Chapter 1

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Chapter 1

1.0 Introduction:

**FMCG industry**, alternatively called as CPG (Consumer packaged goods) industry primarily deals with the production, distribution and marketing of consumer packaged goods. The Fast Moving Consumer Goods (FMCG) is those consumables which are normally consumed by the consumers at a regular interval. Some of the prime activities of FMCG industry are selling, marketing, financing, purchasing, etc. The industry also engaged in operations, supply chain, production and general management.

**FMCG Industry Economy:**

*FMCG industry* provides a wide range of consumables and accordingly the amount of money circulated against FMCG products is also very high. The competition among FMCG manufacturers is also growing and as a result of this, investment in FMCG industry is also increasing, specifically in India, where FMCG industry is regarded as the fourth largest sector with total market size of US$20.1 billion. FMCG Sector in India is estimated to grow 60% by 2011. FMCG industry is regarded as the largest sector in New Zealand which accounts for 5% of Gross Domestic Product (GDP).

**Common FMCG products:**

Some common FMCG product categories include food and dairy products, glassware, paper products, pharmaceuticals, consumer electronics, packaged food products, plastic goods, printing and stationery, household products, photography, drinks etc. and some of the examples of FMCG products are coffee, tea, dry cells, greeting cards, gifts, detergents, tobacco and cigarettes, watches, soaps etc.
Market potentiality of FMCG industry:

Some of the merits of FMCG industry, which made this industry as a potential one, are low operational cost, strong distribution networks, presence of renowned FMCG companies. Population growth is another factor which is responsible behind the success of this industry.

1.1 Leading FMCG companies & Industry Potential:

Some of the well known FMCG companies are Sara Lee, Nestlé, Reckitt Benckiser, Unilever, Procter & Gamble, Coca-Cola, Carlsberg, Kleenex, General Mills, Pepsi, Mars, Coca cola, Nirma, Dabur, Himani etc.

The Indian FMCG sector is the fourth largest sector in the economy with a total market size in excess of US$ 20.1 billion. It has a strong MNC presence and is characterized by a well-established distribution network, intense competition between the organized and unorganized segments and low operational cost. Availability of key raw materials, cheaper labour costs and presence across the entire value chain gives India a competitive advantage.

The FMCG market was set to treble from US$ 11.6 billion in 2003 to US$ 33.4 billion in 2015. Penetration level as well as per capita consumption in most product categories like jams, toothpaste, skin care, hair wash etc in India is low indicating the untapped market potential. Burgeoning Indian population, particularly the middle class and the rural segments, presents an opportunity to makers of branded products to convert consumers to branded products.

Growth is also likely to come from consumer 'upgrading' in the matured product categories. With 200 million people expected to shift to processed and packaged food by 2012, India needs around US$ 28 billion of investment in the food-processing industry.
Automatic investment approval (including foreign technology agreements within specified norms), up to 100 per cent foreign equity or 100 per cent for NRI and Overseas Corporate Bodies (OCBs) investment, is allowed for most of the food processing sector.

That will translate into an annual growth of 10% over a 5-year period. It has been estimated that FMCG sector will rise from around Rs 56,500 crores in 2005 to Rs 96,100 crores in 2011. Hair care, household care, male grooming, female hygiene, and the chocolates and confectionery categories are estimated to be the fastest growing segments, says an HSBC report.

With the presence of 12.2% of the world population in the villages of India, the Indian rural FMCG market is something no one can overlook. Increased focus on farm sector will boost rural incomes, hence providing better growth prospects to the FMCG companies. Better infrastructure facilities will improve their supply chain. FMCG sector is also likely to benefit from growing demand in the market. Because of the low per capita consumption for almost all the products in the country, FMCG companies have immense possibilities for growth. And if the companies are able to change the mindset of the consumers, i.e. if they are able to take the consumers to branded products and offer new generation products, they would be able to generate higher growth in the near future. It is observed that the rural income has grown, boosting purchasing power in the countryside. However, the demand in urban areas would be the key growth driver over the long term.

Also, increase in the urban population, along with increase in income levels and the availability of new categories, would help the urban areas maintain their position in terms of consumption. At present, urban India accounts for 66% of total FMCG consumption, with rural India accounting for the remaining 34%. However, rural India accounts for more than 40% consumption in major FMCG categories such as personal care, fabric care, and hot beverages.

In urban areas, home and personal care category, including skin care, household care and feminine hygiene, will keep growing at relatively attractive rates. Within the
foods segment, it is estimated that processed foods, bakery, and dairy are long-term growth categories in both rural and urban areas.

1.2 The FMCG Industry & Trends:
Indian Competitiveness and Comparison with the World Markets:

The following factors make India a competitive player in FMCG sector:

1. **Availability of raw materials:**

Because of the diverse agro-climatic conditions in India, there is a large raw material base suitable for food processing industries. India is the largest producer of livestock, milk, sugarcane, coconut, spices and cashew and is the second largest producer of rice, wheat and fruits & vegetables. India also produces caustic soda and soda ash, which are required for the production of soaps and detergents. The availability of these raw materials gives India the location advantage.

2. **Labour cost comparison:**
Low cost labour gives India a competitive advantage. India's labour cost is amongst the lowest in the world, after China & Indonesia. Low labour costs give the advantage of low cost of production. Many MNC's have established their plants in India to outsource for domestic and export markets.

