Chapter 3

Literature Review of Sales Promotion schemes and Consumer Preference.

3.0 Promotion and Consumption
3.1 Sales promotion Schemes and Consumer Preference
3.2 Brand Equity Measurement
3.3 Sales Promotion Types and Preferences
3.4 Valence of a promotion
3.5 When Promotion is Informative
3.6 Perceived discount
3.7 Store Image
3.8 Name Brand Vs Store Brand
3.9 Change in Purchase intention due to Sales promotions
3.10 Promotion threshold
3.11 Consumer Price Formation : Reference Prices
3.12 Price Elasticity
3.13 Sales Promotion: Immediate Price reduction
3.14 Consumer Goals
3.15 Price Promotion & Pre Purchase Goals
3.16 Promotion: Discount Vs Free Gift
3.17 Consumer Response to Deal Exclusivity
3.18 The Effects of Gender on consumer response to Deal Exclusivity
3.19 Sales Promotion and Brand Equity
3.20 The Effects of Sales promotions on Brand Knowledge
3.21 The Differential Effects of monetary & Non Monetary promotions on Brand Knowledge

3.22 Sales promotion and Brand Image

3.23 Sales Promotion and Branding

3.24 Short and Long Term effects of Sales Promotions

3.25 Price Sensitivity

3.26 Sales Promotion in relation to advertising

3.27 Conclusion

3.28 References
3.1 Promotion & Consumption:

Does consumption respond to promotion? Many studies have focused on the effects of promotion on brand switching, purchase quantity, and stockpiling and have documented that promotion makes consumers switch brands and purchase earlier or more. The consumers’ consumption decision has long been ignored, and it remains unclear how promotion affects consumption (Blattberg et al. 1995). Conventional choice models cannot be used to address this issue because many of these models assume constant consumption rates over time (usually defined as the total purchases over the entire sample periods divided by the number of time periods). While this assumption can be appropriate for some product categories such as detergent and diapers, it might not hold for many other product categories, such as packaged tuna, candy, orange juice, or yogurt. For these categories, promotion can actually stimulate consumption in addition to causing brand switching and stockpiling. Thus, for product categories with a varying consumption rate, it is critical to recognize the responsiveness of consumption to promotion in order to measure the effectiveness of promotion on sales more precisely.

Emerging literature in behavioural and economic theory has provided supporting evidence that consumption for some product categories responds to promotion. Using an experimental approach, Wansink (1996) establishes that significant holding costs pressure consumers to consume more of the product. Wansink and Deshpande (1994) show that when the product is perceived as widely substitutable, consumers will consume more of it in place of its close substitutes. They also show that higher perishability increases consumption rates. Adopting scarcity theory, Folkes et al. (1993) show that consumers curb consumption of products when supply is limited because they perceive smaller quantities as more valuable. Chandon and Wansink (2002) show that stockpiling increases consumption of high convenience products.
more than that of low-convenience products. In an analytical study, Assuncao and Meyer (1993) show that consumption is an endogenous decision variable driven by promotion and promotion-induced stockpiling resulting from forward-looking behaviour.

There are some recent empirical papers addressing the promotion effect on consumer stockpiling behaviour under price or promotion uncertainty. Erdem and Keane (1996) and Gonul and Srinivasan (1996) establish that consumers are forward looking. Erdem et al. (2003) explicitly model consumers’ expectations about future prices with an exogenous consumption rate. In their model, consumers form future price expectations and decide when, what, and how much to buy. Sun et al. (2003) demonstrate that ignoring forward looking behaviour leads to an over estimation of promotion elasticity.

3.2 Sales Promotion and Consumer Response/ Preference:

Consumer promotions are now more pervasive than ever. Witness 215 billion manufacturer coupons distributed in 1986, up 500% in the last decade (Manufacturers Coupon Control Center 1988), and manufacturer expenditures on trade incentives to feature or display brands totalling more than $20 billion in the same year, up 800% in the last decade (Alsop 1986; Kessler 1986). So far, not much work has been done to identify the purchasing strategies that consumers adopt in response to particular promotions, or to study how pervasive these strategies are in a population of interest. Blattberg, Peacock and Sen (1976) define a purchase strategy as a general buying pattern which "incorporates several dimensions of buying behaviour such as brand loyalty, private brand proneness and deal proneness." A greater understanding of the different types of consumer responses to promotions can help managers to develop effective promotional programs as well as provide new insights for consumer behaviour theorists who seek to understand the influence of different types of environmental cues on consumer behaviour.

Blattberg, Eppen, and Liebermann (1981), Gupta (1988), Neslin, Henderson, and Quelch (1985), Shoemaker (1979), Ward and Davis (1978), and Wilson, Newman,
and Hastak (1979) find evidence that promotions are associated with purchase acceleration in terms of an increase in quantity purchased and, to a lesser extent, decreased inter-purchase timing. Researchers studying the brand choice decision—for example, Guadagni and Little (1983) and Gupta (1988)—have found promotions to be associated with brand switching. Montgomery (1971), Schneider and Currim (1990), and Webster (1965) found that promotion-prone households were associated with lower levels of brand loyalty.

Blattberg, Peacock, and Sen (1976, 1978) describe 16 purchasing strategy segments based on three purchase dimensions: brand loyalty (single brand, single brand switching, many brands), type of brand preferred (national, both national and private label), and price sensitivity (purchase at regular price, purchase at deal price). There are other variables that may be used to describe purchase strategies, examples are whether the household purchases a major or minor (share) national brand, store brand, or generic, or whether it is store-loyal or not. McAlister (1983) and Neslin and Shoemaker (1983) use certain segments derived from those of Blattberg, Peacock, and Sen but add a purchase acceleration variable to study the profitability of product promotions.

Throughout the world, consumer sales promotions are an integral part of the marketing mix for many consumer products. Marketing managers use price-oriented promotions such as coupons, rebates, and price discounts to increase sales and market share, entice trial, and encourage brand switching. Non-price promotions such as sweepstakes, frequent user clubs, and premiums add excitement and value to brands and may encourage brand loyalty (e.g., Aaker 1991; Shea, 1996). In addition, consumers like promotions. They provide utilitarian benefits such as monetary savings, added value, increased quality, and convenience, as well as hedonic benefits such as entertainment, exploration, and self expression (Chandon, Laurent, and Wansink, 1997).

A large body of literature has examined consumer response to sales promotions, most notably coupons (e.g., Sawyer and Dickson, 1984; Bawa and Shoemaker, 1987 and 1989; Gupta, 1988; Blattberg and Neslin, 1990; Kirshnan and Rao, 1995; Leone and
Srinivasan, 1996). Despite this, important gaps remain to be studied. It is generally agreed that sales promotions are difficult to standardize because of legal, economic, and cultural differences (e.g., Foxman, Tansuhaj, and Wong, 1988; Kashani and Quelch, 1990; Huff and Alden, 1998). Multinational firms should therefore understand how consumer response to sales promotions differs between countries or states or province.

### 3.3 Brand Equity Measurement:

According to Rust, Ambler, Carpenter, Kumar, & Srivastava (2004), it is important to measure marketing asset of a firm which they define as customer focused measures of the value of the firm (and its offerings) that may enhance the firm’s long-term value. To measure this, they focus on two approaches: brand equity and customer equity. Measuring brand equity deals with the measurement of intangible marketing concepts, such as product image reputation and brand loyalty. Rajagopal (2008) supports the view of measuring the marketing asset of a firm and highlights that the major advantage of a brand measurement system is that it links brand management and business performance of the firm and is a strategic management tool for continuous improvement rather than a static snapshot in time of the brand’s performance. An effective brand measurement system therefore helps businesses to understand how the brand is performing with the framework of customer values and against competing brands.

According to Ambler, 2003 many companies measure brand equity to ensure that marketing activities are aligned with the company’s strategy and to ensure that investment is used for the right brands. Ambler (2003) further defines marketing metrics as quantified performance measures regularly reviewed by top management which can be classified into six categories such as:

1. Consumer intermediate: such as consumer awareness and attitudes. The measure lies in inputs (advertising) and behaviour (sales).
2. Consumer behaviour: such as quarterly penetration.
3. Direct trade customer: distribution availability.

4. Competitive market measures: market share (measure relative to a competitor or the whole market).

5. Innovation: such as share of turnover due to new products.

6. Financial measures: advertising expenditure or brand valuation.

Multinationals such as Coca Cola, PepsiCo, McDonald’s, IBM and many others have marketing metrics in place that are used globally to measure and track brand equity.

According to Kish, Riskey & Kerin (2001), PepsiCo measures and tracks brand equity using a propriety model called Equitrak which is based on two factors: (1): Recognition – how broad and deep is a brand’s awareness and (2): Regards: which measures how people feel about the brand and includes brand reputation, affiliation, momentum and differentiation. The Equitrak model used by PepsiCo not only tracks the company brands but competitor brands as well and is used by all subsidiaries in different countries. McDonald’s UK has key areas for metrics to track their marketing quarterly: 1. Sales transaction (which also includes customer satisfaction, value for money and cleanliness), 2. Market share and brand equity measures (awareness, and advertising recall) and 3. Mystery diners who visit the stores to evaluate the service level (Ambler, 2003). Shell also uses a global tracker which provides metrics and diagnostics for their brand versus competitors across 70 countries and has a range of questions including awareness, trial, purchase, loyalty and image (Ambler, 2003).

The key therefore is to balance financial and non financial goals and many authors do agree that top management must support this and regular review of both financial and non-financial goals is necessary to drive a market orientated business. Dunn and Davies (2004), suggest that having a brand focused business should be a top bottom approach driven by the top executives. The concept of market orientation therefore plays a significant role. According to Barwise & Farley (2004), both external and internal forces are steadily forcing firms to be more market oriented and research suggests that market-oriented firms tend to enjoy superior performance. This view is supported by Best (2005), who says that a strong market orientation cannot be created by a mere proclamation but by adopting a market based management philosophy.
whereby all members of the organization are sensitive to customers’ needs and are aware of these needs. The benefits of strong market orientation are: better understanding of competitors, customer focus, customer satisfaction and high profits (Best, 2005; Ambler, 2003).

Davis (2002) adds that brands should be managed as assets using a top down approach where senior executives embrace the concept that marketing should have a leading seat at the strategy table and use the brands to drive key strategic decisions. Also if senior executives are vocal and show commitment to the brands, then employees within an organization will start taking ownership of the brand.

3.4 Sales Promotion Types and Preferences:

At this point, it is useful to define what mean by the terms "expected price" and "price promotion." Following Thaler (1985), it is viewed that the price consumers’ use as a reference in making purchase decisions as the price they expect to pay prior to a purchase occasion. Further, the expected price may also be called the "internal reference price" (Klein and Oglethorpe 1987) as opposed to an external reference price such as the manufacturers' suggested list price. Finally, a brand is on price promotion when it is offered with a temporary price cut that is featured in newspaper advertising and/ or brought to consumers’ attention with a store display sign.

The price expectations hypothesis has been used to provide an alternative explanation for the observed adverse long-term effect of price promotions on brand choice (Kalwani et al. 1990). Previous research has shown that repeat purchase probabilities of a brand after a promotional purchase are lower than the corresponding values after a non promotional purchase (Dodson, Tybout, and Sterntthal 1978; Guadagni and Little 1983; Shoemaker and Shoaf 1977). Dodson, Tybout, and Sterntthal evoke self-perception theory to predict that if a purchase is induced by an external cause (such as a price promotion) as opposed to an internal cause (e.g., the brand will be reduced when the external cause is removed. Alternatively, Kalwani et al. argue that consumers form expectations of a brand’s price on the basis of, among other things, its past prices and the frequency with which it is price promoted. Consumers' reactions to
a retail price then may depend on how the retail price compares with the price they expect to pay for the brand.

Specifically, during a price promotion, they are apt to perceive a price "gain" and react positively; correspondingly, when the deal is retracted, they are apt to perceive a price "loss" and are unlikely to purchase the brand. Neslin and Shoemaker (1989) offer yet another alternative explanation for the phenomenon of lower repeat purchase rates after promotional purchases. They argue that the lower repeat purchase rates may be the result of statistical aggregation rather than actual declines in the purchase probabilities of individual consumers after a promotional purchase. Specifically, "if the promotion attracts many consumers who under non promotion circumstances would have very low probabilities of buying the brand, then on the next purchase occasion the low probabilities of these consumers bring down the average repurchase rate among promotional purchases".

The behaviour of households that have low probabilities of buying a brand upon the retraction of a deal can be explained readily in a price expectation framework. It has been suggested that the price they expect to pay for the brand may be close to the deal price and they may forego purchasing the focal brand when it is not promoted because its retail price far exceeds what they expect to pay for it.

It has been investigated that the impact of price promotions on consumers' price expectations and brand choice in an interactive computer-controlled experiment. Manohar U. Kalwani and Chi Kin Yim discussed that expected prices were elicited directly from respondents in the experiment and used in the empirical investigations of the impact of price promotions on consumers' price expectations. Further, rather than studying the impact of just a single price promotion and its retraction, they assessed the significance of the dynamic or long-term effects of a sequence of price promotions. They have concluded that both the price promotion frequency and the size of price discounts have a significant adverse impact on a brand's expected price.

Consistent with the findings of Raman and Bass (1988) and Gurumurthy and Little (1989), they also found evidence in support of a region of relative price insensitivity
around the expected price such that changes in price within that region produce no pronounced change in consumers' perceptions. Price changes outside that region, however, are found to have a significant effect on consumer response. Further, they discussed that promotion expectations are just as important as price expectations in understanding consumer purchase behaviour. In particular, consumers who have been exposed to frequent price promotions in support of a given brand may come to form promotion expectations and typically will purchase the brand only when it is price promoted. Added to it, in the case of price expectations, consumer response to promotion expectations was asymmetric in that losses loom larger than gains.

