

Theme: Theory & Practice

SALES PROMOTION IN AUSTRALIA: A REVIEW OF CURRENT INDUSTRY PRACTICE

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ABSTRACT

Introduction

Sales promotion is defined and current knowledge discussed.

Objectives

Claimed objectives, actual techniques and measurement tools are examined, with the hypothesis that managers claim to use sales promotion for brand enhancement, but really, use it to pursue competitive goals.

Methodology

200 managers were surveyed to determine behaviour and beliefs about sales promotion. Analysis was based on frequency distribution, factor and correspondence analysis.

Results

Managers frequently use a range of techniques, most commonly product sampling, point of purchase displays, free product and cut prices. Key objectives are to attract customers, improve brand awareness and stimulate sales.

Conclusions

Techniques and objectives consistently support the use of sales promotion as a tool to enhance brand/market position although priced based promotions which are more associated with competitive retaliation are also commonly used. Measures of effectiveness only focus on sales.

INTRODUCTION

Definition

Sales promotion is somewhat difficult to define because of the wide range of activities and techniques that it encompasses (Totten 1994). It is used as a tool to achieve a firm's marketing communication objectives and is, therefore, an essential component of marketing planning (Burrett 1993). Beyond being considered as a means of communicating a special offer to consumers, sales promotion may also be viewed as a competitive tool, for use either in an offensive or retaliatory market situation.

“Sales promotion is an offer driven marketing activity that creates a benefit over and above the intrinsic value of the normal conditions of sale of a product or service, and which induces an immediate effect on sales”.

(Williams 1995)

Growth of Sales Promotion

There has been significant growth in sales promotion in Australia over the last decade, with marketers placing an increasing reliance on such activity to achieve sales targets (Jones 1990, Roberts 1995). More specifically, the following are common reasons for this growth in promotional activity. (Reed 1997):

- Short term focus in industry (Jones 1990, Srivastava 1991)
- Increased need for accountability
- A decline in media advertising effectiveness
- The proliferation of brands
- Consumer focus on price and promotion
- Pressure from increasingly powerful retailers

What we know about sales promotion

Sales promotion can be used to stimulate quick response in the market place, as a retaliatory device, or to reward and retain existing customers. Techniques falling under the banner of sales promotion are both diverse and complex, and offer management the opportunity to address a range of different marketing situations. Some of these techniques are more appropriate for focussing on consumer response effects, others for specific communication needs and yet others again, are appropriate for pursuing competitively driven goals. It has been suggested that overall, as an element of marketing communication, it would be inappropriate to see sales promotion as predominantly a competitive tool (Brito 1996), but clearly, when specific techniques are considered individually, several of them could be, and indeed are used as retaliators in the view of managers. Price related promotions (such as "cents-off" the regular price, and refund offers for coupon redemption) are often the focus of promotional research and appear to

form a large share of consumer promotional activity. They also seem to represent the greatest concern in terms of potential damage to brand equity.

Sales promotion as a competitive-centred tool

The growth of the sales promotion reflects the competitive nature of the Australian market. This paper will examine the marketing management role of sales promotion. It raises issues about how sales promotion is used, and also how its effectiveness should be determined. This involves identifying what objectives marketing managers have for the use of sales promotion, what they see it as able to achieve and how they measure the outcomes.

The competitive explanation for using sales promotion was considered by looking at three studies. Leeflang and Wittink (1992) modelled the competitive reactions of brands in a retailer dominated environment. They showed how a number of marketing tools including sales promotion interact differently, which of them play the major role, and what marketing instruments react with each other. In a later study, the same authors again explored this framework, and found that the likelihood of overreacting to competitor movements in relation to promotional activity was not uncommon and that competitor oriented objectives often dominated managers' decision making.

Slade (1995) developed a different approach and uncovered the predatory or co-operative nature of two marketing variables (advertising and price) by analysing the impact on sales of each firm and the impact on market size when changes of the two variables occurred.

In the third study, Brodie and Bonfrer (1995) replicated Leeflang and Wittink's work and found that managers tend to focus too much on competition, ignoring the actual behaviour of consumers.

