

## Consumer Attitude towards Gray Market in Indonesia

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### Abstract

Despite the fast growth of luxury industries in both mature and emerging markets in the world, problems are also arising concurrently. The problem is the growth of gray market which utilize this opportunity to take over the luxury industries' consumers into their hand and their activities have become global. Gray market has now grown faster not only in offline channel but also by going viral by using online media such as Facebook, Instagram, or Website as their main channel. Although there're many studies about gray market problems which have been discussed in the literature, relevant studies from consumers' perspective are still limited. This study aims to learn about consumer attitude toward online gray market in Indonesia, where the result of this study can be used effectively by trademark holders or international brand managers in determining the right marketing strategy in facing the gray market from consumer point of view. The main focus in this research is about gray market which sold genuine branded bags at lower prices. This study also investigates the relationships between consumer attitude toward gray market goods and their antecedents which are consumers' personal value, social recognition values, and luxury brand perception. This research takes period of 8 months where Multiple Linear Regression and Path Analysis method is used for this research data analysis. The implications and further research are discussed.

*Keywords:* Gray market; Consumer Behavior; Fashion; Luxury Goods; Branded Bags; Emerging Market; International Marketing

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### 1. Introduction

Luxury fashion industry has grown phenomenally in the last few years. Despite it's relatively small number of companies compares to the mid markets' and low markets' companies, luxury industries have far more important role above it's weight in terms of both sales and influence in the world's industry including fashion industry. Based on McKinsey "Fashion Scope" journal, luxury market is more concentrated than midmarket across product categories and also the fact that a rebalancing of great speed and scale is happening from West to East and the global economic balance is shifting to emerging markets.

According to a study conducted by Bain & Company in October 2013, Indonesia and some countries in Southeast Asia are the new player of luxury growth within the Asia region. Southeast Asia had 11% growth in the personal luxury goods market in the period of 2012-2013 which is higher compares to 6% of global growth. Euromonitor's Luxury Goods in Indonesia report, also stated that the values of local luxury goods market is at number of \$644.7 million in 2012 and this number is forecasted to grow to \$742.5 million in 2013, an increase for over ten percent.



Despite the fast growth of luxury industries in both mature and emerging markets in the world, problems are also arising concurrently. The problem is the growth of gray market which utilize this opportunity to take over the luxury industries' consumers into their hand and their activities have become global.

Gray Market is one of the distribution channel where trades of a certain type of goods happen, which is actually legal, but not intended by the original manufacturer of the goods. As defined by Bucklin (1993) "Gray market goods are genuinely branded merchandise distinguished only by their sale through channels unauthorized by the trademark owner." Based on most literature reviews on the definition of gray market products, it is said that gray market products are genuine or original branded goods which sold at cheaper prices where Intangible value added such as the service quality, warranty terms, and safety features are not included in the service.

Due to the growth of gray market, trademark holders have experienced loss for billion dollars. Since 1980s, in the USA, sales of Gray market goods have been estimated to over \$10 billion per year (Albert,1992). Myers (1999) in his survey stated that gray market issues have become global, happening not only in less developed or volatile markets, but also in many well-developed markets. His survey also discovered that almost 20 percent of the respondents of US Manufacturing Exporters said that their export ventures were affected strongly by the existence and activities of gray markets.

Gray market has now grown faster by going viral by using online media such as Facebook, Instagram, or Website as their main channel. Based on McKinsey's proprietary Rapid Brand Research survey in an online panel to US, UK, and Germany respondents, the survey discovered that most of the respondents of luxury shoppers are increasingly view online channels as a legitimate and trusted source for luxury purchases.

Although there're many studies about gray market problems which have been discussed in the literature, relevant studies from consumers' perspective are still limited. The purpose of this study to identify and analyze the most important factors and values that influence customer intention toward gray market goods from customers' perspective. By knowing the factors and values that influence customer intention to shop at gray market, international brand managers can develop a better and more effective strategy in facing gray market, start from the valuable insight and findings from this research. The main focus in this research is about gray market in Indonesia both online and offline, which sold genuine branded bags at lower prices. This study also investigates the relationships between consumer attitude toward gray market goods and their antecedents which are consumers' personal value, social recognition values, and luxury brand perception.

## **2. Literature Review**

### *2.1. Personal Values*

Tsai (2005) define intrinsic purchase motivation as internal self-fulfillment goals which is a self-satisfaction, pleasure or personal meaning. They are personally motivated to consume luxury goods due to their own individual self perception, emotions, and subjective judgement (Vigneron and Johnson, 1999 and 2004).

Wiedmann et al. (2007) categorized four dimensions, which are individual value, social value, functional value and financial value. Based on their research, hedonic value and materialism value are individual value, while based on Tsai (2005), quality value is categorized as personal orientation.

#### *2.1.1. Hedonic Value*

Vigneron and Johnson (2004) define hedonic as the pleasure obtained by consumer from the consumption experience. Those consumers are willing to spend more for luxury goods in order to express themselves well (Vigneron and Johnson, 2004). They focus on self rewards rather than the functional benefits of the goods itself.