3. **Presence across value chain:**

Indian companies have their presence across the value chain of FMCG sector, right from the supply of raw materials to packaged goods in the food-processing sector. This brings India a more cost competitive advantage. For example, Amul supplies milk as well as dairy products like cheese, butter, etc.

**The future of FMCG:**

Fast moving consumer goods will become Rs 400,000-crore industry by 2020. A Booz & Company study finds out the trends that will shape its future. Considering this, the anti-ageing skincare category grew five times between 2007 and 2008. It’s today the fastest-growing segment in the skincare market. Olay, Procter & Gamble’s premium anti-ageing skincare brand, captured 20 per cent of the market within a year of its launch in 2007 and today dominates it with 37 per cent share. Who could have thought of ready acceptance for anti-ageing creams and lotions some ten years ago? For that matter, who could have thought Indian consumers would take oral hygiene so seriously? Mouth-rinsing seems to be picking up as a habit — mouthwash penetration is growing at 35 per cent a year. More so, who could have thought rural consumers would fall for shampoos? Rural penetration of shampoos increased to 46 per cent last year.

Consumption patterns have evolved rapidly in the last five to ten years. The consumer is trading up to experience the new or what he hasn’t. He’s looking for products with better functionality, quality, value, and so on. What he ‘needs’ is fast getting replaced with what he ‘wants’. A new report by Booz & Company for the Confederation of Indian Industry (CII), called FMCG Roadmap to 2020: The Game Changers, spells
out the key growth drivers for the Indian fast moving consumer goods (FMCG) industry in the past ten years and identifies the big trends and factors that will impact its future.

It has been estimated that FMCG sector witnessed robust year-on-year growth of approximately 11 per cent in the last decade, almost tripling in size from Rs 47,000 crore in 2000-01 to Rs 130,000 crore now (it accounts for 2.2 per cent of the country’s GDP). Growth was even faster in the past five years — almost 17 per cent annually since 2005. It identifies robust GDP growth, opening up of rural markets, increased income in rural areas, growing urbanization along with evolving consumer lifestyles and buying behaviours as the key drivers of this growth.

It has been estimated that the FMCG industry will grow at least 12 per cent annually to become Rs 400,000 crore in size by 2020. Additionally, if some of the factors play out favourably, say, GDP grows a little faster, the government removes bottlenecks such as the goods and services tax (GST), infrastructure investments pick up, there is more efficient spending on government subsidy and so on, growth can be significantly higher. It could be as high as 17 per cent, leading to an overall industry size of Rs 620,000 crore by 2020.

Abhishek Malhotra (2010) told that the Indian GDP per capita is low but many Indian consumer segments which constitute rather large absolute numbers are either close to or have already reached the tipping point of rapid growth. The sector is poised for rapid growth over the next 10 years, and by 2020, the industry is expected to be larger, more responsible and more tuned to its customers.

Based on research on industry evolutions in other markets and discussions with industry experts and practitioners, Booz & Company has identified some important trends that will change the face of the industry over the next ten years. Some key ones related to evolution of consumer segments are as follows:

1. **Accelerating ‘premiumisation’:**

   The rising income of Indian consumers has accelerated the trend towards ‘premiumisation’ or up-trading. The trend can be observed prominently in the top
two income groups — the rich with annual income exceeding Rs 10 lakhs, and the upper middle class with annual income ranging between Rs 5 lakhs and Rs 10 lakhs. The rich are willing to spend on premium products for their ‘emotional value’ and ‘exclusive feel’, and their behavior is close to consumers in developed economies. They are well-informed about various product options, and want to buy products which suit their style. The upper middle class wants to emulate the rich and up-trade towards higher-priced products which offer greater functional benefits and experience compared to products for mass consumption.

While these two income groups account for only 3 per cent of the population, it is estimated that by 2020 their numbers will double to 7 per cent of the total population. The rich will grow to approximately 30 million in 2020, which is more than the total population of Sweden, Norway and Finland put together. Similarly, the upper middle segment will be a population of about 70 million in 2020, which is more than the population of the UK.

Over the next ten years, these groups will constitute large enough numbers to merit a dedicated strategy by FMCG companies. Abhisek Malhotra (2010) added that they have seen companies focused on selling primarily to the mid segments. Often, there is no clear segmentation being offered. Players would do well to clearly separate their offerings for the upper and mid segments,” and the two should be treated as separate businesses with a dedicated team and strategy for each.

2. Evolving categories:

Categories are evolving at a brisk pace in the market for the middle and lower-income segments. With their rising economic status, these consumers are shifting from need- to want-based products. For instance, consumers have moved from toothpowders to toothpastes and are now also demanding mouthwash within the same category.

Also, consumers have started demanding customised products, specifically tailored to their individual tastes and needs. The complexities within the categories are increasing significantly. Earlier a shampoo used to have two variants — normal
and anti-dandruff. Now, you have anti-dandruff shampoos for short hair, oily hair, curly hair, and so on. Every thing is getting customised.

The trend towards mass-customization of products will intensify with FMCG players profiling the buyer by age, region, personal attributes, ethnic background and professional choices. Micro-segmentation will amplify the need for highly customized market research so as to capture the specific needs of the consumer segment targeted, before the actual product design phase gets underway.

