But they don't. These manufacturers have two masters to serve. On one hand, they strive to get as much of their hardware out on the market in any way they can, yet on the other they want to keep their authorized distributors happy. So they walk a fine line.

Flash back to IBM about thirty years ago. When IBM shut my company out of the VPA business, we signed up for their Business Partner Program. Each year, IBM would send a team of auditors into our office and would ask for proof as to where we sold our IBM equipment. The auditors would call our customers to verify that we were in fact honoring our Business Partner contract with IBM. If IBM found out that we violated our agreement, they would cancel our contract. Clear and simple.

#### Spin from the Resellers

And the third group of spin masters is the authorized resellers themselves. These companies have signed agreements with manufacturers to sell their new products under certain conditions such as only selling to end users and adding value and support to the equipment sale. They knew the deal they were getting into when they signed up to be authorized dealers. But now they cry that they have to buy their new equipment from these unauthorized "independent" distributors because the price is so much better than buying through legitimate channels. What ever happened to the concept of supporting your partner and a deal being a deal?

#### The Simple Truth

If the resellers would only buy through authorized channels and if the manufacturers would shut down every authorized distributor who dumped equipment on the open market there would be no gray market.

But if that happened, what would the trade press have to write about?