

# Gray Markets: Buying Components At Your Own Risk

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**Buying from an authorized distributor is your safest bet, but some companies buy at their own risk when shopping on the gray market.**



The best assurance that a manufacturer has to minimize the risk of buying counterfeit components is to buy from an authorized source.

Whether it is directly purchased from the supplier, or one of the supplier's authorized sellers, if you buy anywhere else you run a greater risk of purchasing counterfeit parts.

The claim is supported by a survey conducted by the U.S. Department of Commerce (DoC) Bureau of Industry and Security's (BIS) Office of Technology Evaluation (OTE) to "provide statistics on the extent of the infiltration of counterfeits into U.S. defense and industrial supply chains, to provide an understanding of industry and government practices that contribute to the problem, and to identify best practices and recommendations for handling and [preventing counterfeit electronics](#) [1]."

This survey is documented in "Defense Industrial Base Assessment: Counterfeit Electronics," a sweeping [252-page dossier](#) [2] on the best practices for the

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procurement of parts.

According to the survey, “The procurement process has become a main entry point for counterfeits due to the use of unapproved suppliers, lack of part authentication procedures, lack of communication and cooperation between suppliers and customers, insufficient inventory control procedures, and limited counterfeit avoidance procurement policies and practices.”

The most widely suggested best practice to avoid purchasing counterfeits, according to the DoC survey, is to buy parts directly from original component manufacturers (OCMs) and authorized distributors. Steer clear of parts brokers, independent distributors or the gray market — the trade of parts through distribution channels which, while legal, are unofficial, unauthorized or unintended by OCMs.

Obviously, for companies that work on products that require out-of-production or obsolete parts, it’s impractical, if not impossible, to swear off brokers, indie distributors and the gray market. After all, the gray market has legitimate parts available because of surplus sales, bankruptcies and direct sales of authentic products outside of the authorized supply chain. When such is the case, engineers can increase component legitimacy.

The survey adds that while it can be riskier to purchase components from the gray market, organizations can take steps to mitigate risk, notably, requiring suppliers to trace parts back to OCMs and purchasing parts off of internal trusted supplier lists.

According to Robin Gray, the executive vice president of the [National Electronic Distributors Association](#) [3] (NEDA), manufacturers are “buying at their own risk” when working with an unauthorized source.

“Let’s make the assumption that you have a reliable unauthorized source and they receive genuine product. You don’t know if the product was properly stored, handled or packaged — that includes electrostatic discharge (ESD) when you’re talking about active components, and you don’t know where the products have been,” says Gray. “The products could’ve been pulled off a board in India or China, cleaned up, repackaged and put back into the supply chain.

“Regardless of what sort of vehicles you have in place, your best bet is to buy from an authorized source,” continues Gray. “Without it, your risk goes up tremendously ... There is no legitimate vehicle for reporting counterfeit parts. There are some broker-run services that are for-profit entities that try to legitimize the unauthorized chain, but you have to investigate them carefully before you put too much stock in them.”

NEDA is currently working on issues regarding the disposal of excess inventory as it enters the gray market to make sure that the product stays as counterfeit-free as possible.

“[The gray market] is like money laundering,” Gray warns. “Oftentimes, counterfeit

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parts go through many different channels, so its pedigree becomes cleaner as it moves through the supply chain. While most counterfeit electronics come from China, particularly Shenzhen Province, they ship them to Dubai to Buenos Aires to Costa Rica before the product finally arrives in the United States. Even if you are a reputable broker or unauthorized distributor, how far back are you able to trust the supply chain and know that you're getting the real deal?"

*Find out more on the steps you can take to [prevent counterfeit designs](#) [1] and make sure the design engineering community has the latest component information.*

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[1] <http://www.pddnet.com/editorials-david-mantey-neda-protecting-engineers-from-counterfeit-products-051910/>

[2] [http://www.bis.doc.gov/defenseindustrialbaseprograms/osies/defmarketresearchrpts/final\\_counterfeit\\_electronics\\_report.pdf](http://www.bis.doc.gov/defenseindustrialbaseprograms/osies/defmarketresearchrpts/final_counterfeit_electronics_report.pdf)

[3] <http://www.nedassoc.org/>