These three studies identified the competitive nature of specific marketing instruments (sales promotion and advertising) and also the competitive-centred behaviour that managers tend to demonstrate.

Sales promotion and Brand Equity

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

Market Based Assets are also considered to have a lagged effect on sales and market share in that increased or more positive awareness and image is likely to lead to increased sales and possibly share of the market (Sharp 1995).

It has been proposed that sales promotion, as well as having a direct effect on sales, also has an effect on Market Based Assets such as Brand Equity (Luxton 1997). This is because consumers develop their value and perceptions of a brand on the strength of the marketing offer. If they see the offer as highly favourable, then it may be that the franchise, or relationship, between the consumer and the brand is strengthened. It could therefore be suggested that if overusing sales promotion potentially causes the brand to be devalued in the mind of the consumer, then the franchise or equity enjoyed by the brand may be damaged. It is well documented that building and maintaining positive brand equity with one's consumer base is considered to be critical for long term survival (Keller 1993).

OBJECTIVES

Whilst there is an accepted paradigm of how sales promotion works as a short term stimulus to sales, the impetus that drives its use is less clear. Although claimed by managers to be a communication tool used in an endeavour to enhance market position, there is some support to suggest it may, in reality, be used as a competitive tool for retaliation (Brito 1996).

The authors set out to determine what managers believe sales promotion can achieve, how they use it as a marketing communication tool in Australia, and then to assess how promotional outcomes are measured. The hypothesis was that managers claim to use sales promotion as a tool to enhance brand and market position, but in reality, it is essentially used to pursue competitive goals such as retaliation. Specific measurement of sales promotion outcomes was also considered to further validate the claimed intentions. That is, if the objective is to enhance brand awareness then this should, at least in part, be a focus of the assessment of the promotion's effectiveness.

METHODOLOGY

Study design

The study involved a survey of 200 managers responsible for sales promotion in fast moving consumer goods firms in Australia.

A questionnaire was developed and subsequently assessed by both the managing director of a sales promotion agency, and a number of appropriate academics, to check the construction and scaling of questions, and to see if it could easily be

understood, before being sent to six organisations in Melbourne. Several brand managers were approached within each firm and follow up phone calls were also made which improved the response rate to 55% with a total of 14 responses. The main survey involved the questionnaire being completed via Computer Assisted Telephone Interviewing. This was seen as the best alternative to ensure a prompt completion of data collection and a satisfactory response rate, which was 62%.

Capturing usage

The managers were first asked about the promotional techniques they employed during one calendar year, 1997. They were asked what specific techniques were used, and for how many months they were used during the year in question. A comprehensive, 11 point scale ranging from 0 - "not at all important" to 10 - "extremely important" was used to assess the significance of each technique to the firm. To help build a full picture of what promotion techniques are used and why, managers were also asked whether the techniques used were the result of "free choice" or whether they were constrained from using certain types of promotions, and if so why.

Sales promotion objectives

The managers were then asked to rate a number of statements about what sales promotion in general could achieve on a 5 point Likert type scale ranging from "strongly disagree" to "strongly agree". They were also asked what they believed individual sales promotion techniques could actually achieve. Then, more specifically, the managers were asked what they hoped to achieve through the promotional program that had been implemented.

Brand equity and sales promotion

Again using a 5 point Likert scale, ranging from "strongly disagree" to "strongly agree", managers were asked to judge a series of confirmatory statements, for example "sales promotion helps us build a more secure distribution network" and "price based promotions can have a negative effect on our brand image".

Methods of analysis

The methodological approach is based on a previous study conducted in Portugal (Brito, 1996). Initial analysis involved the assessment of frequency distribution, cross tabulation and chi square testing for significance. This was followed by factor and correspondence analysis to identify distinct groupings of promotional techniques according to the objectives the managers believed those tools could achieve. Factor analysis, a multivariate statistical technique, attempts to explain the pattern of correlations within a set of variables (Dane 1990). It is directed towards the problem of analysing the structure of the interrelationships, or

correlations, among a large number of variables such as response to objectives that sales promotion can achieve (Hair, Anderson et al. 1995).

