CHAPTER 1
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INTRODUCTION

1.1. Introduction to Marketing

Marketing is an inevitable part of any business. Definition of marketing can be distinguished between a social and a managerial definition. Marketing is a social process by which individuals and groups obtain what they need and want through creating, offering, and freely exchanging products and services of value with others\(^1\). Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, services to create exchanges that satisfy individual and organizational goals\(^2\).

The objective of the marketing is to maintain the profitability of the company by constantly maintaining the demand of the product in the market above the competitors' product. The concept of marketing is based on three beliefs viz. customer orientation, customer satisfaction and organizational success\(^3\). The functions of marketing revolve around 4 Ps that is Product, price, place and promotion (promotional mix). This classification of marketing mix was given by McCarthy. The four P's are used by the sellers to influence the buyers by delivering customer benefits. It helps in creating utility of the products. Kind of utility that is created by marketing are Form utility, Place utility, Time utility, Information utility and Possession utility\(^4\). With the increase in consumerism, the importance of marketing is increasing and playing important role in decision making not only in the areas within the boundary of marketing but also in other functional areas.

Promotion has become essential part of marketing to survive in this competitive business environment. Promotional activities are designed to inform, persuade, or remind the market of the firm and its products and ultimately to influence consumers' feelings, beliefs, and behavior. A successful promotion program should include all the communication tools that can deliver a message to a target audience\(^5\).
With the growing competition, the role of promotion in the marketing plan is increasing. The importance of promotion is also increasing with the decrease in the discrepancies in quality and price among various competing brands. The main object of the promotion is to communicate the offerings, its benefit, availability, price etc to the customers with the objective to create preference for the brand above the competitors’ brand. There are five ways that companies go about marketing and selling their products and services: personal selling, sales promotion, advertising, direct marketing and publicity.

1. **Personal Selling**: It is the personal meeting with prospective customer to make presentation about the product with the purpose to sell it.

2. **Sales Promotion**: Sales promotion tools comprises of various types of incentives to encourage trial/ repeat purchase.

3. **Advertising**: Any paid form of non personal presentation and promotion of ideas, goods or services by an identified sponsor.

4. **Direct Marketing**: Use of mail, telephone, fax, e-mail, or internet to communicate directly with or solicit a direct response from specific customers and prospects.

5. **Publicity**: It is a paid or unpaid form of non personal presentation of ideas, goods, or services.

At the core of any promotional activity are benefits for which prospective customers should buy any product or service. If no benefit is perceived, it is unlikely that prospective customers will get influenced, and highly unlikely that they will buy.

The benefits that any product or service has can be categorized into three types:

1. **Functional**: Functional benefit explains what the product or service actually does.

2. **Image**: The style, prestige, and emotional values associated with the product or service.

3. **Extra**: The additional benefits that are not essential to the product or service, but are available with it now.

Clearly, image benefits are generally generated by advertising, and extra benefits are generally generated by sales promotion. But to a greater or lesser extent, all the three benefits of a product or service can be put across by all the five promotional tools.
1.2. Sales Promotion

Sales promotions give financial incentives to consumers and traders with an objective to increase sales rates during the promotional period in a way that generates additional profits that exceed the cost of the promotion.

The Institute of Sales Promotion defines sales promotion as: ‘Sales Promotion comprises the range of techniques used to attain sales/marketing objectives in a cost-effective manner by adding value to a product or service either to intermediaries or end-users, normally but not exclusively within a defined time period, and range of tactical marketing techniques designed within a strategic framework to add value in order to achieve specific sales and marketing objectives’.

Sales promotion consist of a diverse collection of incentive tools, mostly short term, designed to stimulate quicker and/or greater purchase of particular products/services by consumers or the trade. Sales promotion tools are highly diverse, they offer three distinctive benefits:

1. **Communication**: They gain attention and usually provide information that may lead the consumer to the product.

2. **Incentive**: They incorporate some concession, inducement, or contribution that gives value to the consumer.

3. **Invitation**: They include a distinct invitation to engage in the transaction now.

The other defining characteristic of sales promotion is that its goal is short term or immediate. Sales promotion is not generally used to generate long-term results or sales in the future, but rather to generate sales results now. Traditionally, sales promotion has been viewed as a non-recurrent selling activity, and it is often defined as such. However, this view does not reflect the current condition of frequent and repeated sales promotion programs necessary to maintain business in many product categories. In most cases, sales promotion has become an all-too recurrent activity, so the idea of a non-recurrent activity is eliminated from the definition.

The incentives offered to the customers or traders under sales promotion can be broadly divided into utilitarian and hedonic. Utilitarian benefits are primarily functional and relatively tangible. They enable consumers to maximize their shopping utility,
efficiency and economy. In general, the benefits of savings, quality and convenience can be classified as utilitarian benefits. By contrast, hedonic benefits are more experiential and relatively intangible. They can provide consumers with intrinsic stimulation, fun and pleasure. Consistent with this definition, the benefits of value expression, exploration and entertainment can be classified as hedonic benefits.

There are six reasons why extra benefits stand alongside functional and image benefits as one of the three types of benefits that can be offered to the customers:

1. **They work:** A sales promotion offer is normally put on for a specified period, and it is easy to measure the volume and profit consequence of doing so. Companies use sales promotion to the extent that they do because they have daily proof of its effectiveness.

2. **They are highly measurable:** It is easier to measure the effect of spending a specific sum on an extra benefit offer than it is to measure the effect of spending
the same sum on functional or image advertising. The greater ease of measurement is of particular importance when the budget is tight or markets are volatile.