Applying Helson's (1964) adaptation-level theory to price perceptions, Sawyer and Dickson (1984) suggest that price promotions may work in the short run because consumers may use the brand's regular price as a reference and then are induced by the lower deal price to purchase the brand. However, frequent temporary price promotions may also lower the brand's expected price and lead consumers to defer purchases of the brand when it is offered at the regular price.

Tversky and Kahneman (1974) have shown that people rely on a limited number of heuristic principles that reduce complex tasks of assessing probabilities and predicting values to simpler judgmental operations. In some cases, people may anchor and adjust their forecasts by starting with a preconceived point and weigh that point heavily in arriving at a judgment. When the frequency of past price promotions is "very low," consumers identify a price promotion offer as an exceptional event and may not modify the brand's expected price. The brand's expected price then will be anchored around the regular price because of insufficient adjustment. In other cases, people may arrive at a judgment on the basis of how similar or representative the event is to a class of events. Therefore, when a brand is price promoted "too often," consumers come to expect a deal with each purchase and hence expect to pay only the discounted price on the basis of its representativeness.

Clearly, given a certain level of price discount, the brand's expected price will be bounded by the regular price and the implied sale price. That line of reasoning
suggests that the relationship between the price promotion frequency and the expected price can be approximated by a sigmoid function.

Whether a price discount will affect the brands expected price depends on how consumers perceive the discount. Uhl and Brown (1971) postulate that the perception of a retail price change depends on the magnitude of the price change. They report results from an experiment indicating that 5% deviations were identified correctly 64% of the time whereas 15% deviations were identified correctly 84% of the time. Della Bitta and Monroe (1980) find that consumer' perceptions of savings from a promotional offer do not differ significantly between 30%, 40%, and 50% discount levels. However, they find significant differences between the 10% and 30 to 50% levels. They also discuss some managers' beliefs that at least a 15% discount is needed to attract consumers to a sale. Apparently, small price changes may not be noticed and even a large price reduction (say, 60 or 70%) may not be assimilated to affect the brand's expected price if it is considered exceptional. Hence, the impact of the depth of price discounts on lowering the brand's expected price is likely to occur when the price discount offered by the brand is relatively large but not so large that it is seen as an exceptional event.

Price discounts ranging from 10 to 40%, a range commonly used in past research on price discounts in the consumer packaged goods categories (Berkowitz and Walton 1980; Curhan and Kopp 1986). Within that range, the findings of Uhl and Brown (1971) and Della Bitta and Monroe (1980) suggest that it is reasonable to expect the relationship between the brand's expected price and the depth of price discounts to be concave.

However, Manohar U. Kalwani and Chi Kin Yim (1992) found that the brands expected price is a linear function of the price promotion frequency and the depth of price discounts at conventional significance levels. Nevertheless, the results provide some directional support for nonlinear relationships between the expected price and the two elements of a price promotion schedule. Given the important implications of such potential nonlinear effects of price promotions on brands' expected prices,
further research testing those nonlinear effects of price promotions should prove fruitful for the design of optimal price promotion policies.

They also contributed that promotion expectations suggest that unfulfilled promotion expectation events among consumers who have come to expect promotions on a brand because of frequent exposure to them will have an adverse impact on the brand. Analogously, unexpected promotion events will enhance the probability of purchasing a brand among consumers who have not been exposed to many price promotions and therefore do not as a rule expect the brand to be available on a promotional deal. They suggest that those results are consistent with the rational expectations view that "any policy rule that is systematically related to economic conditions, for example, one observed with stabilization in mind, will be perfectly anticipated, and therefore have no effect on output or employment" (Maddock and Carter 1982). Policy actions that come as a surprise to people, in contrast, will generally have some real effect. Clearly, the design of optimal price promotion schedules requires consideration of the fact that an increase in the use of price promotions could erode long-term consumer demand by lowering the prices that consumers anticipate paying for the brand.

Price promotional deals may come to be "perfectly anticipated" and have much less impact on consumer response than they do when they come as a surprise to consumers. Apart of it they suggested that Evaluation of the trade off between the short-term sales gain from a price promotion and the adverse effect on future sales because of consumers forming price and promotion expectations requires knowledge of how price promotions affect the formation of consumers' expectations under different market conditions.

Promotions have increased in popularity during the past few decades. The positive short-term impact of price promotions on brand sales is well documented. A price promotion typically reduces the price for a given quantity or increases the quantity available at the same price, thereby enhancing value and creating an economic incentive to purchase. However, if consumers associate promotions with inferior brand quality, then, to the extent that quality is important, a price promotion might not
achieve the extent of sales increase the economic incentive otherwise might have produced.

Price promotions often are used to encourage trial among nonusers of products and services. Thus, it is important to understand the effects of promotions on evaluations made by consumers who do not have prior experience with the promoted brand. Such promotions include those for new brand introductions, as well as those targeted at nonusers of an established brand. If promotions damage brand evaluations, they will undercut the positive economic and psychological Incentives promotions supply and reduce the likelihood of trial. Furthermore, those who purchase for the first time in response to the promotion may be less likely to purchase again when the promotion ends.

But do price promotions lead to unfavourable brand evaluations? And if, so, when? The literature on the effect of promotions on brand evaluations is equivocal. In their review of the sales promotion literature, Blattberg and Neslin (1990) observe that though "for years advertising executives have been warning marketing executives that promotions will destroy their brands image", "it is not clear that promotions do detract from a brand's consumer franchise". It was also concluded that price promotions unfavourably affect brand evaluations (Ogilvy 1963) with academic research, which has found mixed evidence of this effect. Specifically, though it is well documented that the likelihood of purchasing a brand after a deal retraction is lower if the prior purchase was a promotional one (Guadagni and Little 1983; Shoemaker and Shoaf 1977), it is debatable whether this decrease is due to lowered brand evaluations. One of the explanations offered for this finding is that there is an attitude change at the individual level (Dodson, Tybout, and Stemthal 1978; Doob et al. 1969; Scott 1976).

Dodson, Tybout, and Stemthal (1978) argue that, if a person buys a brand on deal, he or she is likely to attribute his or her behavior to the deal rather than to having a favorable attitude toward the brand, as compared with customers who bought the brand at full price. Although their results are consistent with an individual-level attitude change due to attributional thinking after a purchase on deal, Dodson, Tybout,
and Stemthal's study does not measure brand evaluations directly and so cannot rule out alternative explanations for the pattern of results (Neslin and Shoemaker 1989).

Scott and colleagues have examined the effect of promotions on evaluations at the individual level after subjects tried a promoted brand. They find that promotions could affect brand evaluations negatively (e.g., subjects preferred the taste of (brand name) when they tasted without a coupon), but that this effect depended on whether subjects thought about the reasons for their choice before choosing (Scott and Yalch 1980), when they thought about their behaviour (Scott and Tyboul 1979), and whether they had prior brand knowledge (Tybout and Scott 1983).

Davis, Inman, and McAlister (1992) also examine the difference between pre and post promotion brand evaluations at the individual level but find no evidence that price promotions affect evaluations for frequently purchased branded packaged goods. Across three promoting brands in each of four different product categories, evaluators of promoted brands in the post promotional period are not found to be lower than in the pre promotional period. The studies by Scott and colleagues indicate that promotions have a damaging effect on post trial evaluations, whereas Davis, Inman, and McAlister's study suggests that the impact of promotions on brand evaluations in these packaged goods categories is, on average, nonexistent.

There are several possible explanations for this seeming inconsistency. These relate to (1) the timing of the promotional exposure and brand evaluation relative to trial, (2) whether the consumer has seen promotions for the product in the past, and (3) differences among product categories. The vast majority of research that has assessed the effect of price promotions on brand evaluation has studied the effect after product trial, rather than pre trial (Scott and Tyboul 1979; Scott and Yalch 1980; Tyboul and Scott 1983). This is an important distinction because the effect of promotions has been found to be lower in the presence of well defined internal knowledge structures (Tybout and Scott 1983). This suggests that the effect of promotions on brand evaluations is likely to be moderated by the extent of consumer expertise in a product category, particularly pre trial, when direct experience with the brand is unavailable as a source of information.
Because promotions are temporary prices, their institution and retraction contain information that consumers may use to make judgments related to the product. A price promotion (or its absence) may serve a simple informative function (for similar conceptualizations, see Inman, Peter, and Raghubir 1997; Raghubir 1998).

3.4 The Valence of a Promotion:

The price-quality literature has found that a relatively lower price generally is interpreted as an indicator of inferior quality and that this effect is magnified when only price information is available to make a judgment (e.g., Etgar and Malhotra 1981; Monroe and Petroshius 1981; Olson 1977; Rao and Monroe 1988). Although the economic aspect of price leads to reduced demand at higher prices, the quality inference leads to enhanced demand at higher prices or requires a trade-off between price and inferred quality (Hagerty 1978; Levin and Johnson 1984). The extent to which consumers use price as an indicator of quality depends on the availability of alternative diagnostic information (Szybillo and Jacoby 1974).

Rao and Monroe (1988) find evidence that, with increased product familiarity, people increasingly used intrinsic (versus extrinsic) product quality cues to make quality judgments. The greater the amount of other information available, the smaller will be the effect of price on perceived quality (Rao and Monroe 1988). Because price promotions reduce price and because lower prices are associated with lower quality, we predict that when other information diagnostic of quality is not available, offering price promotions will lead to inferences of lower quality.

Predictions of a negative effect also are implied by attribution theory. Attribution theory suggests that consumers assign causes for managerial actions (for a review of attribution theory applications to marketing, see Folkes 1988). When consumers are exposed to a promotion, they attribute a reason for it. These attributions may be to the brand or to some external force. A study that examines attribution valence finds that brand-specific attributions for a promotion were valenced negatively, whereas non brand reasons were positive or neutral (Lichtenslein, Burton, and O'Hara 1989).
When subjects were asked why a brand might promote, the brand-specific reasons they gave were associated with perceptions of poorer quality, whereas the non brand reasons were neutral or complimentary to the brand.

Similarly, Lichtenstein and Bearden (1986) examine product, circumstance, and person attributions for a promotion. They find that product attributions were valenced negatively, for example, "because the car is inferior" and "because the car has poor styling." Therefore, if consumers undertake attributional thinking when exposed to a price promotion and if these attributions are to the brand, the attributions are more likely to lead to unfavourable brand evaluations.

3.5 When Promotion is Informative

The preceding leads to the question: What is the likelihood that a given promotion will be attributed to brand related factors rather than external, situational factors? Attribution theorists, starting with Heider (1958), have found that observers attribute another person's behaviour to intrinsic or dispositional qualities rather than to situational factors, even when the behaviour easily could be explainable by the latter. This phenomenon, called the "fundamental attribution error" (or "correspondent inference theory"; Jones and Davis 1965), predicts that consumers attribute promotional behaviour to the disposition of the brand rather than industry characteristics. Thus, because consumers are more likely to attribute promotions to brand-related (versus industry-related) factors and because these factors are typically negative, offering a promotion should affect brand evaluations unfavourably.

Literature suggests that when price promotions serve an informational function, they are likely to have a negative effect on pre trial brand evaluation. The issue of whether price promotions affect brand evaluations therefore might be restated to ask when they serve an informational function. The promotion's information value is context-specific. One context in which a promotion may be perceived as containing information relevant to brand quality is when the act of promoting is a deviation from past behaviour. This indicates there has been a change, and a re evaluation of the brand may be in order.
To illustrate, if a brand that has been promoted frequently in the past is promoted currently, the current promotion conveys little that is new about the brand to consumers, and they are not likely to give the current behaviour much thought. Conversely, if a brand that has never been promoted in the past is promoted, this is informative and more likely to lead to a re-evaluation of the brand. This construct, formally termed "consistency" in the attribution literature, has been shown to affect the extent to which people make personality inferences about another person given his or her actions (Einhorn and Hogarth 1986; Hastie 1984; Hilton and Slugoski 1986; Jones and Davis 1965; Kelly 1967, 1972).

Consistent with this logic, in the context of reference prices, Lichtenstein and Bearden (1989) find that consumers' price perceptions were dependent on the consistency of merchants' price claim policies. Consumers should find promotional behaviour more informative of a brand's quality when it is inconsistent with past behaviour than when it is consistent.

The valence (the intrinsic positive or negative characteristic) of a behaviour has been well researched in social psychology and shown to affect the salience (Fiske 1980) and the processing of information (Fiske 1980; Skowronski and Carlston 1989), Taylor (1991) summarizes the differential effects of positive and negative information, arguing that they have asymmetric effects. These effects include, for example, that negative experiences are elaborated upon more than positive experiences, that people search more for negative (versus positive) information when making judgments, and that they weight this information more heavily because they find it more diagnostic than positive information (e.g., Fiske 1980; Hamilton and Zanna 1972, 1974; Herr, Kardes, and Kim 1991; Kanouse and Hanson 1972).

In one of the few studies that assess the effects of valence on attributional thinking, Gidron, Koehler, and Tversky (1993) demonstrate that the number of times a behaviour had to be performed by a person for the trait associated with that behaviour to be ascribed to the person was significantly greater for positive behaviours than for
negative behaviours. In short, it is more difficult to change people's negative attitudes in a positive direction than it is to influence their positive attitudes negatively.

Priya Raghubir and Kim Corfman (1991) found that price promotions affect pre-trial brand evaluations and do so unfavourably, but only in some specific conditions. The moderators identified were past promotional history, individual expertise in the category, and perceptions of how common promotions are in an industry, both manipulated within an industry and examined across industries. Specifically, (1) offering a promotion is more likely to lower a brand's evaluation when the brand has not been promoted previously, compared with when it has been frequently promoted; (2) promotions are used as a source of information about the brand to a greater extent when the evaluator is not an expert but has some basic industry knowledge; and (3) promotions are more likely to result in negative evaluations when they are uncommon in the industry.