The beauty products market will grow by 20 per cent per annum as result of the changing socio-economic status of consumers, especially women. Middle-class women are now more conscious of their appearance and are willing to spend more on enhancing it. Products such as colour cosmetics (growing by 46 per cent) and sun care products (growing at 13 per cent) have latched on to this trend rapidly

3. Value at the bottom:

It has been defined the bottom-of-the-pyramid or BoP consumers as those who earn less than Rs 2 lakhs per annum per household. The group constitutes about 900 to 950 million people. While the middle class segment is largely urban, already well-served and competitive, the BoP markets are largely rural, poorly-served and uncompetitive. A lot of the basic needs of BoP consumers are yet unmet: Financial services, mobile phones & communication, housing, water, electricity and basic healthcare. And so there is untapped opportunity.

Abhisek Malhotra (2010) added that the aspiration was always there, and increasingly money is coming in. The segment is being targeted primarily with lower-priced products, say, Rs 2 Parle-G. But increasingly it will need products that deliver more value — say, Rs 5 product that serves as dinner and also delivers nutrition (vitamins, proteins etc). Companies like PepsiCo and Tata are working on such products.

It is added that the rural BoP population is estimated to be about 78 per cent of the total BoP population. The segment is becoming an important source of
consumption by moving beyond the ‘survival’ mode. As a result of rising incomes, the growth of FMCG market in rural areas at 18 per cent a year has exceeded that of the urban markets at 12 per cent. While the rural market comprises only 34 per cent of the total FMCG market, given the current growth rates, its contribution is expected to increase to 45-50 per cent by 2020. It will require tailored products at highly affordable prices with the potential of large volume supplies.

Products such as fruit juices and sanitary pads which had no demand in the rural markets earlier have suddenly started establishing their presence. While most FMCG players have succeeded in establishing sufficient access to their products in rural areas, the next wave of growth is expected to come from increasing category penetration, development of customized products and up-trading rural consumers towards higher-priced and better products.

4. Increasing Globalisation:

While many leading MNCs have operated in the country for years given the liberal policy environment, the next 10 years will see increased competition from Tier 2 and 3 global players. In addition, larger Indian companies will continue to seek opportunities internationally and also have an access to more global brands, products and operating practices.

5. Decentralization:

Despite the complexity of the Indian market (languages, cultures, distances) the market has mainly operated in a homogenous set-up. Increased scale and spending power will result in more fragmented and tailored business models (products, branding, operating structures).

6. Growing Modern Trade:

Modern trade share will continue to increase and is estimated to account for nearly 30% by year 2020. This channel will complete existing traditional trade (~8 million stores which will continue to grow) and offer both a distribution channel through its cash & carry model as well as more avenues to interact with the consumer.
7. **Focus on Sustainability:**

Global climatic changes, increasing scarcity of many natural resources (e.g. water, oil) and consumer awareness (e.g. waste) are leading to increased concerns for the environment. The pressure on companies to be environmentally responsible is gradually increasing due to involvement of various stakeholders – from government (through policy) to consumers (through brand choice) and NGOs (through awareness).

8. **Technology as a Game Changer:**

Increased and relevant functionality coupled with lower costs will enable technology deployment to drive significant benefits and allow companies to address the complex business environment. This will be seen both in terms of efficiencies in the back-end processes (e.g. supply chain, sales) as well as the front-end (e.g. consumer marketing).

9. **Favourable Government Policy:**

Many government actions – in discussions as well as planned – will help in creating a more suitable operating environment. This will be done both on the demand side by increased income and education as well as on the supply side by removing bottlenecks and encouraging investments in infrastructure.

The confluence of many of these change drivers – consumers, technology, government policy, and channel partners – will have a multiplication impact and magnify both the amount as well as the pace of change. Winning in this new world will require enhancing current capabilities and building new ones to bridge gaps. In this new world FMCG companies will have 6 imperatives from a business strategy perspective:

1. Disaggregating the operating model
2. Winning the talent wars
3. Bringing sustainability into the strategic agenda
4. Re-inventing marketing for ‘i-consumers’
5.
Re-engineering supply chains

6. Partnering with modern trade

Another big trend that has been is the emerging idea of many Indians. It is added that despite the complexities of language, culture and distances, the Indian market has largely been seen as a homogenous market. There’s one product for the entire country — the same Maggi noodles for Karnataka and West Bengal, or the same Diet Coke for Punjab and Assam. Besides, these products have the same advertisements that run across the country.

Increasingly, FMCG players are realizing that India is not a homogenous market and consumer preferences vary significantly. By 2020, Maharashtra’s GDP will exceed that of Greece, Belgium, and Switzerland, and Uttar Pradesh’s economic size will exceed that of Singapore and Denmark. So, having a dedicated firm for Maharashtra or Gujarat can prove to be a realistic and profitable proposition. We will see companies coming up with regional products. Hindustan Unilever has teas which are very different in one state versus the other. Pepsi has a different product in Andhra Pradesh which is not sold anywhere else. Differentiation used to happen at the country level; now you will see at the state level.

FMCG players need to grow ‘regional’ in their thinking and move towards an increasingly decentralized operating model in India. As consumer preferences differ across regions and states, companies may follow a regional strategy in terms of product ingredients, positioning, marketing campaign, and channels. Overall, decentralization or regionalization will become an increasingly important theme for FMCG players.