3. **They can be closely targeted:** An extra benefit offer can readily be directed at a specific group of people in particular socioeconomic, geographic or usage groups. As markets become more fragmented, and as computer databases become more sophisticated, this is of growing importance.

4. **They fit with niche marketing:** More and more companies are looking at product and services which suit particular niche markets. They often do not justify the level of budgets needed for successful functional and image marketing. Extra benefit offers can be more cost effective.

5. **They are quick acting:** The fortunes of the brand and the companies are increasingly volatile. Sales promotion can be devised, implemented and take effect in market far more quickly than other forms of promotion. This is of growing importance as demand for short term profit performance grows.

6. **They create interest:** There is something worthy but dull about unalleviated functional and image advertising. Sales promotion brings in an element of novelty, excitement and humor which customers enjoy and more important respond to.

**1.2.1. Objective of sales promotion**

Sales promotion gives incentive that stimulates consumer trial. An incentive, typically targeting promotional objectives are to ‘generate trial’ or ‘conquest competitive users.’ Underlying these objectives is a paradigm of buying behavior that divides consumers into three groups: my customers,’ my competitor’s and brand switchers who are presumed to be price buyers. Promotion becomes the sledge-hammer to break down the walls and to entice a competitive customer or switcher into ‘my customer’ camp on that specific purchase occasion.
Thus the main objectives of sales promotion are:

1. **Increasing the market share:**

   As the sales promotion gives incentives to the consumers for purchasing the products within a limited time, it stimulates sales by inducing purchaser to go for the product to get the extra benefit. It also helps in increasing impulse buying. This makes people to pre-pone purchase or to go for forward purchase or to shift to the promoted brand, all resulting into purchase in high quantity. This is how it helps companies to increase market share.

2. **Attracting the brand switchers**

   Brand switchers are primarily looking for low price, good value, or premiums. There are various customers who may appreciate the quality of their current brand but may not be very loyal to that brand. There are various customers who are variety seekers. In case of various product categories customers may have many brands in their consideration set. Also in case of convenience goods the level of loyalty is not very high. By offering direct incentive along with the purchase of a product, customers from all the above mentioned situations can be made to switch the brand. Sales promotion often attracts the brand switchers. This benefit of sale promotions may be of great help to the marketers as it makes customers try the brand. In case of positive significant difference in the promoted brand over other brands, chances to make customers of other brand a loyal customer of the promoted brand are high.

3. **Introducing new product**

   Customers by very nature hesitate to try new products. There is risk involved in terms of the usefulness of the product, quality of the product, match with the customers taste etc. Such risk are perceived high when the product category itself is new or when the company has entered into that product category for the first time (e.g. LG into personal care products) or when the price is high. With all such market blocks, it becomes difficult even
for a genuine product to create a space for itself. Thus, many marketers take help of sales promotion tools to encourage product trial. By giving free sample or selling at low introductory price etc, it becomes easy to make people go for trial use of the new product. Thus it has made introduction of new product very easy.

4. Entering into new market

Sales promotion has made it easy to enter and establish brand in new market and it may even challenge the existing popular brand of the market. It is gaining more importance especially in the era of globalization, when a established product from one country enters into foreign market. Under such circumstances incentives offered on purchase of a product attracts brand switchers and variety seekers. Sales promotion tools acts as a sharp sword to gain battle in new market place.

5. Attracting customers from aspirant group

Aspirant group customers are those who are willing to buy a product but due to low purchasing power they can't buy it. Number of people who fall in this category is very high in case of Premium product (e.g. Dove soap). High price in premium brand category restricts the companies to achieve sales which otherwise they could have achieved under price at par with other brands. By providing some benefit to the customers it decreases the perceived price of the product. This helps premium brands in penetrating the market. Under such conditions it becomes easy for the companies to even break the loyalty of customers of some non premium brands. Companies can attract customers from aspirant group by offering price off or gifts or extra quantities etc. by virtually making the price low.

6. Offsetting competitor's promotional activities

Availability of large number of brands of good quality at reasonable rates and rapidly growing tendency of the customers to be variety seeking has made it difficult for companies to hold on their customers. Moreover, Sales promotion (customer promotion) has become a popular tool for promoting
products in most of the consumer goods category. This makes customers to go for brand shifting, resulting into decrease in market share of the competitor brand. Thus to prevent from the negative effects of the competitors marketing strategy, companies use sales promotion strategy to retain their customers' which could have otherwise shifted to other promoted brand. As in case of Fast Moving Consumer Goods (FMCG), customers have the habit of forward buying (i.e. buying for future needs) the promoted goods, sales promotion not only help in offsetting the present and past competitors activities, but it also decreases the chances of brand shift due to any promotional efforts in near future. Thus marketing strategies of competitors to increase their market share which may be harmful to other companies can be countered by adopting sales promotion scheme.

7. Maintaining the sales figures of seasonal products during off season

In case of seasonal products, companies face many problems like not achieving economy of scale, underutilization of facilities, stockpiling etc. which ultimately results not only in shrinkage in profitability but also in difficulties in management. In many of the product categories (e.g. refrigerator) the seasonal fluctuations can be smoothened by encouraging customers to purchase products even in off-seasons. This is possible only if they see some benefit in buying in off-season as compared to the season when the product is in normal demand. Thus by offering off-season discounts, market fluctuation in case of seasonal products can be controlled.