Given these results, Davis, Inman, and McAlister's (1992) finding that promotions do not affect brand evaluations can be understood better. They study categories with which consumers had considerable prior experience and in which promotions were common. Furthermore, the brands they examine had been promoted in the past (prior to the experiment).

Stores frequently use price promotions to attract customers. It is not uncommon to find stores advertising 50, 60, or even 70 percent discounts on several products. But do consumers believe these advertised discounts? Previous studies suggest that they do not. It has been shown that consumers' perceptions of discounts are typically less than the advertised discounts (see, e.g., Blair and Landon 1981; Mobley, Bearden, and Teel 1988). In other words, consumers discount the price discounts. Concept has been extended by suggesting that the discounting of discounts depends on the discount level, store image, and whether the advertised product is a name brand or a store brand. Since the discounting of discounts is likely to affect consumers' intentions to buy the product, effects of the discount level, store image, and product advertised on consumers' purchase intentions.
A better understanding of consumer responses to price discounts for different stores and brands also helps investigate the existence of promotion thresholds. A threshold is the minimum value of price promotion required to change consumers' purchase intentions. While many managers believe that price reductions of about 15 percent are needed to attract consumers to a sale (Della Bitta and Monroe 1980), very few studies have attempted to validate this managerial intuition. Sunil Gupta and Lee G. Cooper (1999) used the experimental data and a simple econometric methodology to find promotion thresholds. They have also investigated whether the thresholds are different for different stores and brands. These results provide a better understanding of consumers' response to price promotions.

Brand name and store image are important contextual variables affecting consumers' responses to price and promotion. While price and other focal cues are the stimuli to which consumers respond directly, the effects of price-cue information are moderated by other informational cues available to consumers (Olson 1977). These background or contextual cues are all other stimuli in the behavioural situation that provide the context within which the focal cues are operative (Monroe 1977). These include such cues as brand name, store image, and brand familiarity. While many studies have looked at the effect of focal cues and the influence of comparative prices (e.g., Lichtenstein and Bearden 1989), very few have examined the contextual influences of brand name and store image. In a study of comparison prices and coupon and brand effects, Bearden, Lichtenstein, and Teel (1984) suggested the need for research to understand better the brand and store effects at varying discount levels.

3.6 Perceived Discount:

Consumers evaluate and encode information provided to them, and it is their perception of the information and not the information itself that affects their behaviour. Olson and Jacoby (1977) note, "External stimuli do not exert direct effects upon behaviour but only indirect effects. Stimuli must first be perceived and interpreted before they can affect decision processes and overt behaviour" (p. 73). Therefore, valuation or encoding of observed prices or price discounts (which are the external stimuli) is expected to be carried out. Theories such as information
integration define valuation as the psychological processes that extract information from physical stimuli (Anderson 1981).

In pricing literature, encoding refers to the subjective interpretation and assignment of meaning to objective prices and price discounts (Monroe 1984; Olson and Jacoby 1977; Zeithaml 1984). Further, the notion of reference price, which is consistent with adaptation-level theory (Helson 1964) and assimilation-contrast theory (Sherif 1963), suggests that consumers have internal reference prices against which current prices are compared (Kalwani et al. 1990; Lattin and Bucklin 1989; Urbany and Dickson 1991; Winer 1986). The perceived discount (PD) is therefore the expected savings from this internal reference price (Mobley et al. 1988; Monroe 1977; Winer 1986).

As the discount advertised (AD, defined in this study as the percentage off regular price) by retailers’ increases, consumers' perceptions of the discounts or savings are also likely to increase. This is clearly the underlying premise for most promotional offerings, and it has been supported by several studies (Berkowitz and Walton 1980; Della Bitta, Monroe, and McGinnis 1981; Mobley et al. 1988). Is the PD less than the AD? This question was addressed by several studies in relation to the issue raised by Federal Trade Commission cases dealing with the fairness of reference price advertising by retailers. Critics of advertised reference price argue that retailers commonly inflate these prices and distort consumer perceptions of the savings offered (Liefeld and Heslop 1985; Urbany, Bearden, and Weilbaker 1988).

Defenders of reference price advertising claim that consumers learn to discount reference price claims, thus protecting themselves from deception (Blair and Landon 1981). Consumers' scepticism about advertised price offers has been demonstrated by many previous studies (Fry and McDougall 1974; Liefeld and Heslop 1985; Sewall and Goldstein 1979). For example, Liefeld and Heslop (1985) state, "Perhaps the sale context is so overused that the intent of these practices is readily transparent to consumers leading them to distrust and greatly discount the claims implied by such advertising practices". Blair and Landon (1981) found that reference price claims were consistently discounted by about 25 percent. Even when reference prices are not explicitly mentioned, consumers seem to discount the perceived savings level.
Mobley et al. (1988) found that 25 percent and 50 percent discount claims elicited 21 percent and 45 percent perceived price reductions, respectively. Following Urbany et al. (1988), it has been suggested that discounting occurs when consumers doubt the credibility of the advertised savings, but instead of completely rejecting it they reduce it to a level deemed more reasonable.

Does the discounting of discounts increase with the increase in the AD level? The answer seems to be yes. Della Bitta et al. (1981) suggest that, if the price reduction is too large, consumers may perceive that the offer is not bona fide. Fry and McDougall (1974) found that higher claimed savings resulted in fewer respondents' believing the reference price.

Urbany et al. (1988) proposed that discounting may be a natural response of consumers, particularly to advertisements making seemingly exaggerated savings claims. Della Bitta and Monroe's (1980) findings suggest that consumers' perceptions of savings do not significantly differ between 30 percent and 50 percent discount levels, hence indirectly suggesting a larger discounting of claimed savings at 50 percent than at 30 percent.

3.7 Store Image:

As indicated above, one of the key reasons for the discounting of discounts is the lack of credibility of advertised savings, particularly when the advertised savings level increases. This line of reasoning can be extended to the credibility of the store offering the discount. Barnes (1975) found that respondents gave higher prestige department stores' advertisements consistently higher mean scores on believability than they gave to advertisements for low-prestige discount stores. Because of the high credibility of high-image stores, the credibility of discounts offered by them will also be higher. In a study, Biswas and Blair (1991) show that reference price claims of discount stores are discounted more than those of non discount stores.

Attribution and information-processing theories also shed some light on this issue. According to attribution theory, information that is "more of the same" is less likely to
be elaborated by consumers (Kelley 1973). Similarly, information-processing literature suggests that consumers are less likely to process and elaborate stimuli that are perceived in contexts they have encountered before. On the basis of these theoretical frameworks, Lichtenstein and Bearden (1989) proposed that the consistency and distinctiveness of pricing practices of a retailer are important contextual variables in the formation of consumers' internal price standards.

Specifically, they suggest that consumers' internal price standards, perceived value of the deal, and source credibility perceptions are likely to be higher when they encounter an advertisement from a store that does not consistently make reference price claims and is highly distinctive in its price promotion behaviour. This implies that, if a store promotes its products very frequently, consumers are likely to make references such as, "this store always offers deals, so its regular price is really not a regular price." A claim of 50 percent off the regular price by a frequently promoting store is therefore likely to be discounted more because its regular price is perceived to be lower than claimed or implied by the store. Since store image and frequency of promotion are usually negatively correlated.

3.8 Name Brand versus Store Brand:

Like store image, brand name is also an important contextual variable that affects consumers' responses to price and price discounts. A well-established brand name conveys high image and high quality perceptions. Many studies on the price-quality relationship have found that brand name is an important moderating variable that helps control or stabilize the quality perceptions of a branded product even when its price is reduced. For example, Della Bitta et al. (1981) manipulated different discount levels for a Texas Instruments calculator and found that the perceived quality was not influenced by the size of the discount. They concluded that this attested to the influence of the brand name (Texas Instruments). Dickson and Sawyer (1984) echo this thought and suggest that, in the presence of a manufacturer's name, consumers are not going to use low price as an indication of low or unacceptable quality.
In other words, instead of using discounted or sale price as a cue to infer the quality of a brand name product, the brand name is used to infer or maintain quality perceptions. Consumers should therefore be more likely to accept the regular price claims of a name brand. As a result, the claimed discount on a name brand will be more believable than that for a store brand. This argument is shared by Bearden et al. (1984) and Blair and Landon (1981), who suggest that consumers will do less discounting of claimed discounts for national or name brands than for private or lesser-known brands.

3.9 Change in Purchase Intention:

So, Relationship between ADs and PDs, Have been discussed presumably; retailers’ key objective in offering price promotions is to influence consumers’ buying behaviour. Therefore, one of the key issues for retailers and consumer researchers is to find how pro-motions affect consumers' purchase intentions. Discussion about the relationship between AD and PD helps in evaluating this issue since it is generally believed that AD affects PD, which in turn affects consumers' intentions to buy the product. For example, an increase in AD is likely to increase consumers' perception of the discount, which is then likely to increase consumers' intentions to buy (Berkowitz and Walton 1980). Since the discounting of discounts is likely to vary across stores (high vs. low image) and across brands (name brands vs. store brands), the changes in consumers' purchase intentions (CIs) are also likely to follow this pattern.

According to Monroe (1990), consumers' purchase evaluations of a product are based on its perceived value, which is defined as the ratio of a product's perceived quality and its perceived price; that is, perceived value = perceived quality/perceived price. As indicated earlier, a brand name lends credibility to a product so that a promotional discount on a name brand does not affect its quality perception as much as a discount on a store brand. Therefore, when a store brand is promoted, its perceived price goes down but so does its perceived quality. A similar promotion for a name brand reduces its perceived price, but the decline in its perceived quality is likely to be less than that for the store brand. The net result is that a promotion is likely to induce a greater change in the perceived value and hence a greater CI for a name brand than for a store
brand. Similarly, less discounting of discounts is likely to occur for the high-image stores than for the low-image stores, which leads to higher perceived savings for the high-image stores.

3.10 Promotion Thresholds:

A promotion threshold is the minimum value of price discount required to change consumers' intentions to buy. The concept of a threshold can be related to the psychological process of discrimination in which a consumer would not react to stimuli unless the perceived changes were above a just noticeable difference (Luce and Edwards 1958). The concept of a threshold is widely recognized and acknowledged by both researchers and practitioners. In the context of advertising effectiveness, Eastlack and Rao (1986) showed that a minimum level of advertising is needed before advertising has any significant impact on sales.

The use of the well-known S-shaped response function also testifies to the acceptability of the threshold concept. On the basis of assimilation-contrast theory, Gurumurthy and Little (1989) argue for the existence of a price threshold. They suggest that consumers have latitude of acceptance around their reference price. Therefore, small price differences within this range or latitude are less likely to be noticed than prices above or below this range.

Kalwani and Yim (1992) found evidence in support of a region of relative price insensitivity around the reference price, such that only price changes outside this region had a significant impact on consumer brand choice. Many managers also believe that price reductions of about 15 percent are needed to attract consumers to a sale (Della Bitta and Monroe 1980). Therefore, Sunil Gupta and Lee G. Cooper (1992) proposed that promotion thresholds exist such that consumers do not change their intention to buy the product unless the price reduction is greater than some threshold value.

Further, since the CI due to promotion is likely to be greater for a name brand than that for a store brand, retailers promoting a name brand should be able to change
consumers' purchase intentions by advertising a lower discount than the discount needed for a store brand. Similarly, high-image stores should be able to attract consumers by offering a lower discount than that needed by low-image stores. Sunil Gupta and Lee G. Cooper (1992) expected that the promotion threshold for name brands and high-image stores is lower than that for the store brands and low-image stores.

Sunil Gupta and Lee G. Cooper (1992) provide some interesting results about the effect of ADs on consumers' perceptions of these discounts and consequently on changes in their intentions to buy the product. They find that consumers discount the price discounts; that is, consumers' perceptions of discounts are typically less than the AD. The discounting of discounts increases with the increase in AD. These results are consistent with the results of many previous studies. For example, Fry and McDougall (1974), Liefeld and Heslop (1985), Sewall and Goldstein (1979), and Urbany et al. (1988) also found that consumers are skeptical about the advertised claims of retailers and therefore discount such claims.

Sunil Gupta and Lee G. Cooper (1992) also indicate that the discounting of discounts is higher for store brands than for name brands. Corresponding effects on CIs are also found. For example, in general, offering a discount on a name brand has more impact on consumers’ intentions to buy than a similar discount on a store brand. They expected to find similar differences between high-image and low-image stores. However, store effects were not found to be significant.

It is interesting to note that, in a slightly different context, Rao and Monroe (1989) conducted a meta-analysis of studies dealing with the effect of price, brand name, and store name on buyers' perceptions of product quality. They found that, while price and brand effects were strong and significant, the effect of store name on perceived quality of product was generally small and not statistically significant. They also presented an approach to find promotion threshold and saturation points. The existence of a threshold confirms managerial intuition that price reductions of about 15 percent are needed to attract consumers to a sale (Della Bitta and Monroe 1980). The study refines this intuition by suggesting that the threshold levels vary by brand.
name. As expected, the threshold for the store brand was found to be significantly higher than that for the name brand.

In other words, to attract consumers a store needs a lower level of discount on a name brand than on a store brand. They have added that promotions reach a saturation level so that their effect on consumers' purchase intentions is minimal beyond this discount level. For the stores and products used, the saturation levels were estimated at 20-30 percent discount level. Thus, it may not be useful to offer discounts below the threshold or above the saturation level.

Each year, companies spend billions of dollars on trade promotion to induce retailers to offer stronger merchandising support (e.g., price reduction, feature, special display) for their brands. Though recent research has documented the success of pricing and promotion in stimulating immediate sales response (e.g., Guadagni and Little 1983; Gupta 1988; Neslin, Henderson, and Quelch 1985), there is concern about the long run implications of such activity. Some industry experts contend that frequent price discounting blurs the distinction between the deal price and the baseline price of a product (Marketing News 1985).