Correspondence analysis is considered to be very flexible in terms of analysing data as it not only identifies that relationships exist between variables, but also helps to identify exactly how the variables (objectives and techniques in this instance) are related. (Hair, Anderson et al. 1995).

RESULTS

Profile of respondents and firms

The majority of sales promotion decision makers were experienced with 61% having more than 8 years experience in a marketing role. They also had a high level of education with 63% having completed or in the process of completing tertiary education.

Industries included in the sample came from the broad categories of food, beverage, household cleaning and beauty products. A large number of small firms were captured, indeed 67% had an annual turnover of less than \$4 million and 79% employed less than 50 people. This mirrors Australian Bureau of Statistics data on the profile of firms in Australia. None the less, a number of key large multinational firms were captured and included brands such as Allens, Cadbury, Dr Pepper, Guerlain, Heinz, Mars, Schweppes, Streets, and Twistees.

Frequency and usage of sales promotion

The majority of firms (90%) used between two and seven different Sales Promotion techniques per year, suggesting they were seen as a set of complementary tools. Furthermore, 72% of managers claimed not be constrained from using any techniques. Of those who were constrained, the techniques involved were point of purchase displays, cooperative advertising, free product, contests and end of aisle displays, largely on the grounds of cost. Table 1 indicates the techniques in order of usage, and also shows the relative importance attributed to each.

It can be seen from the following Table 1 that the first six techniques were used by the majority of firms and that average annual usage for all techniques was high (5 months). In a bid to identify whether managers saw each tool as of strategic consequence, or just an expected part of trading, they were asked to rate the importance of each of the sales promotion techniques that they use. With only one exception, the most frequently used tools were the ones that had a strong relationship to importance levels.

Table 1 - Frequency and importance of each technique

Promotional technique	% using (n=200)	Mean imp. rating among users (stand. deviation)	Mean no. of months being used (stand. deviation)
Point of purch. display	71%	8.3 (2.0)	9.7 (3.7)
Product sampling	62%	7.7 (2.2)	6.8 (4.6)
Co-op. advertising	54%	6.5 (2.6)	6.4 (4.4)
Cut prices	51%	6.7 (2.6)	7.0 (4.3)
Free product	49%	6.6 (2.3)	6.0 (4.5)
Premium	49%	6.6 (2.5)	6.0 (4.4)
Contests etc	30%	7.0 (2.4)	3.8 (3.4)
End of aisle display	27%	7.8 (2.2)	6.6 (4.5)
Banded packs	26%	6.9 (2.4)	5.3 (4.5)
Coupons/cash refund	15%	5.5 (2.5)	5.6 (4.5)

Overall objectives for sales promotion

Table 2 reflects the views of management in terms of what potentially sales promotion is believed capable of achieving.

Table 2 - Objectives that can be achieved by sales promotion

Objective	Mean	SD
Improve brand awareness	4.4	0.8
Attract new customers	4.4	0.8
Stimulate sales	4.3	0.8
Increase market share	4.1	0.9
Generate trial	4.1	0.9
Induce brand switching	3.8	1.1
Is demanded by retailers	3.8	1.3
Enhance brand loyalty	3.6	1.2
Increase usage amongst brand loyal consumers	3.5	1.1
Needed as retaliation to competitors' advertising	3.2	1.3
Discourage competitor attack	2.6	1.3