#### *2.1.2. Quality Value*

Luxury products are primarily purchased for its superior quality rather than for show off an individual's power and prestige within the society. Park and Park (2003) also stated that consumer's purchase motivation and decision are increased by the quality of product significantly.

### 2.1.3. Materialistic Value

Materialism is defined as the value attached by an individual to the material objects (Belk, 1985). Dawson (1992) found that attitude toward luxury is positively related to materialistic consumer behavior due to strong relationship between materialistic consumers and external cues. (O’Cass & Frost, 2002)

## 2.2. Social Values

As explained before, luxury brand consumption is influence by personal oriented, however social recognition oriented is also have the important influence on it (Hansen, 1998; Wong and Ahuvia, 1998; Vigneron and Johnson, 1999; Gentry, Putrevu, Shultz and Commuri, 2001 and Coulter, Linda and Feick, 2003). O’Cass and Frost (2002) define extrinsic factors as the purchase of luxury goods which is primarily show off an individual’s money and status to others. These consumers’ put high importance on perception of others which affect an individual’s purchase decision significantly.

### 2.2.1. Conspicuousness Value

Veblen (1899) define “conspicuous consumption” as individuals who have sufficient money will likely to purchase well known brands to shows their position and power in the society and also primarily to symbolize their status.

### 2.2.2. Susceptibility to Normative Value

Bourne (1957) stamped out the “theory of reference group” which became the fundamental of decision-making process of luxury goods. In 1980s, many researchers done studies which were built based on the Bourne (1957) findings, which emphasized on the impact of reference groups to luxury brand consumption (Mason, 1981, 1992; Bearden and Etzel, 1982).

### 2.2.3. Status/Prestige Value

Status-oriented consumers purchase luxury goods which they think will add their social position among the society (Eastman et al., 1999 and O’Cass and Frost, 2002). Lichtenstein, Ridgway and Netemeyer (1993) recommends the application of a pricing strategy, named “prestige pricing strategy”, since status seeking consumers think that high price as an indicator of luxury.

## 2.3. Luxury Brand Perception

In a research on the value correlated with luxury brands, Berthon et al. (2009) stated that it is identified by three worlds of consumer experience.

### 2.3.1. Functional Value

The first world focuses on functional value, which displayed the actual goods and service quality which perceived by the consumer. For consumers who are categorized in this category, quality can be important because it indicates about how well a goods can perform (Berthon et al., 2009; Sweeney and Soutar, 2001).

### 2.3.2. Experiential Value

The second world is the experiential value which consists of consumer feelings and thoughts toward the luxury brand. Luxury brand is often to be perceived subjectively by consumers as something that is unique, rare, and precious which can be divided into hedonic and uniqueness-seeking motivations.

### 2.3.3. Symbolic Value

The third world focuses on a luxury brand’s symbolic value which symbolizes wealth, expensiveness, and conspicuousness. In this value, possession of luxury brands could present a sign to other consumer as well as the



own user (Belk, 1988; O’Cass, 2004) or it is can be said that the value lies in extending consumer’s self and consumer’s conspicuousness (Berthon et al., 2009).

### 2.4. Attitude toward Gray Market

Bian and Forsythe (2012) stated that Attitude towards luxury brands has a significant impact on consumers’ purchase intention for those luxury brands. Ajzen (1991) has stated that, attitude towards a behavior significantly affects an individual’s intention which lead to performing that behavior.

### 2.5. Purchase Intention

This research is more focus on purchase intention rather than purchase behavior, because intention has bigger implication and will be more frequent to have a positive impact toward individual’s actions (Ajzen and Driver, 1992; Pierre et al., 2005; Schlosser et al., 2006). This theory is also supported by many academicians who have done researches on the importance of purchase intention in the context of brand consumption (e.g. Dubois and Paternault, 1995; Yoo and Lee, 2009; Zeithaml, 1988). This research uses the antecedent of purchase intention which has been investigated by Berthon et al. (2009), Tsai (2005), and Vigneron and Johnson (2004) which referred to the influence of the self and external elements of luxury brand consumption.

### 2.6. Conceptual Framework

Here is the conceptual framework that will use in this research in order to identify which factors mostly affect purchase intention in gray market in Jakarta and Bandung population. The development will be based on previous research from several journals that mentioned above.

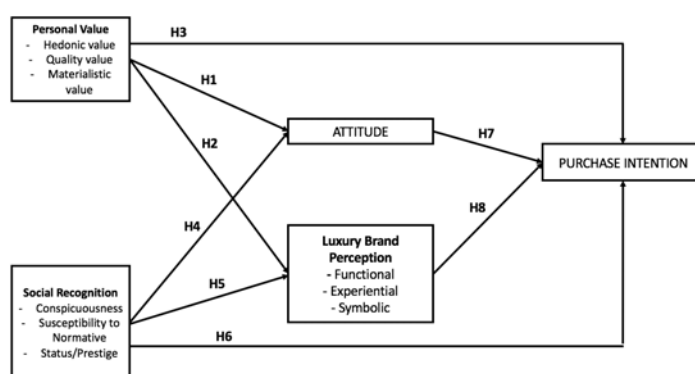


Figure 1. Conceptual Framework

## 3. Methodology

### 3.1. Research Type

This research is categorized as an applied research since the study developed to gather information from customer perspective which enable international brand manager to build strategies against gray market, from customers’ point of view. Questionnaire will be used to collect quantitative data of customer perception and attitude toward Gray Market.