FMCG in India has a strong and competitive MNC presence across the entire value chain. It has been predicted that the FMCG market will reach to US$ 33.4 billion in 2015 from US $ billion 11.6 in 2003. The middle class and the rural segments of the Indian population are the most promising market for FMCG, and give brand makers the opportunity to convert them to branded products. Most of the product categories like jams, toothpaste, skin care, shampoos, etc, in India, have low per capita consumption as well as low penetration level, but the potential for growth is huge.
The big firms are growing bigger and small-time companies are catching up as well. According to the study conducted by AC Nielsen, 62 of the top 100 brands are owned by MNCs, and the balance by Indian companies. Fifteen companies own these 62 brands, and 27 of these are owned by Hindustan Lever. Pepsi is at number three followed by Thums Up. Britannia takes the fifth place, followed by Colgate (6), Nirma (7), Coca-Cola (8) and Parle (9). These are figures the soft drink and cigarette companies have always shied away from revealing. Personal care, cigarettes, and soft drinks are the three biggest categories in FMCG. Between them, they account for 35 of the top 100 brands.

**Table: 1.1 The Top 10 companies in FMCG sector**

<table>
<thead>
<tr>
<th>SR.NO.</th>
<th>Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Hindustan Unilever Ltd.</td>
</tr>
<tr>
<td>2.</td>
<td>ITC (Indian Tobacco Company)</td>
</tr>
<tr>
<td>3.</td>
<td>Nestlé India</td>
</tr>
<tr>
<td>4.</td>
<td>GCMMF (AMUL)</td>
</tr>
<tr>
<td>5.</td>
<td>Dabur India</td>
</tr>
<tr>
<td>6.</td>
<td>Asian Paints (India)</td>
</tr>
<tr>
<td>7.</td>
<td>Cadbury India</td>
</tr>
<tr>
<td>8.</td>
<td>Britannia Industries</td>
</tr>
<tr>
<td>9.</td>
<td>Procter &amp; Gamble Hygiene and Health Care</td>
</tr>
<tr>
<td>10.</td>
<td>Marico Industries</td>
</tr>
</tbody>
</table>

Source: Naukrihub.com

The companies mentioned in Exhibit I, are the leaders in their respective sectors. The personal care category has the largest number of brands, i.e., 21, inclusive of Lux, Lifebuoy, Fair and Lovely, Vicks, and Ponds. There are 11 HUL brands in the 21, aggregating Rs. 3,799 crore or 54% of the personal care category. Cigarettes account for 17% of the top 100 FMCG sales, and just below the personal care category. ITC alone accounts for 60% volume market share and 70% by value of all filter cigarettes in India.
The foods category in FMCG is gaining popularity with a swing of launches by HUL, ITC, Godrej, and others. This category has 18 major brands, aggregating Rs. 4,637 crore. Nestle and Amul slug it out in the powders segment. The food category has also seen innovations like softies in ice creams, chapattis by HUL, ready to eat rice by HUL and pizzas by both GCMMF and Godrej Pillsbury. This category seems to have faster development than the stagnating personal care category. Amul, India's largest foods company has a good presence in the food category with its ice-creams, curd, milk, butter, cheese, and so on. Britannia also ranks in the top 100 FMCG brands, dominates the biscuits category and has launched a series of products at various prices.

In the household care category (like mosquito repellents), Godrej and Reckitt are two players. Goodknight from Godrej, is worth above Rs 217 crore, followed by Reckitt's Mortein at Rs 149 crore. In the shampoo category, HUL's Clinic and Sunsilk make it to the top 100, although P&G's Head and Shoulders and Pantene are also trying hard to be positioned on top. Clinic is nearly double the size of Sunsilk.

Dabur is among the top five FMCG companies in India and is the herbal specialist. With a turnover of Rs. 19 billion (approx. US$ 420 million) in 2005-2006, Dabur has brands like Dabur Amla, Dabur Chyawanprash, Vatika, Hajmola and Real. Asian Paints is enjoying a formidable presence in the Indian sub-continent, Southeast Asia, Far East, Middle East, South Pacific, Caribbean, Africa and Europe. Asian Paints is India's largest paint company, with a turnover of Rs.22.6 billion (around USD 513 million). Forbes Global magazine, USA, ranked Asian Paints among the 200 Best Small Companies in the World.

Cadbury India is the market leader in the chocolate confectionery market with a 70% market share and is ranked number two in the total food drinks market. Its popular brands include Cadbury's Dairy Milk, 5 Star, Eclairs, and Gems. The Rs.15.6 billion (USD 380 Million) Marico is a leading Indian group in consumer products and services in the Global Beauty and Wellness space.

The Rs.85, 000 crore FMCG market in India is growing at a fast pace despite of the economic downtrend. The increasing disposable income and improved standard of
living in most tier II and tire III cities are spearheading the FMCG growth across the nation. The changing profile and mind set of the consumers has shifted the thought to “Value for Money” from “Money for Value.

Over the years companies like HUL, ITC and Dabur have improved performance with innovation and strong distribution channels. Their key categories have strengthened their presence and outperformed peers in the FMCG sector. On the contrary, Colgate Palmolive and Britannia Industries are strong in single product category i.e. tooth pastes and Biscuits. In addition companies have been successful in reviving their presence in the semi-urban and rural market.

In 1991, India has opened country to foreign brands. As per this liberalization policy many a foreign players ventured into our country finding it a lucrative large mass market. This research paper is a theoretical paper studying the coping strategies of Indian players in competition to the MNC companies. It studies those Indian players who have stood out in this competition and have been successful in doing so.