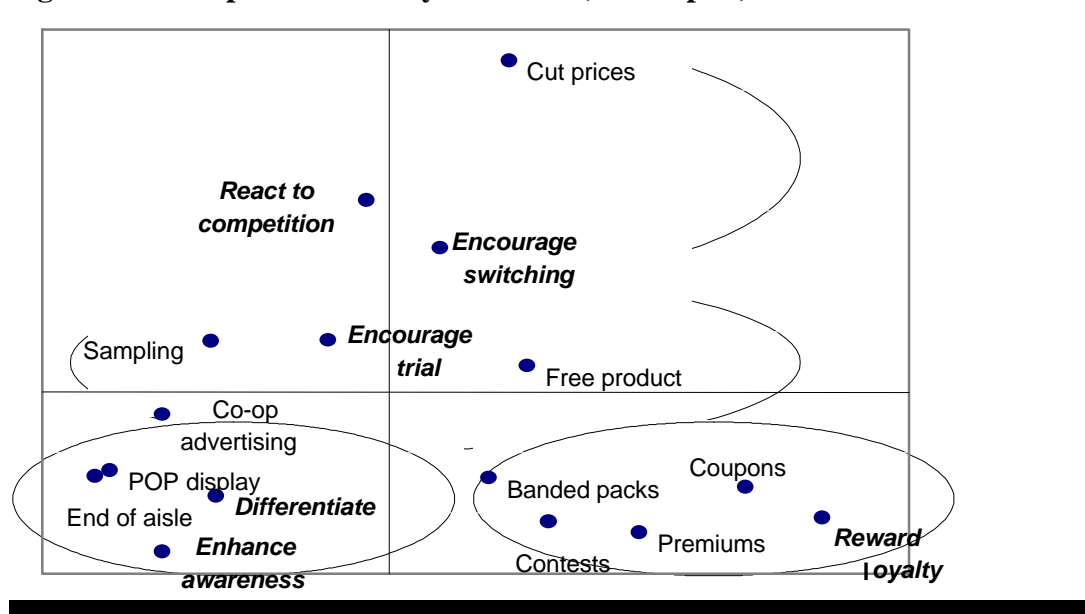
It can be seen that, overall, the results were positive in that managers indicated they believed, to varying degrees, that sales promotion is capable of achieving all of the objectives. In each instance there was little deviation (within a range of 0.8 to 1.3). There was sound agreement that sales promotion can stimulate sales, and generate trial, with means scores of 4.3 and 4.1 respectively. This supports the current paradigm that sales promotion strategy is predominantly used for stimulating short-term sales (Totten 1994). Beyond identifying, at an aggregate level, the perceptions about what sales promotion can achieve, a response was sought for each individual technique. Table 3 presents these findings.

Table 3 Percentage agreement on what each technique can achieve.

Objectives	Techniques									
	POP (%)	Sampl. (%)	Prem. (%)	Free prod (%)	End aisle (%)	Coup. (%)	Coop Adv (%)	Band packs (%)	Cut price (%)	Cont.s (%)
Differentiate the brand	38	51	15	19	14	9	17	17	10	14
Encourage switching	19	57	19	36	11	20	12	16	43	18
Reward loyalty	3	9	35	38	1	36	4	20	23	29
Enhance brand awareness	56	54	17	26	34	12	31	14	10	24
Generate trial	38	78	18	46	15	15	14	22	32	19
Allow quick reaction to competition	27	32	13	27	14	13	20	10	46	14

Correspondence Analysis was undertaken on to identify how managers saw the relationship between the various Techniques and Objectives, and the results are presented as Figure 1. 88% of the two dimensions captured the variance in the data. A number of Sales promotion Techniques were seen by managers to correspond to specific objectives with four clusters identified: Competitive, Trial, Awareness enhancement and Loyalty rewarding.

Figure 1 Correspondence analysis results (french plot)



Factor Analysis was conducted on the responses to Goals of Sales Promotion. Some results are detailed in Table 3 where a three factor solution is presented. The result of the Kaiser-Meyer-Olkin test for sample adequacy was a score of .844 which Hair (1995) describes as a “meritorious” outcome.

Table 3 - Results of Factor Analysis on S.P. Goals

Factor Name	Variables Loading On Factor	Loading	
F1 : Goals focused on consumer off-take, awareness	- Increase market share	.750	
	- Stimulate sales	.748	
	- Attract new customers	.723	
	- Improve brand awareness	.698	
	- Increase usage among brand loyals	.641	
	- Enhance brand loyalty	.413	
F2 : Goals focused on competitive forces/trade	- Needed as retaliation to competitors' advertising	.732	
	- Demanded by retailers	.684	
	- Induce brand switching	.564	
	- Generate trial	.477	
F3 : Protective/defensive	- Discourage competitor attack	.801	
	F1	F2	F3
Eigenvalues	3.593	1.281	1.079
% of variance	32.7	11.6	9.8
Varimax Rotation converging in 5 iterations - Kaiser Normalization - Princ. Comp.			