8. Dealing with decline/ old model

Under decline stage the demand of a product goes down, this result into stockpiling. Sales promotion tools can be effectively used to encourage customers to purchase products in decline stage. It can also be used by a company before launching any improved version to exhaust the stock of the old model.
9. **Increasing repeat purchase**

Sales promotion not only helps in increasing the sales and trial use by the customers, but it can also be used to make customers loyal to the brand and go for repeat purchase. Coupons with the product giving discount on future purchase, incentives for multiple purchase, incentives to regular customers etc. are some of the schemes that encourages repeat purchase. Loyalty programs gives good return in sectors like of airlines, hotels and restaurants, retail stores etc.

10. **Gaining intermediary support**

By making use of trade sales promotion schemes, intermediary support can be achieved in pushing the product to the customers. While incentives to the intermediaries help in gaining shelf space in the retail outlet, they too actively recommend the product to customers. Even in case of 'customers sales promotion' programme where the traders don’t get direct benefit, they store the product as the turnover of such products are high and doesn’t results into stock piling.

11. **Compensate for annual price increase**

Sales promotion strategies to compensate the periodic price increase may help to negate the adverse effect of the price increase on sales.

### 1.2.2. Factors Affecting Impact of Sales Promotion

While companies may succeed to achieve the desired result by sales promotion strategies adopted by them, many a times they also meet failure. The extent of success or failure of the scheme used by a company depends upon a variety of factors like:

1. **The gender of the buyer**

   Generally it is belief that females are more variety seeking and respond positively to sales promotion as compared to males.

2. **Age group of the buyer**

   Younger people are more prone to respond to sales promotion scheme as compared to older customers. This is because youngsters are more likely to try different brands and go for impulse buying. Also in case of children’s
products like chocolates, biscuits, energy drinks etc., a good response can be arrested using sales promotion schemes. Marketers need to design the incentive schemes considering the interest of targeted age group.

3. **Awareness of the buyer about the scheme being offered**

Many times companies fail to dispense the information of the incentives they are offering to the customers and thus don't get the desired results. Since the sales promotion offers are for short duration, any delay in communicating to the targeted customers decreases the response. It is also necessary to ensure display of the product in the retail outlet during the promotion period.

4. **Purchasing power of the buyer**

Depending upon the purchasing power, customers may respond differently to different sales promotion scheme. Thus customers of premium product may not respond positively to price off whereas customer from lower income group will get attracted by direct monetary benefit. Also higher income group people are more brand conscious and due to higher paying capacity they don't generally get attracted by price discount offers.

5. **Image of the company**

If the image of the company is not good in terms of the quality, they are likely to get low response irrespective of the attractiveness of the offer. Also it has been found that the response to the sales promotion schemes of the premium products are more as compared to the brands having lesser brand equity. This may be attributed to the fact that the tendency to move up the value chain is more as compared to move down. Also since the aspirant group customers are more for the premier brands, it becomes easy to attract them with the monetary benefits.

6. **Type of scheme being offered and product**

All the schemes are not equally suitable for all type of products. So the success also depends upon matching of the scheme being offered, choice of the target customers and the type of product. For example, the monetary
benefits may not give high result in case of premium products as compared to gifts or extra quantity if targeting high income group customers where as the same may result if the objective is to attract middle income group people. Similarly in case of children price promotion doesn’t work, where as gifts and tattoos attracts children a lot. Products can be divided into convenient, shopping and specialty goods. This classification has been done on the basis of the efforts a customer makes before deciding the brand. In case of shopping and specialty goods, consumers are more brand conscious. There are various types of personal care products and durable costly goods for which consumers are brand conscious and are hesitant to try new brands under the influence of sales promotion. Thus type of products also has an impact on the response to sales promotion. So companies of such products do not gain up to the expectations.

7. Geographical location of the buyer

Customers in different region may have different preferences and thus companies may not get same response to the same sales promotion scheme being offered in different region. Also the type of products for which customers are brand conscious differs from place to place. For example in metros and urban areas customers are brand conscious for the personal care products, where as it is not so high in case of rural and semi urban areas.

8. Sales promotion clutters

Companies are using sales promotion as a tool to compete and beat their rival companies in the market. The use of sales promotion strategies have become so popular among the marketers that at any point of time customers find so many brands of same product offering one or the other attractive benefit and this finally leads to low brand switching. Also the frequency of such offers are so high that it has reduced the basic purpose of sales promotion of increasing the sales in shorter duration as the customer knows that if one scheme gets over, another company will come up with
another scheme. Thus presence of large number of sales promotion offers is gradually making customers insensitive to incentives.

The decision of the buyer at the time of purchasing the product may be influenced by one or more of the factors mentioned above.

Companies may get success in increasing the sales for the duration the sales promotion scheme is being offered by them. But what matters is whether they are able to attract brand switchers and maintain their loyal customers after the schemes gets over in the situation where companies are frequently offering sales promotion schemes to maintain their share in the market and also how far a scheme maintains its attraction in the era of highly innovative market in offering incentives to the customers.

Factors affecting impact of sales promotion (as described above) have posed a challenge before companies for the success of their sales promotion programme. This has created interest in this topic to know as to how far sales promotion is successful in giving desired results under such sales promotion war like conditions.