1.3 Investing in India:

India’s market potential lures foreign companies. But local consumers and rivals have tripped many up. For foreign companies, doing business in India can be gutting wrenching. Its demanding consumers can be difficult to read, and local rivals can be surprisingly tough. For most of its postcolonial life, India has shut out the world, adhering to a socialist ideal of self-reliance. Policymakers have been struggling for the past 16 years to attract capital and ignite growth. In 1991, the government dramatically rejected its socialist past and admitted foreign investors. The idea was to enlist foreign companies' aid to turn India into another Asian Tiger, where cheap labour, an English-speaking workforce, a vast new middle class, and a democratic government would create a wave of prosperity.

Now, the international companies that ventured in after 1991 are tallying their profits and losses and wondering what the future holds for this market of 950 million people. A primary lesson, especially for consumer-goods companies, is not to be dazzled by
India's size. Many investors accepted government estimates that India's middle class numbered 250 million. But according to a recent survey of consumer patterns conducted by the National Council on Applied Economic Research in Delhi, India's consumer class probably totals 100 million at best--and there's much stratification among them. People in Madras, for example, have tastes vastly different from people in Punjab. 'Different states have different consumption patterns and customs.'

1.4 Following is the table summarizes pre and post liberalization scenario

<table>
<thead>
<tr>
<th>FMCG Sector</th>
<th>Major Brands 1970s &amp; 80s</th>
<th>New Brands- 1990s onwards</th>
<th>Indian Brands</th>
<th>Global brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Soaps</td>
<td>Lifebuoy, Cinthol, Liril, Lux, Pears, Rexona, Mysore Sandal, Neem, Margo</td>
<td>Nirma Beauty soap</td>
<td>Nirma Beauty soap</td>
<td>Palmolive, Dettol, Dove</td>
</tr>
<tr>
<td>Creams &amp; Lotions</td>
<td>Fair &amp; Lovely, Pond’s, Johnson &amp; Johnson</td>
<td>Dabur, Himalaya</td>
<td>Dabur, Himalaya</td>
<td>Oriflame, Avon, Biotique, Amway, Garnier</td>
</tr>
<tr>
<td>Detergents</td>
<td>Surf, Nirma, Wheel</td>
<td>Fena, Lakhani</td>
<td>Fena, Lakhani</td>
<td>Ariel, Tide, Henkel</td>
</tr>
<tr>
<td>Processed foods</td>
<td>Maggie, Kissan, Parle, Britannia</td>
<td>MTR, Aashirwaad, Haldiram, Bikaner</td>
<td>MTR, Aashirwaad, Haldiram, Bikaner</td>
<td>Heinz, Pillsbury</td>
</tr>
<tr>
<td>Beverages</td>
<td>Nescafe, Red Label, Campa, Thumsup</td>
<td>Haldiram, Tata Tea, Bisleri, Tajmahal</td>
<td>Haldiram, Tata Tea, Bisleri, Tajmahal</td>
<td>Pepsi, Coke, Sprite, 7 up</td>
</tr>
<tr>
<td>Cigarettes</td>
<td>Wills, India Kings, Panama</td>
<td></td>
<td>Wills, India Kings, Panama</td>
<td>Menthol</td>
</tr>
</tbody>
</table>

Reference: Jaspreet Bhasin Chandok and Mr. Hari Sundar G, Strategies for Survival of Indian FMCGs, Conference on Global Competition & Competitiveness of Indian Corporate p. 607 -613
1.5 FMCG Category and products:

<table>
<thead>
<tr>
<th>Category</th>
<th>Products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Household Care:</td>
<td>Fabric wash (laundry soaps and synthetic detergents); household cleaners</td>
</tr>
<tr>
<td></td>
<td>(dish/utensil cleaners, floor cleaners, toilet cleaners, air fresheners,</td>
</tr>
<tr>
<td></td>
<td>insecticides and mosquito repellents, metal polish and furniture polish)</td>
</tr>
<tr>
<td>Food and Beverages:</td>
<td>Health beverages; soft drinks; staples/cereals; bakery products (biscuits,</td>
</tr>
<tr>
<td></td>
<td>bread, cakes); snack food; chocolates; ice cream; tea; coffee; soft drinks;</td>
</tr>
<tr>
<td></td>
<td>processed fruits, vegetables; dairy products; bottled water; branded</td>
</tr>
<tr>
<td></td>
<td>flour; branded Rice; branded sugar; juices etc.</td>
</tr>
<tr>
<td>Personal Care:</td>
<td>Oral care, hair care, skin care, personal wash (soaps); cosmetics and</td>
</tr>
<tr>
<td></td>
<td>toiletries; deodorants; Perfumes; feminine hygiene; paper products.</td>
</tr>
</tbody>
</table>

1.6 Sales Promotion Introductory Ideas:

Sales promotion:

A typical sales promotion budget covers almost 70% of the total consumer sales promotional budget. It is also considered as a brand differentiator by many big players like Coca-Cola, Pepsi, Heinz and many more. For many business experts and academics, sales promotion is regarded as typical marketing techniques that add value to a product in order to achieve specific marketing goals. The primary purpose of
sales promotion is to induce the consumers to make a quick buying-decision in order to create increases sales. Typical example of sales promotion is to offer customers to take chance of winning a prize or offering some extra products with the same price. Sales promotion and marketing are inter-related but not have the similar purpose. It is advertising which makes a platform for sales promotion where customers can see the direct added value of buying your product. On the other hand, advertising is an intangible promotion of your products to send the marketing message to the customer-base.