The objectives accounted for in each factor seem to reflect that there are three categories of goals that may be pursued. The first factor seems to reflect objectives that are primarily consumer focussed. Objectives in the second factor are those with more of a competitive focus of retaliation, trial and brand switching and also the enforcement of such activity by the retail trade.

Brand equity and sales promotion

Managers mostly agreed, in the questionnaire, with the belief that overuse of price based promotions may damage brand equity. They also indicated that there was a likely long term negative effect on consumers' perceptions if price based promotions are regularly used, that they make consumers more deal prone and, finally, that they have a negative effect on brand image.

These beliefs were supported by the managers' claimed behaviour in terms of techniques actually employed and may explain why price based techniques did not seem to be particularly frequently used. Price related promotions such as discounts, coupons were common but not to the exclusion of other methods of

sales promotions. Indeed, the three most frequently used promotions were all non price based.

Overall, it appeared managers believed sales promotion to be a useful tool but one that should be administered carefully, and not be excessively price based.

Measurement of promotions

The majority of firms used some form of change in sales, measured via internal sales data, to assess the effect of promotions and interestingly 35% indicated they did not undertake any measurement at all.

It is important to note that, despite the managers' beliefs that sales promotion may affect brand equity, sales data was by far the most common assessment of sales promotion. This can not be used to directly assess any change in brand equity or other market-based assets. This may indicate that either the managers just pay "lip service" to the notion that there may be brand equity damage, or they believe it is not an issue because they do not consider they overuse price based techniques and hence do not need to monitor the impact.

CONCLUSIONS

Sales promotion was confirmed to be a commonly used element of marketing communication with the majority of firms using a range of techniques, with little constraint other than cost. Sales promotion was predominantly seen as a tool to attract customers, improve brand awareness and stimulate sales with the most commonly used techniques being product sampling, point of purchase displays, free product and cut prices. The hypothesis that managers claim to use sales promotion as a tool to enhance brand and market position, but in reality, use it essentially to pursue competitive goals such as retaliation, was not supported. It was one of the main categories of sales promotion objective but not the only one. Furthermore, the protection of brand equity was claimed to be important but the main measurement technique for monitoring the effects of promotions was sales figures which does not allow brand equity changes to be monitored. However, price based promotions, which were considered most likely to damage brand equity, whilst commonly used, were not the most frequently used.

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Consumer Sales Promotion covers any sales promotional activity targeting the end-user. The purpose of such a sales promotion may be to spread awareness about the product, or to nudge the customer into making a purchase. Discounts, sample offerings and contests are some common forms of this type. The desired result of such sales promotions should usually be an action on part of the consumer, preferably a purchase. Trade Sales Promotions. This type of sales promotion is geared towards business stakeholders such as dealers and distributors. By providing incentives, usually in the form of discount Both current trading conditions and longer term trends are challenging. Retail sales growth has trended down over the past half decade as consumers save more of their rising incomes and their spending is increasingly directed towards a range of non-retail services. The retail industry has met many competitive challenges in the past. Online retailing and the entry of new innovative global retailers are just the latest. There are almost 140 000 retail businesses in Australia and, with about 1.2 million people or 10.7 per cent of the total working population employed in the industry, it is one of Australia's largest employers. Reflecting this, the retail industry also makes a significant contribution to economic output, generating \$53 billion or 4.1 per cent of GDP in 2009-10. Sales Promotion in Australia: A Review of Current Industry Practice. Save to Library. by D. Corkindale. We question whether some factors labelled as "critical" success factors for ERP projects are in practice actually critical for achieving success in implementation and improving output performance. To examine this we report an empirical study that has investigated whether four major CSFs are in practice critical for achieving organisational performance improvements, and the role that successful implementation may play in influencing the relationship between CSFs and improvements in organisational performance.