1.2.3. Types of Sales Promotion:
Sales promotion can be broadly divided into two types:
(a) Consumer sales promotions
(b) Trade sales promotion

Figure 1.2. Break down of FMCG marketing budget

![Figure 1.2. Break down of FMCG marketing budget](image-url)
1.2.3. A. Consumer sales promotions

Consumer Sales Promotion Schemes

In case of consumer promotion, the incentive is directly given to the customers. The extra benefit at no extra cost motivates the customers to purchase the product in response to the schemes. This strategy is known as pull strategy as the customers themselves generally approach the shop asking for the promoted product. So this is similar to pulling the customer by communicating the benefit towards the marketer. Some of the popular consumer sales promotion strategies are:

1. Price-off

Under this scheme companies sell their product at a price lesser then the usual price. Price-off is a widely used scheme. Some of the circumstances under which it is widely used are:

1. Promoting products having seasonal demand to increase sale in off season. This helps the companies in smoothening the yearly sales curve.

2. As an introductory offer, while introducing a new product or while entering in new market etc. They can take the form of a reduced-price pack, which is a single package sold at a reduced price or a bundled pack, which is two related products banded together and sold at price less then the sum of individual products.

2. Quantity Discount

This type of incentive is mainly used with the objective to make customers buy in large quantity. Under this schemes incentive is attached with purchase of large number of units or large pack. It can have following types: gift with large pack, less price per unit in case of higher packs, extra quantity at usual price (Bonus Packs), extra unit on purchase of a specified number of units etc. This scheme is beneficial in counteracting not only the on going sales promotion offer by the competitor, but also forthcoming offers. As the customers do forward buying to get the benefit of the scheme, the probability to respond to the offer of
the competitor in near future goes down. Such type of offers works well with FMCG having more shelf life.

3. **Gifts (Premiums)**

Under this scheme companies gives gift to the customers on the purchase of the product. This works well if the customers have interest in the gift being offered. In this type of schemes it is not mainly the price of the gift but the use or value or the attraction of the gift that matters to the customers. Such types of things are used widely during festival season. Also in case of children’s products, the probability of getting good response is high.

4. **Cross Promotion**

Such sales promotion schemes are very useful if any existing company comes up with new product. Under such condition to make customer try new product, companies may come up with a bundle packs, wherein product of two non competing brands are sold at a price less then the price sum of the two products (e.g. Emami cold cream and Emami moisturizer). Such schemes are also used heavily by two different companies. This works well if the two products are of the same nature (e.g. Sargam tea and Kissan tomato ketchup). The chances of getting higher returns will be more because the target customer for both the product will be same. The customer will respond positively since he has interest in both the product.

5. **Prizes (Contest and Sweepstakes)**

Under prizes companies give their customers chance to win and gift is given to selected customer who win in the contest. In case of contest and sweepstakes the similarity is that only selected customers get the gift, where as the difference is in the method of selecting the customers. In case of contest, customers are selected on the basis of some skill, customers are asked to perform a selected activity, and a panel of judges decides the winner. In case of sweepstake the customers are required to give their names in drawing and winner is decided on the basis of lucky draw. Customers are asked to fill in their entries, and draw is made to decide the winner. Sweepstake is highly probabilistic.
6. **Samples**

Small pack of a product is given free to try the product. This is generally used in case of new product. It helps in popularizing the product among the prospective customers by making customers to try the product. It can also be linked with coupon, giving some discount with the next purchase. Since practically only a small pack can be given which some times may not be enough for the prospects to conclude about the product, the customer can be encouraged to buy product by giving him a discount coupon. “The beauty of the free sample, however, is that it is also a gift, and as such, can engage the reciprocity rule, a promoter who provides free samples can release the natural indebting force inherent in a gift, while innocently appearing to have only the intention to inform.”

7. **Coupons**

Coupon is a document that contains a value (X amount off on purchase) which may be redeemed by the customer at the time of purchase of the product. Companies have come up with lucky coupons, where the value of benefit is not fixed for all the customers (e.g. scratch cards). Coupons can be distributed to the customers via any media like with the product itself, through news papers, retailers, sales persons etc.

8. **Frequent User Programs (Patronage Awards)**

Such programs are used to attract customers to purchase from the same buyer. This is used to retain old customers as well as building new loyalty. Incentives are given to the customers who, regularly purchase the product or use the services of same brand. This also decreases the probability of loosing customers to the competitor due to their incentive programme. Loyalty programs work best for products and services that have high margins, are heavily invested in over a consumer’s lifetime, and are difficult to differentiate. The best programs not only retain members as customers, but also increase their purchases. Such type of schemes gives in the type of products which is frequently used by the
companies and for which the customers generally doesn't bother the brand. (e.g. hotels, airlines, courier services, retail outlets etc.)

9. **Subsidized Financing**

   In case of big ticket products, customers generally prefer to pay on monthly installments. Under this they need to pay interest on the money to be paid at the future point of time. To attract customers to buy products on monthly installments who otherwise would not have purchased the product if one time payment has to be made, companies sometimes offer discount on the interest rate.

10. **Rebates**

    In case of rebate price concession is not given to the consumers at the time of purchase. Instead, the consumer is required to send the proof of purchase to the manufacturer, who refunds part of the price paid by the customer.