If consumers come to expect deals as the rule rather than the exception, discount prices lose their ability to boost sales. To use price discounting effectively, managers must understand the link between pricing activity and consumer expectations.

One stream of research investigating this link is based on the notion that the consumer establishes a reference price for a brand or product (Monroe 1979; Winer 1986). The reference price reflects the expectations of the consumer, which are shaped by the past pricing activity of the brand. The consumer then evaluates the future price of the brand in relation to this reference point and his or her response is related to the disparity between the two.

Hence, consumer response to an unexpected price decrease (a "pleasant surprise") is greater than the response to an expected price decrease. The reference price framework is consistent with several psychological theories of consumer behaviour and
Price perception, including adaptation-level theory (Helson 1964) and assimilation-contrast theory (Sherif 1963). Empirical work by Winer (1986) and Raman and Bass (1986) support the presence of general reference price effects in consumer brand choice behaviour.

Product pricing, however, is not the only activity influencing the expectations of consumers. In recent years, retail promotion by which non price merchandising activity such as special displays and store features has had an increasingly important effect on consumer choice behaviour. For example, Fader and McAlister (1988) suggest that the proliferation of promotional activity in many product categories may be training consumers to buy on promotion. If so, consumer expectations about future promotional activity are just as important to understanding consumer choice behaviour as consumer expectations of price.

James M. Lattin and Randolph E. Bucklin (1989) investigated that the reference effects of price and promotion on consumer choice behaviour. The model is based on the premise that consumers form expectations about the future marketing activity of a brand from their past exposure to such activity. The model reflects not only reference price, but also the consumer's promotional reference point for a brand. They further assumed that consumers use these points of reference in evaluating a brand at each purchase opportunity and that consumer response was influenced by the disparity between their reference points and the actual price and promotional status of the brand. These assumptions enabled them to calibrate a brand choice model and test for the presence of reference effects.

Further, James M. Lattin and Randolph E. Bucklin (1989) proposed and tested a model of consumer response incorporating the reference effects of price and promotion. Their results supported the notion that consumers form expectations based on their exposure to promotional activity and that those expectations influence the patterns of brand choice. By including both price and promotional variables in the model of consumer response, they were able to characterize explicitly the differences between promotional and non promotional price elasticity and to separate these effects from the reference effects of price and promotion. They have provided a
different rationale to explain the carryover effects of promotions on consumer response.

Other researchers have focused on the differences between prior purchase and prior promotional purchase on subsequent brand choice; their rationales require that the promotional brand actually be purchased by the consumer. They have suggested that if they control for prior promotional purchase, there is still a significant association between consumer response and exposure to the brand on promotion.

3.11 Consumer price formation: reference prices

The price’s knowledge and memory has been one of most frequent research issues on the consumer behaviour for more than 40 years. Strong efforts have been made to define the concept of reference price, from those who consider it from an external perspective as the price that is announced, to those who regard it as an average of the prices the consumer has previously paid, from an internal perspective. As a result, it seems important to know the “definition” of reference price that is referred to when it comes to debating questions related to it. In his work, Lowengart proposes an intense review of the definitions of the reference price concept that have appeared throughout time in the main research works focused on such a concept (Lowengart, 2002).

Consumers establish their reference prices in relation to their personal buying experience, their observations, and their exposition to the existing information on prices or their subjective interpretation. A total of 26 different definitions of the concept “reference price” have been found (Lowengart, 2002). They can be classified according to:

- The type of information used: external or internal.
- The behavioural character or the judgment of the internal process of formation of reference prices.
The conclusion that can be drawn from the compilation of the different options of conceptualization of the reference price is that such proliferation seems to be a demonstration of the complexity and multidimensional nature of the consumer’s price assessment.

Likewise several alternatives of estimation of reference prices have been proposed. While some research works defend that the consumer will carry out price estimations from previous information and experiences (Winer, 1986; Lattin and Bucklin, 1989; Kalwani et al., 1990; Mayhew and Winer, 1992; Krishnamurthi et al., 1992; Hardie et al., 1993; Kalyanaram and Little, 1994; Rajendran and Tellis, 1994; Mazumdar and Papatla, 1995, 2000; Kopalle et al., 1996; Kopalle and Winer, 1996; Bell and Bucklin, 1999; Erdem et al., 2001), others maintain that the consumer will use the stimuli present at the buying moment to form his reference price (Hardie et al., 1993; Rajendran and Tellis, 1994; Mazumdar and Papatla, 1995).

Complementarily to the different approaches to the estimation of the reference price can be considered the existence of the internal and external reference price. The internal reference price is an estimate of the price the consumer has in his mind. In its formation, a series of factors or variables that can be classified into two basic types, contextual and temporal factors are involved. The contextual factors are related to the different brands’ prices within the category of product at the buying moment. The temporal factors are more linked to the prices on previous occasions or buying experiences of the consumer. The importance of the temporal and contextual component could vary according to the consumers’ characteristics.

Thus, for instance, it is possible that for the consumers with an intense preference for the brand the temporal component may be more developed while for the consumers that alternate the acquisition of several brands the contextual component may carry more weight. Likewise, the buying frequency can also have some effect. Thus, the consumers who acquire the category of product more frequently will tend to remember more clearly the prices they paid in the past and as a result the temporal component will be more important (Rajendran and Tellis, 1994).
The external reference price can be considered any notification of the price the consumer receives through some external information channel and which he uses to make comparisons. There is a clear identification of the external reference price with the contextual component that affects the internal reference price; therefore such concepts are closely related. The external reference price could be the price of the brand leader, or the price of the brand that is usually acquired or the selling price recommended by the manufacturer on the product’s pack. In any case, it is necessary for these to be credible so that the consumer can incorporate them as an orientation in his assessment (Yadav and Seiders, 1998; Chandrashekaran (2004). The main objective of the external reference price is to increase the internal reference price so that the prevailing market selling price becomes more attractive and this makes the consumer make up his mind and buy the product (Compeau et al., 2004).

According to the buyer’s and the acquired products’ characteristics, the weight of the internal/external reference price will vary. Thus, in Winer’s (1986) or Lattin and Bucklin’s (1989) research works, in which the incidence of the reference prices on the brand choice is studied, there is no explicit distinction between internal and external reference prices. However, other researchers like Bell and Bucklin (1999) and Mazumdar and Papatla (2000) focus their works on the distinction between both reference prices and their importance in the buying process.

Mazumdar et al. (2005) constitutes a reference since they offer a synthesis of the main conclusions drawn in the study of the reference prices:

(1) Consumer’s prior purchase experiences have shown to influence internal reference price (IRP):
   - the strongest determinant of a consumer’s IRP is the prior prices he or she observes;
   - prices encountered on recent occasions have a greater effect on IRP than distant ones; and
   - the greater the share of prior promotional purchases, the lower is the consumer’s IRP.
(2) The negative effect of deal frequency on consumers’ IRP is moderated:

- the dealing pattern (regular vs. random) of the purchased brands;
- the dealing pattern of competing brands; and
- the framing of the deal (percentage vs. cents off).

(3) IRPs for durable products are influenced by such aggregate factors as anticipated economic conditions and household demographics:

- competitive prices and differences in attribute configurations and features across alternatives are more salient than historical prices (for durable products);
- historical prices of durables products are used only to discern a price trend, if it exist; and
- consumers’ price expectations are influenced by the technology used in a specific brand compared with other brands in the same durable product category.

(4) How previously encountered prices are integrated to form a reference price?

- assimilation contrast theory and adaptive expectation model seem to depict the process of integration of prior prices and contextual information accurately;
- consumers update their reference prices:
  - weighting their existing reference price and observed prices; and
  - factoring in a price trend observed from prior prices.

(5) Integration of the information at the store environment:

- retailer-provided advertised reference point (ARP) that exceeds the selling price raises the consumer’s IRP, even when the ARP is deemed to be exaggerated;
- the use of semantics aimed at competitive comparison is more effective in raising IRP than is the use of temporal comparisons; and
- when faced with a large amount of externally available information, consumers are selective in deciding which pieces of contextually provided information are salient.

(6) Use of memory for prior prices vs. externally available information:

- consumers use both memory and external information, but they assign weights to each that depend on consumer and product characteristics;
- the weight on memory in related:
  - Negatively to the size of consumer’s consideration set;
  - Negatively to the frequency of purchases during promotions such features and displays;
  - Positively to the price level of the product category;
  - Negatively to the increase of inter purchase time of the category; and
  - Negatively to the frequency of promotions in the category.

As it can be observed, the synthesis of the studies they have analyses is organized around six big blocks of questions among which there are aspects related to the formation of reference prices giving especial emphasis to internal reference prices and how different environmental elements influence this process.

Nevertheless, apart from the works previously mentioned, Begona Alvarez Alvarez and Rodolfo Vazquez Casielles (2008) pointed out the relevance in the field of study of reference prices of recent works such as those by Fibich et al. (2005), Klapper et al. (2005), and Moon et al. (2006), which show the importance of and interest in the study of reference prices.
3.12 Price elasticity:

Traditionally the price has been considered an informative element, from which the consumer can create an expectation on the quality of the product to acquire (Leavit, 1954; Tull et al., 1964; McConnell, 1968; Lichtenstein et al., 1988).

Similarly, manufacturers and retailers act on the prices policy to achieve increases in their sales of products. With these reductions in prices, consumers are expected to buy a greater amount of the product or brand. Although these are usual effects, they will depend on the brands submitted to such fluctuations (Hoch and Banerji, 1993; Aggarwal and Cha, 1998).

In the analysis of the effects of price fluctuations, the concept of price elasticity of the demand must be unavoidably mentioned. As Fibich et al. (2005) point out; price elasticity of demand is the percentage change in quantity demanded as a result of a 1 per cent change in price. The individuals’ sensitivity to price is conditioned by a series of factors like market share, level of competition, activity in display, brand loyalty or other variables related to the consumer like his income (Lambin, 1991).

Cross price elasticity is adequate to know the extent to which a variance in a brand price alters the demand of the rival brands. Some phenomena or issues of interest in relation to this have been analyzed in the previous literature: asymmetric price effect (Lemon and Winer, 1993; Bronnenberg and Wathie, 1996; Sethuraman et al., 1998), asymmetric share effect (Sethuraman, 1995; Sethuraman and Srinivasan, 1999) and proximity to neighbor effect (Sethuraman et al., 1998).

The results of Sethuraman (1995) indicate that while reductions in the price of manufacturer brands with more market share will influence the store brands’ sales, it is less likely that manufacturer brands are affected by reductions in the price of store brands.

The brand choice made by the consumer at the moment of the purchase will be influenced by the price of the different brands of the category of product. In this way,
a reduction in the price of an expensive brand may make this more attractive for the consumer and, therefore, the likelihood of choice of this brand may be increased to the detriment of the rest.

3.13 Sales promotion: immediate price reductions

Price and promotion strategies are closely related. It is very difficult to distinguish price variances which are caused by decisions derived from the prices policy from those produced as a result of the promotion policy. Thus, proposal has been developed by Cummins (1998), according to which sales promotion has to stop being a part of the communication mix to become an autonomous variable.

When the promotion ends, sales are reduced even below the usual levels (without promotion). In the long term, the sales level tends to go back to a position near the initial position. Even Mela et al. (1998) confirm that long-term price promotions make the consumer more sensitive to price and therefore their effectiveness is reduced with the subsequent negative effect on benefits. These results are coherent with those obtained by Mela et al. (1997). Nevertheless, we must clarify that the effects provoked by promotions vary according to multiple factors: the type of incentive, the amount of discount provided or the type of product to which the promotion is applied, among others.

Some years ago both effects were more intense than nowadays because the use of sales promotion was not as widespread as it is now. Nowadays the consumer observes that the category of products is systematically affected by some promotional actions, and as a consequence he will not modify the planning of his purchase (Fader and Lodish, 1990; Lal, 1990). Retail establishments should modify their promotional plans in order not to lose the essential objective: modify favorably the consumer buying behaviour surprising him with a promotion action. This element of surprise is now in danger.

Besides, the presence of promotion actions attractive to consumers may make this change establishment (Tellis, 1997). This effect is related to the change of brand, that
is, consumers who do not usually acquire the brand feel attracted and buy it. The greater increase in sales occurs as a consequence of this reality (Blattberg and Neslin, 1990; Gupta, 1993).

It is necessary to be continuously in touch with the market because on certain occasions the use of promotions could cause unwanted effects. This happens when the consumer perceives that he is paying for unnecessary product highlighting and positioning activities, which will make his behaviour, deviate from the desired one, and thus, he will stop buying the promoted brand (Simonson et al., 1994). On some occasions the consumer may also stop buying a brand or avoid its purchase when it is promoted so as not to have to justify his behaviour before the group (Simonson, 1989). Or the consumer simply decides not to buy the promoted product because he feels that he is being manipulated and he will act punishing the retailers.

The results of works such as those by Suri et al. (2000), detect the need to introduce promotions as explicit elements of the consumer buying behaviour. Begona Alvarez Alvarez and Rodolfo Vazquez Casielles (2008) concluded that the brand choice and buying behaviour developed by consumers is a complex phenomenon. The variables that influence it are numerous and it is necessary to know them to act and develop useful strategies that achieve the objectives aimed at in each case. The influence of prices on this process is very important.

In previous researchers questions related to reference prices have been approached in depth. It seems widely accepted that when consumers buy a product they compare its price with a subjective level. The problem focuses on finding the most adequate way of estimating that level. While some theoretical trends consider that the consumer forms his reference price from the observation of the prices at the establishment, others defend that the consumer remembers the prices paid on previous occasions and he will form his reference price from them. The analysis made allows them to propose the estimations from stimuli or observation as explanatory of the brand choice and decision process developed by the consumer.
Just as it was expected, Begona Alvarez Alvarez and Rodolfo Vazquez Casielles (2008) have confirmed the importance of prices in the purchasing process. The effects derived from their fluctuations depend on the characteristics of the brand. Specifically, they have found differences in the intensity of response to price variances between manufacturer brands and store brands. The latter appeared to be more vulnerable.