Sales Promotion: Advantages & Disadvantages:

The main advantages associated with promotional sales are-an easy way to learn customer response and it work fast. It is also an inexpensive marketing technique. Sales promotion does not always bring positive impact to business, sometime this type of promotion cause negative brand impact to customers mind in the long-term. So, a promotional campaign needs to be designed taking into account the consequences of losing brand value. A PIMS study of 1991 suggests that overuse of sales promotion brings low ROI, almost 15% less, in comparison to balanced and calculated promotional offers. It is advisable not to use sales promotion as a tool of brand imaging; advertising is always the best way as far as branding is concerned. So, marketers need to be careful and must understand the difference between the sales promotion and advertising

1.7 Objective of sales promotion:

Before designing a promotional campaign, you must identify the target groups. This is done by breaking up of your product markets and identification of small groups of consumers whose wants and needs are not the same as the mass market as a whole-this is one of the key to success in sales promotion. For finding the target group you need to take a qualitative research on the market to determine your groups of customers, if the target group exists then find out their needs & wants, and what drives them to buy your product. After learning about the target groups, you must set the objectives of sales promotion which is all about why you want to achieve in sales
promotion campaign and how your customers will be benefits. Other aspects of sales objectives are: budget of the promotion and duration of the promotional offer.

**Examples of Sales objectives**

1. Many marketers use the promotional sales as a tool to learn the response of the first time users, by offering reduced price, sales coupons, or money-back guarantees.
2. To increase the repeat purchase from the existing users.
3. It can work as an introductory platform for a new product. But a hosting plan and get a domain name free.
4. Sales promotion is a vehicle to defend your business against your competitors. By giving your users free coupons upon buying every products so as they can get considerable discount on the next purchase with a specified time will certainly bind your customers with your products and it will unlikely that they will switch on a new brand, even if it being highly competitive.
5. Try to target and find a new segment in the market by focusing geographic and psychology of users such as users with high and low purchasing needs. Normally, arranging a competition or contents are very helpful for targeting a specific interest group.

**Types of Sales Promotion**

 Basically there are three main categories of sales promotion targeted at different elements of markets such as consumers, traders, industries.

1. **Consumer sales promotions**
2. **Trade sales promotion**
3. **B2B and industrial sales promotion**

**1. Consumer Sales Promotion:**

**Sampling**

If your objective is to trial the product then sampling is an effective sales promotion method. Usually sampling is involved with low value products and products having
highly visible features of benefits. For delivery sample products marketers use either
door-to-door or mailing approach

**Couponing**

It is one of the oldest sales promotion strategies and sometimes couponing makes the
product problematic by cheapening your brand name. Coupon is mainly used for
attracting new customers as well as to increase instant sales with price reduction of a
product.

**Contests and Sweepstakes**

These are very popular low-cost methods of sales promotion used and viable in
almost any demographic location on earth. These techniques help people to learn your
product more and help them pay more attention to your product. For instance if you
arrange a competition about providing the accurate information of your product, then
certainly interested customers will learn about your product and this is why it is an
effective way of educating customers.

**Money refunds**

Instant cash-back, refunds and rebates are very attractive ways to promote sales in cell
phone service providers and web-hosting companies. For any product sales
promotion, money back offers give a sense of security to all customers.

**Premiums and bonus packs**

A premium offer means an extra item at a low price or totally. Premiums are one of
the effective sales promotions in targeting the brand switching users and also to
increase sales rate among the existing users.

**Loyalty schemes**

This is great way to hold the loyalty of customers. It is basically a point based system,
where each customer gets some points on each purchase and later he can use these
points on buying the same products or other products at a reduced price. To many
marketers, loyalty schemes are also known as-frequent purchasing scheme.
Exhibitions

This is not like trade show. The purpose of an exhibition is to interact with the customers, answer their queries and not to merchandise any products. Generally exhibitions are held to develop consumer interests on products. It is a very powerful and efficient vehicle to reach the customers and to educate them about your products. Example of exhibition is -Motor Show.

Packaging

Many marketers do no pay much attention to the quality of packaging, because they simply do not understand the psychological and brand image aspects of packaging. An attractive and innovative packaging can work like a salient sales man-packaging does the hooking function to buyers. A well-packaged product carries not only the brand values but also create an emotional link to your prospects. Not that it is only important for packaging to be eye-catching, aesthetic, but it needs to protect the product inside with proper manner.

2. Trade Sales Promotions:

Improve the distribution line is the key purpose of trade sales, by organizing trade shows. Some effective techniques used in a trade promotion are: discounts, point-of-sales materials, shelf facings, and displays.

Incentives

This is a popular trade promotion idea with the manufacturers, retailers normally does not use this technique to boost their sales. Incentives are given as a form of cash bonus or prizes per sale.

Buying allowances

It’s a kind of price reduction for your product for a specific period of time.

Trade shows

It is a way of getting to learn new customers, introduce those new products, getting customer reactions. But unlike exhibitions, trade show involves in selling products. A
successful trade show can be measured by keeping records of the number of visitors, useful leads and identifying the products with most interests to customers.

**Advertising allowances promotion**

This is very common practice among manufacturers where a certain amount of money is given to the retailers by the manufacturing company. This is allowances is based on the number of products and orders retailers can bring to the manufacturers.

**Free training**

It is a well-unformatted sales man work like an ambassador for your brand. Customers need proper information from a proper channelled-no one than sales man does this job better. As a part of the promotional offer and relationship building, manufacturers offer training to the retail staff so as they become more effective and skilled while dealing with customers. This free training is very important promotion factor you market any complicated and expensive products. Along with it each training manufacture needs to provide well-documented brochures and technical manuals to the retailers.