Above mentioned sales promotion schemes influence customers differently at different stages of product life cycle. Thus the decision upon the type of incentives to be offered is generally driven by the objectives of the marketers. Below mentioned table indicates the most appropriate incentive tools for different objectives of the marketers.
Table 1.1. Linking Consumer Promotions to Campaign Objectives

<table>
<thead>
<tr>
<th>Promotional Objective</th>
<th>Appropriate Promotional Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining product trial</td>
<td>Gifts; refund offers; contests; sweepstakes; sampling</td>
</tr>
<tr>
<td>Deflecting attention from price</td>
<td>Gifts; refund offers; contests; sweepstakes; Sampling</td>
</tr>
<tr>
<td>Gaining share of volume from &quot;dealseekers&quot;</td>
<td>Price-off; bonus packs; coupons</td>
</tr>
<tr>
<td>Accelerating purchase</td>
<td>Price-off; bonus packs; coupons</td>
</tr>
<tr>
<td>Encouraging more frequent usage</td>
<td>Continuity plans; loyalty cards</td>
</tr>
<tr>
<td>Encouraging repeat usage</td>
<td>Continuity plans; loyalty cards</td>
</tr>
<tr>
<td>Denying volume to competition</td>
<td>Price-off; bonus packs; coupons; continuity plans; loyalty cards</td>
</tr>
</tbody>
</table>

**Drawbacks of Consumer Promotion**

However, sales promotion is not likely to build loyal customers especially in case of products with high similarity in various brands. Thus in case of mature markets sales promotion attracts only deal prone customers who switch among brands with the offers. Whereas, in case where the similarity between different brands is low, chances of attracting the customers through sales promotion and turning them as loyal customers are high.

Over the years, virtually every study undertaken has concluded that mass price promotion is a money loosing proposition, principally because, as David Ogilvy said, "the consumer is not a moron." The heaviest users of price promotion are the brand's current buyers or considerers who would have had a high probability of buying the brand even without the price incentive. But given the opportunity, they are quick to take advantage. This subsidization of what would have been higher margin sales offsets any gains from new buyers or switchers, further it focuses on changing a single purchase occasion rather than influencing a brand buying habit.
Most of the incentives are short-term in nature. In addition, sales promotion targeting consumers weakens consumer brand loyalty. Consumers increasingly expect to buy products below listed prices. Consumers simply buy whichever brand is on sale during a particular week and switch to a competing brand when it goes on sale.\textsuperscript{18}

1.2.3. B. Trade Sales Promotion

Trade Sales Promotion, also popularly known as trade promotion, is a push strategy. In this strategy the benefit is given to the middlemen between the producer and the end user. As the incentive is linked to the amount of sales generated by the middlemen, he puts extra efforts in selling (pushing) the promoted product to the ultimate customers.

Some products and services rely very heavily on the support of wholesalers, distributors, agents, retailers and other intermediaries. A builder recommending an alarm system is one simple example of trade sales promotion. Gaining their support ranges from being absolutely critical to simply important.\textsuperscript{19} The ongoing “mad scramble” for shelf space will continue to reinforce the need for trade promotion spending.\textsuperscript{20}

The purpose is also to make intermediaries to stock the product, to buy in large quantities, to move merchandise from warehouse into the retail shelf, to display the brand in end-aisle display, or to feature the brand in local retail advertising. Another purpose served by trade promotion is that they give the manufacturer some degree of control over the final price charged to the end-consumer: if the prices to the retailer are cut, it should lead to lower price for the consumer.\textsuperscript{21} This works well in the durable goods, products which may have side effects, technical goods etc. Some of the popular techniques used by the businesses for trade promotion are:

1. Off-Invoice or Buying Allowances

In this the retailers are given incentive in the form of certain percentage discounts on the volume purchased by them. This is related neither to any performance of the retailers nor to expectation of display of product. A variant of this promotion is the offer of free goods, such as one unit free per dozen purchased. This has the advantage of requiring the retailer to actually sell the free
good before the gains from the promotion are finally realized, putting greater “push” pressure on the retailers.

2. Count- Recount Allowances

Under this type of promotion, discount is given on the quantity that is moved from the retailer’s warehouse to the retailers’ stores. As a consequence, the retailer is given greater incentive to pass the price cut to the consumer so that the product moves from the store into consumers’ hand.

3. Bill Back Allowances

Under this type, allowances are paid to the retailers for performance that could include in-store displays, feature ads in the retailer’s circulars etc.

4. Display Allowances

Display allowances are paid to the retailers to display the product prominently in the window display. Such type of promotion gives high returns in case of the products for which consumers are more variety seeking and where the chances of impulse buying are high.

5. In-channel Advertising

It involves display of posters and announcements highlighting the product. As with displays and features, the advantages are the extra prominence, but the disadvantage is that the cost to the manufacturer may exceed the actual creative costs – in effect the manufacturer is making a media-space payment to the trade customer.

6. Trade Staff Rewards

Staffs in the channel are rewarded for providing recommendation and other support, in return for gifts, rewards, and contests and sweepstakes.

Similar to consumer promotion tools, different trade promotion tools too have different influencing power under different stages of product life cycle. Below mentioned table indicates the most appropriate incentive tools for different objectives of the marketers.

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Table 1.2 Linking trade promotional offers to campaign objectives

<table>
<thead>
<tr>
<th>Promotional Objective</th>
<th>Appropriate Promotional Offer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Obtaining trade support</td>
<td>Trade staff gifts, performance-based rewards, Events</td>
</tr>
<tr>
<td>Manipulating trade inventories</td>
<td>In-channel displays and features</td>
</tr>
<tr>
<td>Expanding product distribution</td>
<td>Trade performance-based rewards</td>
</tr>
<tr>
<td>Support for in-channel promotions</td>
<td>In-channel price-offs; in-channel displays and features; in-channel advertising</td>
</tr>
</tbody>
</table>

Consumer price perception plays a powerful role here, and two key strategies have been employed by retailers in an effort to influence how consumers perceive their price competitiveness.