Since one of the most widely used techniques of sales promotion are immediate discounts, they have considered it necessary to clarify the effects this may produce. Interesting results have been obtained regarding this issue. Discounts are perceived as attractive and serve to modify consumer preferences, but depending on the category of product.

Thus, for those in which consumers show a strong tendency or preference for the brand, the expected results are not obtained, because they are not relevant in the brand decision process. The application of another promotional tool would be more advisable instead. However, for other categories of product with lower loyalty rates, the application of discounts is the most adequate action, since the use of other promotion actions does not produce any effect.

Sellers use various advertising and promotion tactics to attract customers and increase sales. Previous research has shown that framing of promotion messages and presentation of price information influence consumers’ perceptions of prices and their willingness to buy (Das, 1992; Sinha et al., 1999; Sinha and Smith, 2000).

However, Lan Xia and Kent B. Monroe (2008) have distinguished between consumers who have prior goals to buy the product relative to those who do not have such purchase goals. Further, they have added whether consumers’ responses to different promotion message framing and price presentations differ when they do or do not have pre-purchase goals. Since the same promotion information may lead to different perceptions as consumers’ goals vary (Shavitt et al., 1994), understanding how consumers with different purchase goals react to various promotion messages can help sellers design effective promotion programs.
3.14 Consumer goals:

Many consumer purchasing decisions are goal oriented (Bagozzi, 1997; Bagozzi and Dholakia, 1999). Such goals are important as they direct other stages of the consumers’ decision process. Broadly, there are different levels of consumer goal specificity (Lawson, 1997). People with abstract goals tend to search across product categories and consider a wider range of information as relevant. For example, if the goal is to get away from work and have fun (an abstract goal), consumers may consider multiple activities including going to a movie, visiting friends, or taking a vacation. Many options are relevant and attentions are spread across multiple product categories. On the other hand, if the goal is to buy a microwave oven (a concrete goal), only microwave oven information is relevant and tends to get people’s attention.

In the market place, consumer goals vary along a continuum ranging from no goal, abstract goal to concrete goal. Goals guide consumers’ information gathering and decision processes. Goals are associated with different levels of consumer involvement (Howard and Kerin, 2006) which guide the allocation of attention as well as other cognitive resources for information processing (Peterman, 1997). When consumers have an abstract goal or no goal at all, the involvement with any particular purchase is low and they may spread out their attention and no single piece of information may be regarded as particularly relevant.

However, when they have a specific purchase goal, their involvement is high and they are more focused in their information search and processing and perceive some types of information to be more relevant than others. As Bargh (2002) has indicated, the particular goal in place changes everything – the focus of attention and the evaluation of objects and events, as well as memory for events.

Although the importance of consumer goals has been recognized in previous research, it has not been explicitly incorporated in research on consumers’ perceptions of price promotions (Mazumdar et al., 2005). Yet, when shopping, consumers may encounter various price promotion messages for products or services for which they do or do not
have specific purchase goals. Mazumdar et al. (2005) in a summary of reference price research called for more research examining shopping occasions (i.e. planned vs unplanned purchases) as an important moderating factor of the effects of various types of reference price information. Lan Xia and Kent B. Monroe (2008) examined how consumers’ prior purchase goals interact with promotion characteristics to influence their perceptions of price promotions and their willingness to buy.

3.15 Price promotions and pre-purchase goals:

Goals play a fundamental role in influencing how information in a promotion message will be processed (Shavitt et al., 1994). When individuals have multiple information processing strategies available, they select among them on the basis of goals, motives, and the environmental context (Taylor, 1998). Thus, by definition information regarding a specific product attracts more attention when consumers have a pre-purchase goal for that product category compared to when consumers do not have a pre-purchase goal.

Price promotions usually provide consumers with monetary savings on specific products. If consumers are in a store intentionally searching for these specific products, then it is expected that they would find promotions on such products more attractive compared to those consumers who are in the store but do not have a prior purchase goal for a promoted product. Therefore, the purchase likelihood is higher. In addition to this main effect, consumers may react to different promotion characteristics in different ways given the existence or absence of a pre-purchase goal.

For example, Howard and Kerin (2006) found that consumers with different levels of involvement, operationalized by whether they are in the market for a particular product, have different information processing styles and hence respond to different price promotion cues.

Price promotion characteristics can be grouped into four categories: price presentation, deal characteristics, situation factors, and study effect (Krishna et al., 2002). Price presentation research examines whether consumers’ perceptions of a
promotion are influenced by how the promotion is communicated, e.g. framing. Research on deal characteristics studies the influence of factors such as deal percentage, free gift value, and size of the bundle. Situation factors refer to the overall situation of the price promotion including types of stores, brands and whether the promotion information is received at home or in the store.

Finally, study effect addresses measurement issues including factors such as number of variables manipulated and number of participants. Different promotion characteristics influence current as well as future purchase intentions (DelVecchio et al., 2006). Lan Xia and Kent B. Monroe (2008) examined several important issues related to price presentations and deal characteristics of price promotions focusing on promotion framing, format, and promotion depth.

3.16 Promotion format: Discount vs. Free Gift:

In addition to promotion framing, price promotions come in different formats such as discount, coupon, rebate, and purchase with free gift, etc. While most promotion forms involve monetary savings, some promotions are non-monetary. One type of non-monetary promotion often used is offering consumers a free product or gift instead of a price discount.

Compared to price discounts, non-price promotions such as free gifts are likely to be perceived as small gains (Diamond and Johnson, 1990) and maintain product quality perceptions comparing to discounts (Darke and Chung, 2005). Discounts reduce the price that consumers have to pay for the product (i.e. reduced sacrifice). However, in a free gift promotion, while the value of the promotion may be equivalent to a discount, nevertheless, it does not reduce the sacrifice with the focal product purchase and therefore it could be perceived as a gain. If consumers with and without pre-purchase goals respond differently to gains and losses in price promotion perceptions, they may react differently to monetary and non-monetary price promotions.

Diamond and Abhijit (1990) found that a price discount was more likely to be chosen even when the discount was less than the retail value of the free product. As discussed
earlier, if consumers who are planning to buy a product are more focused on the monetary sacrifice, they would prefer a price discount (reduced loss) over a free gift promotion (small gain). However, consumers who are not planning to buy may be more attracted by a small gain associated with the free gift.

Lan Xia and Kent B. Monroe (2008) concluded how consumers with or without a specific pre-purchase goal respond differently to a price promotion. Not surprisingly, Lan Xia and Kent B. Monroe (2008) showed a consistent main effect of goal on participants’ willingness to buy. This main effect was not mediated by perceived value. This result is consistent with the intuition that consumers are responsive to information that matches their needs. Product or brand level price promotion information is less relevant when consumers do not have a pre-purchase goal. They observed a main effect of promotion format. Participants preferred discount over free gift and higher discount level over lower discount level regardless of the presence of a pre-purchase goal. These main effects were mediated by perceived transaction value. It is also added that the main effect of promotion format probably due to fact that the two promotion framing represented equivalent price savings.

In addition to the main effects, they show how consumers’ goals interact with some important characteristics of price promotions to influence their willingness to buy. The effect of the promotion message framing or format is conditional on consumers’ prior purchase goals. Consumers planning to purchase a product are more responsive to promotion messages framed as reduction of losses (e.g. “pay less” and a discount) while consumers without a goal are more responsive to messages framed as additional gains (e.g. “save more” and free gift).

Henceforth, consumers with different purchase goals respond differently to the depth of a discount. When consumers do not have a purchase goal, they are less responsive when the discount level is either too small or too large. In contrast, such thresholds are less observable when consumers have a prior purchase goal. Further more, it has been concluded that perceived quality is the underlying mechanism for the effect of promotion framing across purchase goals. Overall, introducing consumer goals as a moderating factor provides some boundary conditions to previous research effects and
adds to knowledge of consumers’ perceptions of and responses to various price promotions.

The notion that targeted deals are more efficient than across-the-board sales promotions that provide unnecessary discounts to price-insensitive consumers has prompted a dramatic growth in customized pricing and sales promotions (Acquisti and Varian 2005). However, questions have been raised regarding the efficacy of targeted offers in general (Homburg, Droll, and Totzek 2008) and customized price promotions in particular (Acquisti and Varian 2005; Feinberg, Krishna, and Zhang 2002).

Thus, whether companies should rely on customized promotions remains an open question, highlighting the need for additional research into how consumers respond to targeted discounts as well as contingencies that affect their response to these offerings (Franke, Keinz, and Steger 2009; Simonson 2005).

In this regard, a variable that has received little attention in the literature is the relative exclusivity of targeted price promotions. Because such promotions are offered selectively to some consumers (i.e., deal recipients) but not to others (i.e., deal non-recipients), targeted price promotions involve a level of exclusivity that surpasses that associated with more inclusive (i.e., undifferentiated) offers. At their most exclusive, price discounts can be customized to maximize promotional fit with individual consumers (Simonson 2005). At more modest levels of exclusivity, targeted promotions can be selectively offered to entire groups of consumers, as with affinity marketing programs (e.g., Borders’ educator savings promotions, which limit discounts to current and retired teachers).

Research by Feinberg, Krishna, and Zhang (2002) provides evidence of a betrayal effect, in which loyal consumers of a brand provide less favourable preferences for that brand when they are excluded from a targeted deal offered only to competitors’ customers.
Equity frameworks (Adams 1965; Bolton and Ockenfels 2000; Greenberg 1986) presume that people will engage in interpersonal comparisons that factor not only the outcomes received (non social utility) but also how such outcomes compare with those that others accrue (social utility). When consumers react to marketing offers with the goal of maximizing personal welfare (i.e., they are self-regarding), the receipt of an exclusive deal leads to advantageous inequity that enhances evaluations of the targeted discount among deal recipients (Greenberg 1987; Loewenstein, Thompson, and Bazerman 1989). In contrast, non recipients (whose exclusion from the offer results in disadvantageous inequity) should evaluate this type of promotion less favourably. Thus, as a result of their respective outcomes, recipients and non recipients should differ in their evaluations of a targeted deal.

Equity theory further suggests that evaluations of a targeted offer will depend not only on the relative outcomes associated with the offer (i.e., whether the consumer is a recipient or non recipient) but also on the inputs or costs associated with receipt of the promotion. In the context of targeted deals, these inputs may be represented by the amount of effort customers have invested in their relationship with a marketer (e.g., through their past patronage of the brand) (Feinberg, Krishna, and Zhang 2002; Homburg, Droll, and Totzek 2008); in turn, these investments should influence how consumers respond to a targeted offer (Verhoef 2003). In this regard, the negative reactions of deal non recipients in Feinberg, Krishna, and Zhang (2002) likely arose because of disparities in both exchange components.

In comparison with deal recipients, these consumers experienced disadvantageous inequity in terms of both the relative outcomes associated with the offer (non receipt of the targeted promotion) and the relative inputs (brand-loyal non recipients had more invested in their relationship with the marketer than deal recipients, who were users of a competitive offering). Being placed in a situation of disadvantageous inequity presumably prompted negative emotions (Tabibnia, Satpute, and Lieberman 2008) that undermined the preferences of non recipients for the brand to which they had previously been loyal.
However, Michael J. Barone & Tirthankar Roy (2010), explored was whether, when, and how recipients’ evaluations of a targeted price promotion may be affected by the offer’s exclusivity (i.e., the extent to which an offer is available to consumers in the marketplace). If exclusion from a targeted offer can trigger disadvantageous inequity for non recipients (as Feinberg, Krishna, and Zhang (2002) demonstrate), it stands to reason that receipt of an exclusive discount should engender advantageous equity for deal recipients.

Furthermore, an emerging literature on inequity aversion (Fehr and Gintis 2007; Fehr and Schmidt 1999) suggests that certain people desire outcomes that balance self-regarding (i.e., selfish) interests with other-regarding interests. Thus, some consumers may be reluctant to engage in exchanges that provide them with advantageous inequity, and this disinclination is likely to grow with the level of inequity characterizing the exchange (Scheer, Kumar, and Steenkamp 2003).

Inequity-averse deal recipients should evaluate a deal less favourably as it becomes more exclusive. As a result of their motivation to avoid experiencing the negative affect (e.g., guilt) that may accompany advantageous inequity (Scheer, Kumar, and Steenkamp 2003), inequity-averse recipients should evaluate exclusive deals less favourably than more inclusive offers. While variations in inequity aversion have been examined at more macro levels (e.g., across cultures; see Scheer, Kumar, and Steenkamp 2003), little work has explored individual difference factors that characterize inequity-averse people.

However, such an examination affords a means of identifying theoretically relevant variables that moderate consumers’ tendencies toward inequity aversion, information that is useful in developing strategies aimed at more effectively and efficiently delivering targeted deals to the marketplace.
3.17 Consumer Response to Deal Exclusivity:

Self-construal reflects the potential for people to hold varying self-views (Agrawal and Maheswaran 2005; Markus and Kitayama 1991) and involves the degree to which people define themselves in isolation of others (i.e., independent construal) or in relation to a group (i.e., interdependent construal). Although self-construal can be represented as a chronic, relatively stable dimension of a person’s personality or as a frame of mind that is situationally primed by contextual factors (Oyserman, Coon, and Kemmelmeier 2002), in either case, it holds implications for the values people strive to achieve in managing their self-concepts. As a result, self-construal can influence judgments (Markus and Oyserman 1989), including those made in response to sales promotions tactics (e.g., loyalty programs; see Kivetz and Simonson 2003).