3. **Sales Promotions: B2B & Industrial:**

This is the last but not certainly the least important portion of the sales promotion plan. Industrial sales promotion is all about applying the trade & consumer promotional ideas into industrial marketing environment. Depending on the situation, you need to decide on which consumer and trade promotion ideas is best suited in B2B environment. For example, consumer promotional offer like “buy one get one free” can be offer in B2B environment as “buy one and get one-year service free”.

Depending of the type of products you choose to promote decides which promotional ideas will bring you the best ROI. While devising a promotional plan, keep in mind that sales promotion has disadvantages too. So, make sure sales promotion campaign does not harm your brand image at any cost. And finally, always try to avoid price competition wars as much as possible, rather put you all the attention in improving the quality of products by adding more values to it.
Sales promotion consists of all promotional activities other than advertising, personal selling and publicity that help to increase sales through non repetitive and one time communication. In other words, it includes marketing activities other than personal selling, advertising, and publicity that stimulate consumer purchasing and dealer effectiveness, such as point of purchase displays, shows and exhibitions, demonstrations and various non-recurring selling efforts not in the ordinary routine.

**Purpose:**

The ultimate aim or purpose of sales promotion is that of increasing the volume of sales and profits but it differs from advertising and personal selling both in approach and techniques. Personal selling involves face to face contact with specific individuals, while advertising is directed at a large number of potential customers. Sales promotion serves as a link between two by focusing selling efforts on selected small groups of people. Sales promotion usually involves non-recurring and no-routine methods, in contrast with the routine and recurring nature of advertising and personal selling. Under advertising, the media is not owned and controlled by the advertiser except in direct mail advertisings. But sales promotion methods are controlled by the advertiser. Sales promotion covers various stimulants directed to the consumers and dealers that is why it is of two types-consumers sales promotion and dealers’ sales promotion. The former stimulates consumer’s buying at the point of sale, and latter improves dealer’s effectiveness at the retails outlets.

**How Sales Promotion Objectives are set:**

Sales promotion has dual objective: (A) Basic objectives and (B) Other objectives.

**(A) Basic objectives of sales promotion are:**

(i) Increasing the buying response of ultimate consumers.
(ii) Increasing the selling efforts and intensity by dealers as well as by sales personnel.
(iii) Supplementing and co-coordinating the efforts of advertising and personal selling

(B) The other objectives are:

(i) Calling attention to new products and product improvements.
(ii) Informing buyers of new brand and new packaging.
(iii) Improving market share.
(iv) Obtaining dealer outlets.
(v) Meeting competition.

These objectives are set on the basis of following criteria.

(i) Cost of reaching an audience member.
(ii) Acceptability of the tools to be used.

These criteria are developed taking into consideration the following variables/factors:

(i) Kinds of product:

The product is one of the factors determining the form of promotion. Toys, toilet soaps and cosmetics are effectively shown on television. Mass selling consumer goods can be easily promoted through radio and television. Industrial and specialty goods should be promoted through technical journals and through sales engineers.

(ii) The buyer:

If the marketers are to provide realistic solutions to the problem of buyers, they must know their customers, their needs and desires, their attitude, values, aspirations and expectations. Hence marketers must have up-to-date information about customer demand and customer behaviour. If the buyers are educated then demonstrations or instructions can be used as sales promotion technique. Similarly, contests and quizzes can be used if buyers are of young age and educated.
(iii) Nature and size of market:

The number, geographical location and purchasing power of potential customers exercise a significant impact on the sales promotion. Sampling, coupon, money refund orders, premium offer, price-off and trading stamps etc., are suitable for sales promotion in local markets. On the other hand, fairs, exhibitions and fashion shows are more appropriate for sales promotion on the national level particularly for garments, books and electronic items.

(iv) Stages in product life cycle:

This is an important managerial tool in sales promotion. A product life cycle consists of four stages. (a) Introduction of the product require lot of energy to create awareness, acceptance and demand for the product. Introducing a new product for most companies is a costly and difficult exercise that is why they mostly depend on middlemen, (b) Growth. It includes a fast growth both in sales volume and profit. (c) Maturity (Saturation).This stage is longer. But the speed in achieving sales volume reduces during this stage. Profit also starts declining much faster than the sales. (d) Declining. This is the last stage in product life cycle. After a period of stability, the buyers loose interest on the product, and sales start falling more quickly. At this stage either high cost sales promotion technique may be used or existing product may be improved.

(v) Management policy:

In the management policy, first of all, sales promotion objectives are set, then communication tools required to achieve these objectives are designed, and the third step is to determine the cost required to execute promotional activities and programmes. In short sales promotion expenditure is directly related to the objectives to be achieved.
(iv) Budget allocation available:

The decision on how much to spend on promotion is externally difficult on account of multitude of promotion tools, on the one hand, and varieties of products and markets on the other. For example, the greater the geographical dispersion of a target market, the greater the communication expenditure required. Similarly, if an offering is in its early life cycle, there is a greater need of expenditure. But promotion budget should always justify the tasks to be undertaken. A basic principle would be the cost and returns of sales promotion tools to be adopted.

Hindustan Lever has its well drawn up sales promotion budget. If any business house does not have its promotion budget fixed, then promotion programmes will have to be designed to support the marketing plan.