1. **EDLP (Every Day Low Price)** – low price, high value-for-money positioning on a wide range of products: most aggressively pursued by Wal-Mart and hard discounters (Aldi, Lidl, and so on).

2. **Hi-Lo (High-Low Price)** – frequent, aggressive promotions from higher regular prices, often positioned in conjunction with other consumer benefits such as breadth of range and choice available, product quality, location, and so on.

   Naturally, there is a large middle ground (where most retailers find themselves) between these two extremes. The actual in-store application of either EDLP or Hi-Lo is far from simple. This is because consumer price sensitivities vary by category, and within category vary by segment – premium vs mainstream vs economy brands. In broad terms, the larger the promotional price sensitivity, the more suitable a Hi-Lo strategy. Typically, this is applicable to ‘impulse’ type categories such as soft drinks, confectionery, yoghurts, beer – where consumption tends to expand when promotions are run. Alternatively, those categories with a higher regular (or everyday) price sensitivity are more suited to EDLP – typically fixed consumption categories such as oral care, pet food, laundry detergents, and so on, where promotions tend to lead to stocking up.
Drawbacks of Trade Promotion

The retailers are given the product at temporary low price with the hope that they will pass on the benefit to the consumer in terms of price cut. But retailers keep some of the incentives which they are expected to pass on to the consumers. Also retailers do forward buying (bridge buying). They buy more of the promoted product than what they can sell at that time and use the extra product for future non promoted period.

1.2.4. Sales Promotion Planning

Sales Promotion is generally used by the marketers as the last weapon to meet the target. The promotion strategies used under panic conditions are generally designed in hurry and thus some times fail to give desired results. Cautiously planned sales promotions can result into long-term benefits to the marketers.

Direct sales promotion can help build market share, breaking through brand loyalty by offering incentives to buy. This is a strategy best used by small brands breaking into markets dominated by larger brands. Prominent brands can use this strategy to gain additional sales volume, but sales promotion alone, generally speaking, is not sufficient enough reason for a long-time customer to make the switch permanently.

Sales promotion planning revolves around following decisions:

1. Establishing marketing objective,
2. Selecting appropriate promotion tools,
3. Pre-testing the incentive offer and
4. Evaluating the market response.

1. Establishing Marketing Objective

Marketing vary depending on the stage of Product Life Cycle (PLC) and type of target market. Depending upon the stage of PLC, goal may be increasing trial purchase in introduction, increasing repeat purchase or increasing frequency of purchase in growth stage, reacting to competition in and around maturity period and replenishing inventory in decline stage. Similarly consumers can be targeted with the objectives to encouraging purchasing of larger quantities of product, attracting nonusers or competitors’ customers, building brand loyalty, encouraging off-season buying etc.
Similarly for trade promotion, goals include inducing retailers to carry higher levels of inventory, encouraging middlemen to influence customers, opening orders with new retail outlets etc. As the various incentives attract differently, marketing objective should be taken as the base for sales promotion design.

2. Selecting Appropriate Tools

Sales promotion can be offered to the customers or traders in various forms of incentives viz. price off, quantity discounts, free gifts, sampling, scratch cards, prize, sweepstakes, loyalty programs. As mentioned in table 1.1 and table 1.2, various incentives are better suited under different marketing objective. Companies decide upon the incentive to be offered depending on the objectives, product, target customers and budget. At this stage the decisions regarding the distribution and communication about the promotion are also taken.

A few questions that need to be asked while considering consumer directed sales promotion are:

1. What do you hope to accomplish with the promotion?
2. Have you ever run a promotion in support of this product?
3. If so, what were the results and did they represent the goals of that promotion?
4. What is your budget and where is it coming from?
5. Is your product regionally, nationally, internationally distributed?
6. How will the laws governing certain promotion designs impact your promotion?
7. Will you have to post bonds in certain states?
8. Will perfect results from the promotion solve the underlying reason for the promotion?
9. Have you guaranteed your cost/liability exposure?
10. Does your promotion design further your brand positioning?
11. Does your promotion design conflict with your brand positioning?
12. Are your competitors also running promotions?
13. If so, will your promotion be lost in the clutter?
14. Have you explored possible (and appropriate!) tie-in partners?
15. Will you receive cooperation from your distribution channels?
16. Will your promotion design impact future product pricing issues?
17. Does your promotion support your sales efforts?
18. Does your promotion conflict with or undermine your sales efforts?
19. How important is implementation to the success of my promotion?

C. Pre-Testing

Sales promotions aimed at consumers can be pre-tested before implementing it nationwide by surveying a group of consumers to rate different possible deals. Attending trade shows in which you are considering exhibiting will give you information regarding other exhibitors, attendance, etc., so you can make an informed decision about becoming an exhibitor. Seeking input from your sales force regarding the types of incentive that will inspire them will help you develop a successful incentive program.

D. Evaluating the Results

Evaluation of the sales promotion impact is generally done over three points of time. Recording sales results before, during and after-lifting sales promotion offer is the most common evaluation method utilized. Increase of sales during promotional offer is obvious. Generally customers stop or reduce purchasing once the offer is lifted. Also there is a tendency of customers purchasing in quantity more than otherwise keeping into consideration the future requirements. This, many a times, results into post promotion dip in the sales figure of the product and therefore to know the actual impact on the increase in sales post promotion evaluation runs for a longer duration. If increases in sales remain after the promotion, it can be assumed that some customer gain has been achieved. Sales promotions work best when non-consumers or competitor’s customers try the promoted brand, find it to be the better choice, and continue to buy.