To this end, people adopting independent, ego-focused construal tend to manage their self-concepts with respect to considerations that centre on their relative uniqueness (Markus and Kitayama 1991; Oyserman, Coon, and Kemmelmeier 2002). This orientation guides information processing in ways that allow people to “maintain, affirm, and bolster the construal of the self as an autonomous entity” (Markus and Kitayama 1991). Because the selectivity of customized promotions is compatible with these values, recipients with independent self-construal should favourably evaluate exclusive deals. Conversely, because consumers with interdependent self-views define themselves in terms of their connectedness with a group (Markus and Kitayama 1991), their decisions should reflect a desire to maintain harmony with others (Markus and Oyserman 1989). As a result of this relational sensitivity, these people may value collectivism to the point of sacrificing personal gains to avoid discord with others (Oyserman, Coon, and Kemmelmeier 2002).

Such people should therefore strive to achieve marketplace exchanges that lead to outcomes that are more equitable (versus inequitable) in nature. In turn, this distaste for inequity should negatively affect the evaluations of a targeted deal provided by recipients with interdependent self-construal.
3.18 The Effects of Gender on Consumer Response to Deal Exclusivity:

Research on self-construal suggests that recipient gender can influence how deal exclusivity affects the evaluations of customized offers. Specifically, Western men are often characterized as possessing independent self-views, while Western women more typically adopt interdependent self-construal (Markus and Kitayama 1991). Men’s independent self views should prompt them to value unique (i.e., exclusive) offers that provide them with the basis for self-enhancement to a greater extent than women, whose interdependent self views should result in less favourable evaluations of targeted deals.

Such an outcome is compatible with research on sex roles in judgment (e.g., Meyers-Levy 1988), demonstrating that men tend to employ agentic, self-focused processing goals (that should lead to a stronger preference for exclusive promotional offers), while women have communal processing goals that emphasize interpersonal considerations (and should result in a weaker preference for targeted deals). This expectation is also consistent with research on distributive justice showing that men prefer resource allocations that provide gains to themselves, while women favour equity-based allocations that result in similar gains to all (e.g., Fehr, Naef, and Schmidt 2006; Major and Adams 1983; O’Malley and Greenberg 1983).

As Michael J. Barone & Tirthankar Roy (2010) noted previously, a basic tenet of equity theory involves not only the outcomes that accrue (in this case, receipt of the targeted deal) but also the inputs necessary to obtain these benefits (i.e., relationship equity). In this regard, recipients should react more strongly to the distribution of targeted deals when they perceive that they have higher (rather than lower) relationship equity with a firm. This rationale is borne out by Feinberg, Krishna, and Zhang’s (2002) results, which indicate that customers who are loyal to a brand (and thus had achieved high levels of relationship equity) react in a particularly negative manner when they are excluded from a targeted promotion offered by the brand to less meritorious consumers (brand switchers).
In a positive vein, Kivetz, Urminsky, and Zheng (2006) demonstrate that consumers respond more favorably to an offer (e.g., by accelerating purchases) when they have more invested in a marketer’s rewards program and therefore have developed greater relationship equity with the firm.

Accordingly, the level of effort a consumer invests in building a relationship with a firm should be positively related to the degree to which recipients are sensitive to deal characteristics (including promotional exclusivity) and, as a result, to the extremity of their response to a targeted offer. Therefore, consumers who have invested heavily in a relationship with a firm through their transactional history should prove sensitive to receiving a targeted offer; in contrast, those with lower levels of relationship equity may be less responsive to a deal’s exclusivity, given that they have little vested in the relationship (Adams 1965; Greenberg 1986).

Therefore, the influence of exclusivity on deal evaluations should be most prominent when consumers have built up (through past patronage) relatively high levels of relationship equity. If this is indeed the case, the effects we set forth regarding gender and promotional exclusivity should be limited to conditions of high relationship equity. Thus, we predict that men (women) should prefer exclusive (inclusive) offers, but only when relationship equity is high; when such equity is low, deal exclusivity should factor less into their evaluations.

Targeted promotions and customized pricing are becoming increasingly common in the market. Extant research on these practices (e.g., Feinberg, Krishna, and Zhang 2002) has focused on how non recipients respond to deals provided selectively to other consumers. A complementary but unexplored issue was whether the response of deal recipients depends on perceptions of the offer’s exclusivity (i.e., its availability to other consumers). Across three studies, Michael J. Barone & Tirthankar Roy (2010) demonstrated that some consumers (e.g., male participants and those with independent self-view) favour exclusive deals over inclusive ones. The findings further showed that under certain conditions (e.g., when the level of relationship equity consumers have built with a marketer through their past patronage is low), both types of offers were evaluated equally favourably. Perhaps most intriguing were the
results indicating that certain consumers (e.g., female participants and those with interdependent construal) react negatively to receiving a targeted offer that was exclusive, instead preferring discounts that were more widely available.

In addition to identifying these boundary conditions to the positive effects of deal exclusivity, Michael J. Barone & Tirthankar Roy (2010) provided evidence of the process mediating such effects. These results indicate that consumers who prefer more exclusive deals do so because receiving selective offers provides them with a basis for self-enhancement (e.g., by helping them attain values related to autonomy).

In contrast, the negative reactions of participants exhibiting an aversion to exclusive promotions were driven by the superiority of inclusive offers to allow them to self-enhance (e.g., by confirming their desires to maintain harmony with others). Thus, while receipt of an exclusive targeted deal can engender positive feelings for certain segments of consumers, these same offers can trigger less favourable emotions for other consumers that undermine their evaluations of the deal.

Aside from providing an initial demonstration of when and how deal exclusivity influences consumer response to targeted promotions, the current investigation contributes to several other literature streams. In conceptualizing the observed response variability to deal exclusivity, Michael J. Barone & Tirthankar Roy (2010) employed inequity aversion, a concept from economics that has received minimal empirical consideration in the marketing literature. This inattention was somewhat surprising given that inequity aversion focuses on exchanges and outcomes, two concepts fundamental to the study of marketing (Bagozzi 1975). Research on inequity aversion provides a basis for anticipating that some people will exhibit self-regarding preferences for options that afford them advantageous inequity, and others will prefer more equitable outcomes that effect a consideration of other-regarding interests.

However, little empirical attention has been given to identifying factors useful in predicting who will be inequity averse and who will not. Michael J. Barone & Tirthankar Roy (2010) provided such evidence by documenting that inequity-averse behaviour is more likely for certain people (e.g., female participants and consumers
with interdependent self-construals) and under certain conditions (e.g., when relationship equity is high). Research along these lines is important theoretically given that it delineates moderating variables associated with conditional boundaries to inequity aversion; pragmatically, these findings have value by pinpointing characteristics that marketers can incorporate into the strategies they use to deliver targeted deals to the marketplace.

Prior research has focused on examining the parameters typically associated with managers’ development of promotional calendars, including depth, frequency, and duration (Silva-Risso, Bucklin, and Morrison 1999). By demonstrating that exclusive deals may be evaluated more, equally, or less favourably than inclusive deals, Michael J. Barone & Tirthankar Roy (2010) showed that consumer response to discounts were also sensitive to a “non traditional” deal characteristic, namely, the perceived exclusivity of a price promotion. These results extended the literature on deal restrictions as well. Although extant research has focused on promotional limitations, such as quantity, time, and minimum purchase requirements (Inman, Peter, and Raghubir 1997). Their studies provided insight into an understudied form of deal restriction (exclusivity) that is becoming increasingly important with the growth of targeted offers.

Findings of Michael J. Barone & Tirthankar Roy (2010) similarly hold implications for research on transaction utility theory, indicating that deal recipients can experience self-enhancement through affective consequences associated with being a “smart shopper” (Schindler 1998). The results expand on prior work in this area by demonstrating that receipt of a “good deal” in the form of an exclusive promotion that provides consumers with a financial advantage in the marketplace (relative to consumers who do not receive the discount) does not necessarily engender positive feelings.

Rather, the evidence provided indicates that the relationship between receiving a deal and experiencing positive affect may be more complex than previously believed and contingent on characteristics associated with both the consumer (e.g., self-construal, gender) and the offer (e.g., its exclusivity).
A large body of research on consumer responses to sales promotions (e.g. Bawa and Shoemaker, 1987 and 1989; Blattberg and Neslin, 1990; Leone and Srinivasan, 1996; Huff and Alden, 1998) has accumulated over the past few decades due to the growing importance of this marketing lever.

However, there has been much emphasis on coupons at the expense of other equally important promotional tools, which has created the need for more work to be done in this area. Nelson Oly Ndubisi and Chew Tung Moi (2006) investigated (together with coupon) the effects of other sales promotional tools such as free sample, bonus pack, price discount, and in-store display on product trial among Malaysian consumers, as well as the role of awareness or knowledge of promotional tools.

According to Shimp (2003), sales promotion refers to any incentive used by a manufacturer to induce the trade (wholesalers, retailers, or other channel members) and/or consumers to buy a brand and to encourage the sales force to aggressively sell it. Retailers also use promotional incentives to encourage desired behaviours from consumers. Sales promotion is more short-term oriented and capable of influencing behaviour. Totten and Block (1994) stated that the term sales promotion refers to many kinds of selling incentives and techniques intended to produce immediate or short-term sales effects. Typical sales promotion includes coupons, samples, in-pack premiums, and price-offs, displays, and so on.

Coupons have been used to produce trial (Robinson and Carmack, 1997). According to Cook (2003), coupons are easily understood by the consumer and can be highly useful for trial purchase. Gilbert and Jackaria (2002) concurring to the popularity of coupon reported that coupon is ranked last as the promotional least widely used by consumers and least influence on product trial. Other studies (e.g. Peter and Olson, 1996; Gardener and Trivedi, 1998; Darks, 2000; Fill, 2002) have reported the importance of coupons as a sales tool.

Price promotion does influence new product trial (Brandweek, 1994). According to Ehrenberg et al. (1994) short-term peaks in sales were due primarily to purchases made by occasional users of a brand rather than by new customers. Furthermore, the
study concluded that these occasional users, after taking advantage of the price reduction, would most likely return to their favourite brands in their portfolio rather than buy the promoted brand at full price. However, Shimp (2003) and Fill (2002) among other extant studies have documented a link between price promotion and product trial.

With regard to free sample, another important promotional tool often used by firms, marketing managers recognize the importance of product trial and direct behavioural experience with a product; hence they often mail free samples of products to consumers so that consumers can try the products for themselves, rather than just hear about the products (Kardes, 1999). However, Gilbert and Jackaria (2002) found that a free sample as a promotional offer had no significance on consumers’ reported buying behaviour, whereas Pramataris et al. (2001), Fill (2002), and Shimp (2003), have shown otherwise.

Factory bonus pack according to Lee (1963) is used to increase consumer trial of the brand. Larger package size and accompanying advertising of the offer tended to make the promotion noticeable (Gardener and Trivedi, 1998). Since more of the product is included at no extra cost, consumers can be persuaded to buy the product if they feel it represents a deal that produces the greatest value for their money.

According to Gilbert and Jackaria (2002), packs with ‘‘buy-one-get-one-free’’ may not increase brand awareness before trial purchase because the customer will only come across the product once in the store (unlike samples or coupons), however, if the promotion is noticeable it will facilitate brand recognition and brand recall for future purchases. Since an additional amount is given for free, consumers may be persuaded to buy the product if they feel it represents a fair deal that provides value for money. Ong et al. (1997) found that consumers appeared to be slightly sceptical of the bonus pack offer, but somewhat more trusting of the price and quantity claimed.

In other words, believability of the bonus pack offer was weak; however, they would likely buy one bottle and not buy more than one bottle they concluded. The report
speculated that this happens because consumers suspect that manufacturers do raise prices slightly in conjunction with bonus pack offerings.

Product trial involves actually trying or using a product (Kardes, 1999). According to Peter and Olson (1996), trial ability refers to the degree to which a product can be tried on a limited basis or divided into small quantities for an inexpensive trial. Banks (2003) wrote that with sales promotion, brands have a chance to quickly affect consumer choice and behaviour by adding value through an on-pack offer, by achieving incremental display or by encouraging trial via sampling and/ or couponing.

According to Schindler (1998), a price promotion that is designed to evoke attributions of responsibility could be expected to appeal to consumers more than one that does not evoke such attributions, and thus have a greater ability to create product trial among consumers. Wayne (2002) found a link between sales promotion and product trial. Chandon et al. (2000) indicated that sales promotion may be attractive to highly promotion prone consumers for reasons beyond price savings. These highly promotion prone consumers may switch brands to receive special deals that reflect and reinforce their smart shopper self-perception. They concluded that highly promotion prone consumers might try a new product that has promotion. Thomas (1993) argued that the magnitude of planned distribution and promotion expenditures (advertising, sales promotions, sales force, and so on) could affect initial trial of the brand.

Nelson Oly Ndubisi and Chew Tung Moi (2006) concluded that Malaysian consumers respond more to free sample, price discount, in-store display, and bonus pack than coupon. A plausible explanation for the weak influence of coupon was poor knowledge of the tool. This research showed the linkages among various promotional tools and product trial, and thereby helped to better understand how Malaysian consumers respond to various promotional tools offered by marketers. Promotions that emphasize in-store display, free sample, price discount, and bonus pack are likely to be more effective than coupon.
Furthermore, Nelson Oly Ndubisi and Chew Tung Moi (2006) added that in-store display proneness has the strongest effect on product trial compared to other sales promotional tools. Attractive in-store display practices are necessary to gain the greatest sales from product trial. Bonus pack, free sample, and price discount significantly affect product trial, albeit the determinant power of bonus pack is the lowest among other promotional tools. Thus, one of the ways to improve the determinant power of bonus pack is to keep a regular pack along side with a bonus pack on the shelves, in order to enable consumers to make comparison. Such opportunity for a comparative observation will help to enhance the credibility of the tool and consumers’ confidence in it. With regard to free sample and price discount, sellers should continue to apply them because of their robust influences on product trial.