### 3.2. Sampling

The sampling method that is used in this research was non-probability sampling, convenience technique for the city selection and purposive technique for respondent selection. Based on convenience technique which prioritize convenient accessibility and proximity to the researcher, Jakarta and Bandung are selected, due to researcher’s city of origin and domicile. Based on purposive technique, the criteria of respondents should be women, live in Bandung or Jakarta, age from 16-64 years old, potentially to buy or owned luxury branded bag, and/or familiar with the luxury branded bag that penetrated to Indonesian market. By using non-probability sampling, convenience technique, purposive technique, there were 430 questionnaires filled and 400 from them were valid.

3.3. Data Analysis Technique

Multiple Linear Regression is being used to determine the extent of linear relationship between the dependent variable and one or more independent variable. The purpose of linear regression is to show the value of dependent variable based upon the value of one or more independent variables.

Path Analysis is used to define the in indirect influence and total influence from independent variables towards dependent variable. This method shows the highest indirect variable’s influences.

4. Data Analysis and Result

Below is the result of multiple linear regression calculation to know relationship between each variable.

Table 1. Multiple Regression Result

Dependent Variable	Independent Variable	ANOVA		Coefficients			R <sup>2</sup>
		F	Sig.	Beta	t	Sig.	
Attitude toward Gray Market	Personal Values	14.596	0	0,188	3.821	.000	0.035
	Social Recognition Values	14.429	0	0.187	3.799	.000	0.035
Luxury Brand Perception	Personal Values	380.234	0	0,699	19.500	.000	0.489
	Social Recognition Values	242.568	0	0,615	15.575	.000	0.379
Purchase Intention	Personal Values	24.727	0	0,242	4.973	.000	0.058
	Social Recognition Values	16.242	0	0.198	4.030	.000	0.039
Purchase Intention	Attitude toward Gray Market	257.604	0	0,627	16.050	.000	0.393
	Luxury Brand Perception	16.982	0	0.202	4.121	.000	0.041

Based on the table above, it is shown that all independent variables are significantly (Significance level are all below 5% or 0.05) related and positively related (Beta are all positive) to the dependent variable. However based on the R square there are only three independent variables which dominantly influence dependent variables, which are personal values and social recognition values toward luxury brand perception, and also attitude toward purchase intention.

To know total influence score, path analysis was performed from each variable to purchase intention. Some of independent variable will pass some intervening variable before influencing the dependent variable. That is why, there will be indirect and direct influence to purchase intention.

Table 2. Path Analysis Result

Intervening Variables	Independent Variable	Dependent Variable	Indirect		Total Indirect	Direct P3	Total Influence
			P1	P2			
ATT	PV	PI	0.188	0.627	0.118	0.242	0.501
LBP	PV	PI	0.699	0.202	0.141	0.242	
ATT	SV	PI	0.187	0,627	0.117	0.198	0.439
LBP	SV	PI	0.615	0.202	0.124	0.198	

Based on table above, personal values become the variable which has the strongest influence to purchase intention with beta score of 0.501, which means that international brand managers should put more focus on their consumers’ personal values which are the need of hedonic and materialism value, and increase the perceived quality of their products in the eye and heart of the consumer.



## 5. Conclusion

Based on the multiple linear regression it can be concluded that both attitude and luxury brand perception are significantly positively affect luxury brand's consumer purchase intention. However, attitude has stronger influence, as we can see from the bigger beta = 0.627. On the other hand, attitude is influenced by personal values and social recognition value, however based on the R square number which is only 0.07 in total for both aspect, future research about another factors which influence attitude must be conducted, so that the brand manager can have the insight about which factors must be focus on beside personal values (hedonic, quality, and materialism) and social recognition value (conspicuousness, susceptibility to normative, and status/prestige) that also affecting attitude dominantly, for example cultural background, income, etc.

As for the luxury brand perception, both, personal value and social recognition value have strong influence for luxury brand perception (Beta are 0.699 and 0.615), and both variables are also the dominant factors for luxury brand perception, with total R square of 0.868. With these insights, international brand manager should then focus in building their consumers' perception toward their luxury brand, starting from consumers' personal values and social recognition value.

Based on Path Analysis result, it can be seen that, from this research, personal values have the strongest influence toward Purchase Intention. International brand manager then should also focus and give their best attention for their consumers' personal value. For hedonic value, researcher's recommendation might be giving more emotional experience while the consumers are shopping, to give them more happiness and pleasure, while for the quality value, company can increase their product's quality, and ensure consumer by giving warranty, etc. And the last for materialism value, company can produce more authentic products of them which have special and unique signature of the brand, so that when the consumers use their products, the social or reference group will know about the brand of the products, and also the price which will make the consumers can express themselves well.

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