(v) Government regulations:

Government has passed various laws and made rules to protect the consumer interest, such as the prevention of Food Adulteration Act, the Drugs and Magic Remedies (Objectionable Advertisements) Act, and Drugs and Cosmetics Act etc. Sales promotion policy must take into consideration the government regulations relating to the particular product, e.g. the commodity rates must be specified on the package and in case of medicines drug contents and date of manufacturing, date of expire, and price must be specified.

1.8 Sales Promotion Effectiveness:

Are monetary savings the only explanation for consumer response to a sales promotion? There are monetary and non-monetary promotions provide consumers with different levels of three hedonic benefits (opportunities for value-expression, entertainment, and exploration), and three utilitarian benefits (savings, higher product quality, and improved shopping convenience) explained by Pierre Chandon, Brian Wansink et al (2000). They have also described that for high-equity brands, monetary promotions are more effective for utilitarian products than for hedonic products.
Marketers and academics often view the reliance on sales promotions, especially monetary promotions, as a sub-optimal consequence of price competition caused by myopic management (Buzzell, Quelch and Salmon 1990). These critics argue that, in the short-run, the proliferation of monetary promotions erodes their capacity to “rent” market share, which explains why so many are unprofitable (Abraham and Lodish 1990; Kahn and McAlister 1997). In the long run, it is feared that sales promotions increase price sensitivity and destroy brand equity—both with retailers and consumers (Mela, Gupta, and Lehman 1997). As a result, many industry experts are calling for more effective and cost-efficient promotions that rely less on price (Promotion Marketing Association of America 1994), and some go so far as to recommend eliminating most promotions by switching to an everyday-low-price policy (Kahn and McAlister 1997; Lal and Rao 1997).

Adopting consumer perspective the value that sales promotions have for brands is related to the value, or benefits, that sales promotions have for consumers. So, it leads to the fundamental question of why consumers respond to sales promotions. Most econometric or game-theoretic studies assume that monetary savings are the only benefit that sales promotions have for the consumer. If this is true, an everyday-low-price may indeed represent an efficient solution for providing consumers with these savings while minimizing search costs for the consumer and logistical costs for the firm.

On the other hand, if, sales promotions provide consumers with an array of hedonic and utilitarian benefits beyond monetary savings, everyday low prices cannot fully replace sales promotions without the risk of alienating consumers who value the non-monetary benefits of sales promotions. The existence of multiple consumer benefits may also help understand some puzzling consumer responses to sales promotions which cannot be fully explained by the search for savings (e.g., Dhar and Hoch 1996; Hoch, Drèze and Purk 1994; Inman, McAlister, and Hoyer 1990; Schindler 1992; Soman 1998).
Beyond its intended contribution to the general debate on the value of sales promotions or on the antecedents of consumer response to them, studying the consumer benefits of sales promotions as practical implications for improving their effectiveness. It is obvious because monetary and non-monetary sales promotions offer different benefits, they should be more effective for different types of products.

**Consumers Response to Sales Promotions:**

Behavioral research on sales promotions has tended to focus on the demographics of deal-prone consumers (Bawa and Shoemaker 1987; Blattberg et al. 1978; Narasimhan 1984) and on the identification of personal traits such as “coupon proneness,” “value-consciousness,” or “market mavenism” (Feick and Price 1987; Lichtenstein, Netemeyer, and Burton 1990 and 1995; Mittal 1994). These studies offer a coherent portrait of the demographic and psychographic characteristics of deal prone consumers (for a review, see Blattberg and Neslin 1990, pp. 65-82). However, because of their focus on individual variables, these studies do not examine the nature, and the number, of the specific consumer benefits of sales promotions.

As a result, most analytical and econometric models of sales promotions simply assume that monetary savings are the only benefit motivating consumers to respond to sales promotions (Blattberg and Neslin 1993). Yet, some robust empirical results suggest that monetary savings cannot fully explain why and how consumers respond to sales promotions. For instance, why do consumers respond more to on-shelf coupon than to a similarly advertised temporary price reduction offering the same monetary incentive (Dhar and Hoch 1996; Schindler 1992)? Why do consumers respond to insignificant price reductions (Hoch, Drèze, and Purk 1994; Inman, McAlister, and Hoyer 1990), and why do consumers switch brands because of a coupon or a rebate, but then do not redeem it (Bawa and Shoemaker 1989; Dhar and Hoch 1996; Soman 1998)?
To account for these, there are advanced explanations related to achievement motives (Darke and Freedman 1995), self-perception (Schindler 1992), and fairness perception (Thaler 1985) or to price and quality inferences in low-involvement processing (Inman, McAlister and Hoyer 1990; Raghubir 1998; Raghubir and Corfman 1999). However, the extent of support for some of these explanations is limited. For instance, the achievement and self-perception arguments are contradicted by the finding that “lucky” bargains are enjoyed as much as those acquired skilfully (Darke and Freedman 1995), and that some consumers may feel embarrassed to buy a promoted brand (Simonson, Carmon, and O’Curry 1994). The fact that consumers enjoy paying prices that are lower than the reference price, and which are therefore not fair to the seller, indicates that fairness perceptions cannot alone explain the puzzles mentioned earlier. Many studies examine only the consequences of these non-monetary benefits without directly measuring them.

The contributions of the personality studies, the parsimony of the economic perspective, and the existing work on the non-monetary benefits of sales promotions have greatly contributed to our understanding of consumer response to sales promotion. An integrated study of the consumer benefits of sales promotions, however, would help reconcile the fragmented nature, as well as the empirical and conceptual limitations, of these seemingly disparate studies.
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