Coupon has no significant effect on product trial. This is largely due to consumers’ poor knowledge of the tool. Another probable reason for the poor influence of coupon may be because coupons provide less shopping convenience benefits, require more skill and effort than buying a product on sale added by Nelson Oly Ndubisi and Chew Tung Moi (2006).

3.19 Sales promotion and brand equity:

Sales promotion in FMCG industries is used to create a temporary stimulus on the sales of a brand by making consumers a special offer. This promotional stimulus is part of the marketing offer made up of factors such as product features and benefits, price, availability, customer service and quality. Consumers are expected to act on this offer, which, in turn, has an immediate effect on the sales rate of an organization. Market-based assets, such as Brand Equity, are part of the benefits accruing to the organization as a result of trading. These benefits include the development over time of positive brand awareness, image, secured distribution, brand franchise, brand equity and also positive relationships with customers and intermediaries.

Techniques falling under the banner of sales promotion are both diverse and complex, and offer management the opportunity to address a range of different marketing
situations. Its purpose may be: to stimulate quick response in the market place, as a retaliatory device, or to reward and retain existing customers (Totten et al. 1994). When techniques are considered individually, several of them could be, and indeed are, used as retaliators. Price-related promotions (such as “cents-off” the regular price, and refund offers for coupon redemption) form a large share of consumer promotional activity. They also represent the greatest concern in terms of potential damage to brand equity because price plays an important role in the evaluation of a brand. It is, therefore, relevant in terms of potential equity outcomes to consider the impact of using price-based promotions (Keller 1993; Mela et al. 1997).

Indeed, much of the sales promotion literature is specifically related to price-based promotions (Gabor and Granger 1972; Sawyer and Dickson 1984; Lattin and Bucklin 1989; Kalwani and Yim 1992; Wakefield and Inman 1993; Ehrenberg et al. 1994), and any identified negative effects seem most strongly related to promotions with a focus on price.

Consumers develop their value and perceptions of a brand on the strength of the marketing offer. If they see the offer as highly favourable, then it may be that the franchise, or relationship, between the consumer and the brand is strengthened. It could, therefore, be suggested that overusing sales promotion potentially causes the brand to be devalued in the mind of the consumer, and the subsequent franchise or equity enjoyed by the brand may likewise be damaged. It is well documented that building and maintaining positive brand equity with one’s consumer base is considered to be critical for long-term survival (Farquhar 1990; Keller 1993; Blackston 2000; Ambler 2001).

**Given the potential link between promotion and brand equity, of major concern is to know FMCG consumer’s perception towards consumer based brand equity sources.**

Srivastava (1991) addressed the issue of the significance of Brand Equity. One of a number of directions identified for future research related to management concern that
they were expected to potentially exploit existing Brand Equity to maximize short-term sales.

Despite a wealth of literature on the separate issues of Brand Equity and sales promotion, to date there has only been a relatively small amount that specifically addresses the relationship between the two; further it has been supported that they don’t really know a lot yet. There has however been some debate about whether sustained promotional activity is likely to reduce a brand’s franchise and the literature has mixed findings (Blattberg et al. 1995; Roberts 1995).

It is widely accepted that, in the short term, sales promotion can have a positive effect on trading by creating a short-term sales spike (Dodson et al. 1978; Neslin and Shoemaker 1989). However, there is some conflict in past research findings regarding the long-term impact of sales promotion on how consumers value a brand. The two schools of thought can best be summarized as:

(1) A belief that the overuse of certain forms of sales promotion, in particular price-based promotions, may result in a brand being devalued in the consumer’s mind, for instance when a temporary promotion is removed (Dodson et al. 1978; Lattin and Bucklin 1989; Simonsen et al. 1994; Chandon 1995), or,

(2) That there is no negative impact likely to result from the increasing use of sales promotion because (for instance) the consumer quickly forgets the offer (Neslin and Shoemaker 1989; Davis et al. 1992; Ehrenberg et al. 1994).

Sales promotion was confirmed as a commonly used element of marketing communication with firms marketing food products. A diverse range of techniques could be employed with little constraint other than cost. Sales promotion was predominantly seen as a tool to attract customers, improve brand awareness and stimulate sales, and the most commonly used techniques included product sampling, point of purchase displays, free product and cut prices.
Managers claim to use sales promotion as a tool to enhance brand and market position, but in reality, use it more to pursue competitive goals such as retaliation. Furthermore, the protection of brand equity is seen as important and price-based promotions, whilst considered most likely to damage brand equity, were not used excessively. There is little evidence that attention is given to measuring the effect of sales promotion on brand equity (Sandra Luxton. 2001)

East’s comments (1995) serve to highlight the significance of appropriate consideration to promotional strategy and its measurement. “In aggregate, the effects of sales promotions seem to cancel out; leaving a cost that has to be added to the price of goods. Would not we all be better off (except the promotion agencies) if this activity was stopped? ” . . . “To a company, the value of a sales promotion depends upon the extra sales generated and the cost of running the promotion. Whether or not sales promotions lose their prominence depends in part upon their evidence about their effects on profit. . . .”

There are many complex issues to address when endeavouring to understand how and why promotional strategy has developed to this point in time. Managers in the FMCG industry seem at least to be aware of the issues at hand, and with the benefit of seeing how others in the industry think and behave, there is renewed hope that sales promotion can become a more valuable tool, used appropriately to meet the specific needs of the firm and its markets (Sandra Luxton 2001)

Research has traditionally posited that sales promotions erode brand equity. However, in current management practices, one may observe that companies design promotional programmes to differentiate and modernize their brand image and build brand awareness. This divergence between practice in the industry and the general academic view must inevitably lead to a rethink about the goals assigned to sales promotions. Consequently, the important question is whether sales promotions can contribute to building brand equity.

Adopting a consumer-based brand knowledge perspective of brand equity, it has been added that monetary and non-monetary promotions are useful to create brand equity
because of their positive effect on brand knowledge structures. The findings by Mariola Palazón-Vidal & Elena Delgado-Ballester (2005) suggested that non-monetary promotions are more appropriate as a brand-building activity and that the product type exerts a moderator effect on the relationship between sales promotions and brand knowledge.

Building a strong brand in the market is the current goal of many organizations. This is due to the fact that brand equity has been found to lead to higher prices (Firth 1993), greater market share (Park & Srinivasan 1994), more responsive advertising and promotions (Keller 1998), earlier market penetration (Robertson 1993) and more efficient product line extensions (Keller & Aaker 1992).

As a result it is not hard to understand why brand equity has emerged as a central concept in marketing over the past 20 years. Much has been learned during the past two decades about brand valuation (e.g. Aaker 1991; Keller 1998; Yoo & Donthu 2001), the leverage of brand equity through brand extensions (Broniarczyk & Alba 1994), the impact of such extensions on the core brand (Loken & John 1993), and its many benefits for a firm and its customers (Keller 1998). However, researchers have not devoted the same considerable attention to addressing how brand equity may be built through marketing activities.

Specifically, building brand equity appears to be worthy of investigation in the context of sales promotions. Indeed, the most recent practices in the industry diverge from the general academic view that sales promotions destroy brand equity (Mela et al. 1997; Yoo et al. 2000).

Thus, it would appear that, apart from the traditional goals assigned to sales promotions (e.g. increase trial, price-discriminate), they are also used in the industry as a brand-building activity. This brings to the question of whether this communication tool is appropriate for building brand equity. Consequently, Mariola Palazón-Vidal & Elena Delgado-Ballester (2005) addressed the following research questions. They have used brand equity from the perspective of the consumer in the research.
As another tool of the promotion mix, do sales promotions have potential to build brand equity?

- What type of sales promotion, monetary or non-monetary, is more effective for building brand equity?
- How does the type of product affect the effectiveness of monetary and non-monetary promotions for building brand equity?

Keller (1993, 1998) defines brand equity as ‘the differential effect that brand knowledge has on consumer response to the marketing of that brand’. Based on this definition, and from a cognitive psychology perspective, brand equity is based on brand knowledge that consists of a variety of associations linked to a brand node in memory. These associations represent the personal meaning about a brand – that is, all descriptive and evaluative brands related information (Keller 1993). It is essential to stress that the differential response that makes up brand equity comes from various characteristics of brand associations in the consumer’s memory. In particular, based on Keller’s research, Krishnan (1996) empirically demonstrated that association characteristics such as number of associations, valence and uniqueness underlie consumer-based brand equity. Hence, brands with high equity are characterized by having a greater number of associations, and more net positive and unique associations.

3.20 The effect of sales promotions on brand knowledge:

Earlier, it was posited that brand knowledge is the source of brand equity. Therefore any potential encounter with a brand may affect brand equity as far as it changes the mental representation of the brand and the kinds of information that can appear in the consumer’s memory. Some of these potential encounters may be marketing-initiated, for example through marketing communications tools.

Among these tools, sales promotions, and in particular price promotions, are believed to erode brand equity because they enhance only short-term performance by
encouraging sales and brand-switching (Dobson et al. 1978; Gupta 1988) and may convey a low-quality brand image (Yoo et al. 2000).

These findings are in line with the approach that has inspired most of the research conducted on sales promotions. That approach is characterized by the fact that (i) most studies have examined the convenience of using promotions instead of examining their benefits to the consumer, (ii) sales promotions are seen as a sale tool having ‘effective effects’ only on behaviours’, and (iii) it is assumed that monetary savings are the only benefit that motivates consumers to respond to sales promotions.

However, Mariola Palazón-Vidal & Elena Delgado-Ballester (2005) adopted a consumer-based approach (Chandon & Laurent 1999; Chandon et al. 2000) to consider that sales promotions, as a part of marketing communications, also have an effect at a cognitive and emotional level, and provide the consumer with multiple hedonic and utilitarian benefits.

Taking into account that brand knowledge includes different kinds of information linked to a brand such as attributes, benefits, thoughts, feelings, experiences, and so on (Keller 1998), it follows that brand knowledge may be potentially affected and changed by the sales promotions experience. First, this experience can change the number of associations evoked about a brand because sales promotions have brand association-enhancing power.

Second, they can also generate favourable associations if the associations are desirable to consumers and successfully conveyed by the supporting promotional campaign for the brand. In other words, the value that sales promotions have for brands is related to the value or benefits they have for consumers (Chandon et al. 2000).

Finally, sales promotions can develop meaningful points of difference to the brand (unique associations) if the promotional campaign is not attributed to another brand or is not seen as a generic promotion of the product category. Mariola Palazón-Vidal & Elena Delgado-Ballester (2005).
3.21 The differential effect of monetary and non-monetary promotions on brand knowledge:

The most recent literature on sales promotions (Chandon & Laurent 1999; Chandon et al. 2000) stresses the need to distinguish between two types, monetary and non-monetary, because there are important differences between them. On the one hand, monetary promotions (e.g. free product, coupons) are primarily related to utilitarian benefits, which have an instrumental, functional and cognitive nature. They help consumers to increase the acquisition utility of their purchase and enhance the efficiency of their shopping experience. On the other hand, non-monetary promotions (e.g. contests, sweepstakes, free gifts, loyalty programmes) are related to hedonic benefits with a non-instrumental, experiential and affective nature, because they are intrinsically rewarding and related to experiential emotions, pleasure and self-esteem.

Because of the different nature of the benefits provided by each type of promotion, Mariola Palazón-Vidal & Elena Delgado-Ballester (2005) proposed that:

1. Monetary promotions generate less brand knowledge (i.e. number of associations) than non-monetary ones. In the language of Behavioural Learning Theory (Rothschild & Gaidis 1981), price promotions are more likely to become primary reinforcement and, according to Self-Perception Theory, they are attributed by the consumers as the reason they buy the brand. This implies that, compared to nonmonetary promotions, the monetary ones are less effective in building brand knowledge because of their greater emphasis on only one brand association (i.e. price). In other words, they lead consumers to think primarily about deals, shopping convenience and not about the brand (Yoo et al. 2000). On the other hand, non-monetary promotions can evoke more associations related to the brand personality, enjoyable experience, feelings and emotions. As Nunes and Park (2003) remark, the use of discounts places a greater emphasis on price, leading people to assess the incentive relative to what they pay, while non-monetary promotions such as premiums should take the focus away from price.
2. Sales promotions also differ in the favourability of the brand knowledge generated. This is demonstrated by the fact that monetary incentives can be viewed as generating functional associations because of the utilitarian benefits they provide, while non-monetary incentives create more abstract associations due to their hedonic benefits.

Considering, then, that associations deriving from different types of promotion differ in their level of abstraction and qualitative nature, it is worth stating that, according to Keller (1998), this affects the favourability and uniqueness of associations because abstract associations tend to be more evaluative and durable in memory. From studies focused on utilitarian and hedonic aspects of buying and consumption a similar reasoning is found. For example, when the purchase decision has hedonic motivations, the fun, enjoyment or sensory stimulation arising influence brand perceptions (Hirschman & Holbrook 1982) and make the consumer’s attitude more favourable (Childers et al. 2001). Therefore, when promotion experience is linked to these kinds of feelings, thoughts and benefits, more favourable and positive brand associations are linked to the brand. In fact, as suggested by Pham et al. (2001), the number and the valence of spontaneous thoughts are better predicted by feeling responses.

3. Finally, because hedonic benefits are more subjective and personal than utilitarian ones, they are more difficult to imitate and more capable of providing unique associations (Babin et al. 1994). Thus, when promotion experience provides these types of benefit, which is the case with nonmonetary promotions (Chandon et al. 2000), more unique brand associations are linked to the brand.

Mariola Palazón-Vidal & Elena Delgado-Ballester (2005) postulated that monetary and nonmonetary promotions were not equally effective in building brand equity because of the different effect they had on brand knowledge. One way of inferring the utilitarian or hedonic nature of the purchase decision is to examine the type of product
being considered (Mao & Oliver 1993), therefore they focused on the moderator effect that product type exerts on the effectiveness of each type of promotion.