Due to increase in the use of sales promotion offers by large number of brands over various products and services, the likelihood of sales promotion offer getting lost in the clutter has increased. This has posed another challenge before the marketers in
designing sales promotion. Thus the effectiveness of sales promotion also lies in its ability to attract customers and in recalling the promotional offers, which ultimately leads to increase in brand recall. Consumer surveys can also be done in determining whether they recall the promotion, did it lure them to buy the promoted brand and its effect in their future purchasing choices.

Most common of patterns of sales promotion results obtained during and after offers are:

1. **Peak and Trough:** Sales figure shows an increase during promotional offer and a decline (below sales figure before promotional offer) with the lifting of offer. This occurs when the promotional offer results into forward buying by the customers and indicates not much gain in terms of customers or consumption rate.

2. **Spike and Rise:** Comparing before and after sales figures shows a rise after the promotion offer. There are two possible explanations for this.
   
   A. If the promotional offer results into increased penetration by attracting non consumers or customers of competing brand and influence enough to make new customers to repurchase after lifting of incentive offer.
   
   B. Such condition also results if the promotional offer results into increase in the consumption rate among existing buyers. Such strong influence is possible only if the product has inner strength in terms of quality and utility as compared to competitor brand or substitute products.

3. **Spike only:** This situation arises when promotion leads to increase in purchase whereas sales before and after promotion period shows no change. This situation arises when:
   
   A. Promotion fails to attract significant number of new consumers to try and go for repeat purchase.
   
   B. Increase in consumption rate does not continue after the promotion. This condition generally appears with the perishable products or services for which forward buying is not possible.
There are many hypotheses prevailing about the effects of promotions, and it is useful to introduce a framework for evaluating them. A useful way of evaluating promotions is to realize that there are three ways that a promotional scheme can contribute to the ultimate goal of profit, over three time horizons. If we chart out these three avenues to profit against the three time horizons we get a three by three matrix of potential marketing objectives as shown in table 1.3.
Table 1.3. Three by Three Matrix of Potential Marketing Objectives

<table>
<thead>
<tr>
<th>Time Horizons</th>
<th>Volume</th>
<th>Price</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immediate (during the promotion)</td>
<td>Consumer - Accelerating purchase; obtaining trial purchase; obtaining share of volume. Trade - Increasing traffic in channel; obtaining trade support; manipulating trade inventories</td>
<td>Consumer - Reducing the net transaction price to the consumer (or increasing the net value, in the case of gifts); deflecting attention from a high price. Trade - Reducing the off-invoice trade price</td>
<td>Direct cost of promotional incentives, other than off invoice. Indirect cost of “special” manufacturing and packaging. Cost of trade promotions not passed on to consumer. Indirect cost of supply chain turbulence.</td>
</tr>
<tr>
<td>Medium term (4-16 weeks)</td>
<td>Consumer - Decelerating next purchase (stockpiling); encouraging repeat purchase; encouraging more frequent usage; denying volume to competitors Trade - Increasing traffic in channel (bargain hunters).</td>
<td>Consumer - Encouraging bargain hunting. Trade - Pressure to reduce prices.</td>
<td>Scrapping of unused promotional incentives. Re-packaging of stock to remove promotional labelling.</td>
</tr>
<tr>
<td>Long-term (16 weeks to 3 years)</td>
<td>Consumer - increasing consumer loyalty; increasing penetration. Trade - increasing traffic in channel; increasing trade loyalty; expanding product distribution</td>
<td>Consumer - Encouraging bargain hunting; discouraging purchase off-promotion. Trade - Pressure for more promotions.</td>
<td></td>
</tr>
</tbody>
</table>

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1.2.5. Reason for Growing Importance of Sales Promotion

Advertising is a popular promotional tool adopted by companies to increase the sales and dissipate the information regarding the product to the customers. The experience has shown that sales promotion is a better tool in gaining market share and that customer responds more positively to sales promotion than advertising. A.C. Nielsen's latest estimate suggests that marketing expenditures split 60:40 in favor of promotions over media. The growth of promotions has certainly rankled more traditional marketers, who continue to see their role (quite rightly) as architects of (profitable) brand building, responding to the changing needs of consumers. Media has generally been seen as the key marketing lever in helping to achieve the brand-building objective by communicating directly to the consumer in a controlled and managed way, re-emphasizing brand benefits and associated emotional or rational attachments. Long-term loyalty is prioritized over short-term sales. Arguably, however, increasing fragmentation of the media marketplace is diluting media effectiveness, and it remains debatable whether the media industry has properly come to terms with the whole question of accountability in hard sales terms.

Promotion whether advertising or sales promotion, call for heavy expenditure. In case of advertising most of the dollar goes to media, film making, celebrity, advertising agency etc, whereas in case of sales promotion most of the promotional budget spend in giving away incentive to the customers. The reason behind more response to the sales promotion as compared to advertising is that in case of sales promotion the expenditure on sales promotion gives direct benefit to the customers whereas in advertising customers do not get any tangible benefits. On the other hand heavy advertising expenditure makes a customers realize that they are paying much more then the price on the basis of cost plus pricing, and that money is going into the kitty of the media, celebrity and advertising agency. From companies point of view too return on the expenditure on sales promotion can be measured more accurately as compared to return on advertising expenditure. The result of sales promotion can be seen almost instantly. Since a company wants accountability for the money they are spending for the promotion.
Due to above reasons, there is no wonder why in present days companies are either shifting their promotional budget from advertising to sales promotion or they are putting extra funds for sales promotion. It is growing faster than expenditure on advertising and the majority of marketing managers expect it to be even more important in the future to come. Prior to the 1990s, advertising was the largest part of the typical FMCG budget. As short-term pressures and the strength of retailers grew, promotions took more and more of the marketing budget, replacing advertising as the largest component. (Jones 1999) estimates that the ratio of Advertising / Consumer Promotions / Trade Promo as 24% / 26% / 50%, see Figure 1.2.