An argument in support of this moderator effect is provided by Chandon et al. (2000), who assert that sales promotions effectiveness may depend on the congruence or the match between promotions’ benefits and those of the promoted product (the Benefit Congruency Framework). The principle of congruency is based on the idea that promotions that are compatible with the promoted product, because they offer similar benefits, would have a greater impact on the demand of this product than promotions that offer incongruent benefits.

Therefore, it is expected that utilitarian products will be more influenced by monetary promotions and, conversely, hedonic products are more compatible with non-monetary ones. As stated by Holbrook and Hirschman (1982), all products may carry a symbolic or hedonic meaning. In some cases this meaning is more salient and rich than in others, although it seems that non-monetary promotions may not only benefit hedonic products according to the congruency principle. They can also be of benefit to utilitarian products as this type of sales promotion enhances a symbolic meaning and offers consumers opportunities to experience fun, amusement and diversion, or social experiences not provided by the product itself.

In this sense, Arnold and Reynolds (2003) affirm that the seeking of such experiences is often far more significant than the mere acquisition of the utilitarian benefits provided by the product. The successful use of non-monetary promotions for utilitarian products, exemplified these ideas.

Furthermore, because emotional desires dominate utilitarian motives in the choice of products (Hirschman & Holbrook, 1982; Dhar & Wertenbroch 2000), it is expected that monetary promotions do not add value meaning to the hedonic products. On the contrary, non-monetary promotions can imbue a utilitarian product with a subjective meaning that supplements the more functional and utilitarian image it possesses.
3.22 Sales Promotions & Brand image:

Sales promotion (SP) is an inevitable tool in the marketing communications mix, especially in the FMCG markets, due to pressures such as retailers’ growing demands and increasing competition. This has proven to be an issue for many companies, especially those with a premium brand positioning and those concerned about the impact that SP might have on the long-term image of the company. Despite the fact that literature is replete with research on SP, it seems to be vastly generalized and mostly focused on price reductions. Danijela Mandić (2009) analyzed and discussed the issue of the long-term impact that SP has on companies, especially on premium brands in the FMCG markets and concluded that, when used properly and strategically, SP may have a positive long-term impact on brands.

Fill, C (2005) noted that in the changing and competitive marketing communication industry it is of vital importance for companies finally to recognize that consumers perceive a brand through all the communication touch-points. This, in turn, implies the importance of a strategic focus in any marketing communications plan, as brand building is a long-term exercise. A brand entails a construct “of, first, an identity that managers wish to portray and secondly, images construed by audiences of the identities they perceive”. Furthermore, as brand image refers to the consumers’ perception of the brand and all the associations that are formed, companies need to acknowledge the potential of all communication tools available and view them through the long-term impact they might have on the brand image of the company, as a means of creating a positive attitude towards the company.

Brand image and associations consist of several dimensions, most often classified into attributes (descriptive features that characterize a brand), benefits (personal value consumers attach to the attributes) and attitudes (general evaluations of the brand), (Ibid., pp. 411). It has been found that each of these factors might have a different effect on consumer responses but, even though the concepts of brand image and associations are in themselves clearly complex (incorporating the above mentioned factors), for the purpose of this paper we will refer to brand image in its broader sense whether the perception of the company is positive or negative in relation to other
brands and whether consumers perceive less value of the brand when encountering them through different communication tools.

The need to analyze the long-term impact of promotional tools is more important than ever, as marketing communications are becoming increasingly expensive and companies are constantly seeking ways to achieve their objectives in a more cost-effective manner. In the mass communication days, before the extreme competition of the kind we are seeing today or such strong growth of new technologies, a company could charge premium prices and complement its positioning merely with advertising. Today, particularly when it comes to the FMCG markets, the use of sales promotion (SP) has become inevitable and almost every company needs to use SP as either an offensive or a defensive tool.

3.23 Sales Promotion and Branding:

It is added that Sales promotions consist of a variety of marketing tools, which are designed to stimulate purchase by providing an incentive. There are numerous reasons why SP has increased in importance: fierce competition; (Ehrenberg et al. 1994), high cost and decline of the more traditional marketing communications mediums; and short term perspectives with an emphasis on immediate results.

These factors have been highlighted especially in the FMCG markets, characterized usually by low involvement products; a lack of clear differentiation between brands and extreme competitiveness. Premium brands and market leaders have not been exempted from these issues, as it has been found that followers and market leaders experience the same level of competition (Kitchen, J.P. 1989), although their brand characteristics may vary greatly.

It has been added that perhaps the most pressing issue for manufacturers is an increasing power of retailers as well as a growing strength of retailers’ own label brands. Retailers now take up a considerable part of the market share and can dictate the trading terms with manufacturers. Retailers are themselves in a pressure situation where they face competition from other retailers and constantly need to find new
ways of providing more value to consumers. Consumers are becoming more demanding in their choice of retailers and may be influenced by factors such as price, location, layout, product range and sales personnel.

Because of a growing retailer power, more demanding customers and a general increase in competition, companies may be forced to use SP in order to retain not only market share in general, but concretely, to receive more shelf space and better terms for their products. They now need to match the promotions of their competitors and show the flexibility needed in the retail environment. This is especially important for established brands, as new entrants tend to use sales promotions as a means of encouraging brand switching and breaking existing loyalty.

In the light of these pressures, it becomes clear that companies need to address the issue of SP in their campaigns. However, the often assumed image of SP – that its long-term effects can be devastating for a brand – is a concern for a company, especially one with a premium brand positioning. This form of positioning relies on core values, such as sophistication and high quality, which in turn justify the premium price. They usually incorporate both the intrinsic and extrinsic attributes. Gabor, A. and C. W. J. Granger (1972) have added that a strong brand image is particularly important for these brands, as a “perceived risk is reduced and high quality is conveyed through trust and experience formed through an association with the brand”.

Consequently, this paper explores and analyzes the issue of the long-term impact that SP has on companies’ image and should contribute to a better understanding of the relationship between the SP strategic potential and brand image, with a particular focus on premium brands in the FMCG markets.
3.24. Short- and long term effects of Sales Promotion

The evidence of short-term effects seems to be well documented in the literature. It is suggested that SP can build brand awareness and motivate trial, provide more specific evaluation methods, as they are more immediate and operate in a specific time frame, (Pham, M.T., Cohen, J.B., Pracejus, J.W. & Hughes, G.D., 2001), influence sales, (Roberts, John H., 1995) expand the target market (Robertson, T.S., 1993) and achieve competitive advantage. (Rothschild, M.L. & Gaidis, W.C., 1981). According to their purpose, SPs are often successful in inducing action, as they encourage consumers to act on a promotion while it is still available. Also, the strength of SP lies in its flexibility to quickly respond to competitor attacks contributed by Sandra Luxton (2001).

Despite these benefits, the question remains whether these effects are made at the expense of the long term impact that SP may have on companies. Sawyer, A. and P. Dickson (1984) and Simonson, I., and Z. Carmon (1994) proved that there is evidence pointing towards SP having a negative effect on brands, especially in relation to advertising. It is argued that SP does not have any brand-building impact and could lead to diminishing effects for the brand, particularly well-established ones.

In fact, the Ehrenberg et al. study showed that price-related promotions do not have any effect on brand performance, either in terms of sales or repeat purchase. According to the authors, this is due to the fact that promotions influence existing customers in the first place, with some rare exceptions shared by Simonson, I., and Z. Carmon (1994). This is a concern for companies, whose main objective it is to target new customers or gain more long-term profit, as new customers might only take advantage of the promotion and then go back to their preferred brand. Also, even when the existing customers are targeted and the response is satisfying, these consumers’ price sensitivity may be enhanced, causing difficulties in the long run.

A premium brand needs to justify its high price and its image, and often does so through advertising, but are these media expenditures a waste of money if the image is damaged through other communication channels? Perhaps the easiest advice would
be to simply avoid SP due to this potential risk, but as we have seen in the FMCG markets, SP cannot easily be avoided and market characteristics force companies to address this issue. In addition, it is arguably the FMCG markets that face the largest issue of competition and lack of differentiation among products; and these are all the problems that successful branding might ease.

Also, as previously implied, retailers and the characteristics of the retail environment play an important role in customers’ perception of a brand. Not surprisingly, it has been found that the context in which a brand is seen influences the brand image perception, and might damage the brand in some cases. For instance, display features in a store may trigger different responses in consumers. If a company has invested marketing communications efforts in establishing a high-quality brand image and the product is then placed in an undesirable context (for instance, in proximity to the brands associated with lesser quality), consumers may perceive less brand value incorporated by Wakefield, K. L. and Jeffrey J. Inman (1993). Thus, it may be the retailers who have ultimate control over the brand image.

The SP activities of companies could have an additional impact on the whole market category as well. It is found that a successful price promotion did expand the category while the promotion lasted, while having a negative long-term effect of decreased sales in the period after the promotion. A reason for this might lie in the fact that people tend to buy greater quantities during the promotion, and this leads to weaker demand once the promotion has finished. Another, equally distressing theory about the promotional impact on the category is that since SP tends to encourage brand-switching, the category does not benefit as a whole as people switch to even lower prices.

### 3.25 Price sensitivity

One of the most discussed negative effects concerns consumer price sensitivity. Findings show that SP tends to increase consumer price sensitivity, due to the formation of reference prices. When consumers buy a product, they start to compare
the price to the reference price, as opposed to the actual one. If a consumer is used to buying two coffees for the price of one, when the SP is removed, the actual price of the coffee suddenly seems more expensive. However, this implies that, in order for consumers to become too price sensitive, promotions would have to happen frequently, since consumers do not tend to always remember prices.

Naturally, different consumers react differently to prices and SP, depending on their own predispositions and preferences. For instance, customers loyal to a specific brand will perhaps not switch even when presented with the most tempting offer while others actively search for the best offer available. Promotions can, however, lead to a greater number of people becoming offer-seekers as, Mela et al., (1997) found that, looking long-term, price promotions do make both loyal and non-loyal customers more sensitive to price.

3.26 Sales promotion in relation to advertising

When the effects of SP are analyzed, both in the academia and among practitioners, SP is often compared to advertising. This is probably due to the fact that their impacts are viewed as opposite – SP with known short-term effects while advertising is generally considered a brand-building tool. Usually, this relationship symbolizes the direction a company chooses to take - whether it chooses to allocate most of the budget on SP or advertising implies whether its focus lies on short-term or long-term objectives, as incorrect as this assumption might be. Companies may strategically use both methods or have them complement each other, as many companies do successfully. Also, these kinds of discussions and assumptions imply that the advertising effect on brand-building is indisputable.

On the one hand, studies have shown that a premium brand is more likely to be supported by advertising while a product with a lower price is likely to allocate more funds into SP. It has also been found that, in relation to SP, advertising makes consumers less price sensitive, which is a problem often associated with SP. There is, of course, evidence pointing towards the positive impact that advertising has on brand image.
On the other hand, long-term effects of advertising are as difficult to measure as those of SP. Considering the relationship between advertising and brand image, one would need to rethink the assumption that advertising has such a powerful influence on the company’s image. Advertising is not necessarily powerful enough to differentiate brands or affect brand image even though it has been found to contribute to other important aspects, such as providing publicity and protecting an already established brand. Therefore, a number of organizations are moving their funds away from advertising to sales promotion, public relations and direct marketing.

Either way, many managers do face a dilemma of how to allocate their budgets; therefore, this is an issue that needs to be addressed. If we were to accept the assumption that advertising is a better tool for establishing and reinforcing a positive brand image than SP, the answer for companies would be simple – they would just use advertising and ignore the rest of the promotional mix. However, all the already mentioned pressures the FMCG market is facing today force companies not to question whether they should use SP, but how to use it successfully.

3.27 Conclusion:

Inherently, sales promotion techniques are intended to have a direct impact on buying behaviour, which implies their short-term focus. However, every aspect of communication by a company has some sort of effect on the company’s brand image, and therefore any company which has recognized the importance of thinking strategically knows that it must look beyond short-term effects. In terms of brand building, SP has traditionally been associated with a negative long term impact due to its predominantly price-orientated nature. But, as we have seen, this view has neglected the full scope of SP methods.

A strategic marketing communications plan will clearly state the elements, such as the objectives, target audience and positioning, which will all help the company decide upon the sales promotion method that is most suitable for the company and the particular campaign. A company positioning itself as cost-effective may, for instance,
wish to incorporate the value-increasing methods, while a premium brand might wish to look toward more brand-building techniques. The enhanced planning in the SP process, along with a closer analysis of all the SP methods, will lead a company with a premium brand positioning to the more creative forms, which do not rely on product discounts.

When integrating SP into the marketing communications plan, messages will reinforce each other, regardless of the medium or tool used. Tools can be interrelated, for instance, by using advertising to promote promotions or, as we have seen, by using competition to enhance public relations. By understanding the impact each individual promotional tool has, managers will achieve synergy between the methods more easily. Therefore, the challenge for managers should not be whether to allocate funds to advertising or SP, but rather to find a way to connect these methods.

What we have also seen emerge from the literature is a doubt whether or not either advertising or SP can influence brand image – a question that surely needs more empirical answers. But, at least for now, we do know that companies can rarely exclude SP from their campaigns due to the factors such as increased competition and pressure from retailers. They can, however, choose to use the SP elements which have proven to be more effective in enhancing the company’s image, and should certainly do so if they have a premium brand positioning. Incorporating SP strategically, given all its characteristics, may turn out to be quite challenging for a company, but: “Today’s and tomorrow’s marketing managers really do not have the choice whether or not to use sales promotion but only whether to use these valuable tools poorly or skilfully”.

“Today’s and tomorrow’s marketing managers really do not have the choice whether or not to use sales promotion but only whether to use these valuable tools poorly or skilfully”.
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Chapter 4