1.3. Brand Loyalty

Brand loyalty is a positive attitude toward and preference for purchasing a specific product or service in the market place.

Brand Loyalty is the consumer's conscious or unconscious decision, expressed through intention or behavior, to repurchase a brand continually. It occurs because the consumer perceives that the brand offers the right product features, image, or level of quality at the right price. Consumer behavior is habitual because habits are safe and familiar. In order to create brand loyalty, advertisers must break consumer habits, help them acquire new habits, and reinforce those habits by reminding consumers of the value of their purchase and encourage them to continue purchasing those products in the future.

1.3.1. Types of Brand Loyalty

Based on consumers' response, brand loyalty can be divided in three segments:

1. **Hard core loyalty:**
   Consumers who buy one brand all the time.

2. **Split loyalty:**
   Consumers who are loyal to two or three brands. The buying pattern A, A, B, B, A, B represents a consumer with a divided loyalty between A and B.
3. **Shifting loyalty:**

Consumers who shift from favoring one brand to another. The buying pattern A, A, A, B, B, B would suggest a consumer who has shifted brand loyalty from A to B.

4. **Switchers:**

Switchers are consumers who show no loyalty to any brand. The buying pattern A, C, E, B, D, A would suggest a non-loyal consumer who is either deal prone or variety prone (want something different each time).

A brand loyal market is one with a high percentage of hardcore brand-loyal buyers. What appears to be brand loyal purchase patterns may reflect habit, indifference, a low price, a high switching cost, or the non-availability of other brands. Thus a company must carefully interpret what is behind the observed purchase patterns.

**1.3.2. Benefits of Brand Loyalty**

Brand loyalty is a consumers’ preference to buy a particular brand in a product category. It occurs because consumers perceive that the brand offers the right product features, images, or level of quality at the right price. This perception becomes the foundation for a new buying habit. Basically consumers initially will make a trial purchase of the brand and, after satisfaction, tend to form habits and continue purchasing the same brand because the product is safe and familiar.

Developing brand loyalty associates long term advantages to the company like:

1. **Higher sales:**

Brand loyalty results into reducing customer loss due to competitors’ promotional strategies. This leads to consistent sales and better promotion strategy results into greater results.

2. **Premium Pricing Ability:**

Brand loyalty reduces the price sensitivity of the customers. They are generally willing to pay more for their preferred brand because they perceive some unique value in the brand.
3. Low promotional cost:

As the loyalty reduces the customer’s sensitivity towards competitor’s promotion, a company with high brand equity does not require spending heavily on promotion.

To create brand loyalty, it is necessary to create favourable brand attitude through constantly reminding customers the value of their purchase. To encourage repeat purchases among occasional purchasers advertisement before and after the sales is critical.

Many companies fail to convey the products attributes to the customers to create a brand image. The brand name should not only be a tool expressing the product or its attributes, but it should also carry the philosophy of the company. It should represent a personality, inimitable and unaffected by the presence of competitors in the market. The challenge for all brands is to avoid the pitfalls of portraying a muddled or negative image, and instead, create a broad brand vision or identity that recognizes a brand as something greater than a set of attributes that can be imitated or surpassed.

1.4. The Organization of the Study

The present research study was undertaken to get an idea about the impact of sales promotion on consumers’ brand choice and loyalty in various household goods in Gujarat state. For the purpose of the study, Gujarat was divided into two region Gujarat region and Saurashtra region and three cities from each region were selected to survey and gather the required information to conclude upon the topic. The study was limited to urban and semi-urban areas only. The data were collected from primary sources with the help of a structured questionnaire.

In this study an attempt has been made to find out the impact of sales promotion on the difference in the response to sales promotion strategies, if any, by the residents of different region and to measure the difference in impact in different product groups and preference in the sales promotion schemes for various product categories. The data was collected during June 2003 - March 2005.
1.4.1. The Report Layout

Excluding acknowledgement and contents, the entire report is divided into five chapters. Chapter 1 is “Introduction” that contains the introduction of marketing in brief and a detailed description of strategies and advantages of sales promotion and brand loyalty. This is followed by Chapter 2, “Review of Literature”, which contains the review of past works on sales promotion strategies and their impact on sales. Both conceptual and research articles collected from various sources including national and international journals, books, magazines as well as the internet have been reviewed exhaustively. Chapter 3, titled “Research Methodology and Motivation for the Study”, describes the objectives of the study and detailed methodology used in the present research study. Chapter 4 is “Analysis of Data and Interpretation”. Here the result of the field work has been presented in the form of tables and graphs. The data collected have been subjected to statistical analysis to test the hypothesis of the study and the results have been discussed. Findings and conclusions of the research study have been presented in Chapter 5 entitled “Findings and Conclusion”. Finally, Chapter 6 entitled “Recommendations” contains recommendations to the marketers of the selected product categories based on findings and conclusions of the study.
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