

Marketing Science no.9

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Strategy 1-1

SALES PROMOTIONS: TYPES AND EFFECTS

Sales promotion comprises a wide variety of tools in the form of

short-term incentives designed to stimulate **earlier** or **stronger response** from customers in a target market.

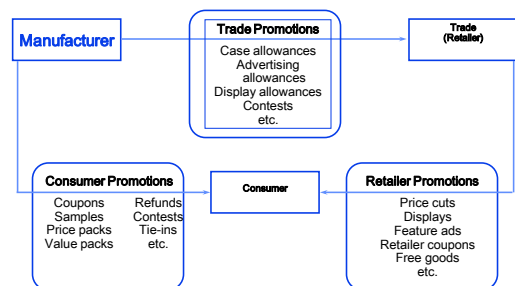
Strategy 1-2

A Key Factor in Sales Promotions

- Most types of promotions **complement other elements** of the marketing mix.
- They require a **coordinated effort** among retailers, wholesalers, salespersons, advertising, and (often) manufacturing and distribution.

Strategy 1-3

Promotional Types and Targets



Strategy 1-4

To model promotional effects, we must determine

- (1) the **objectives** of the promotion,
- (2) the **characteristics** of different promotion types and their **purported effects** on the objectives,
- (3) the **effectiveness** of different promotions
- (4) the **range** of promotion decisions.

Strategy 1-5

Three Contributions Obtained by Sales-promotion Techniques

Communication:

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

Incentive:

They incorporate some **concession, inducement, or contribution** designed to represent value to the receiver.

Invitation:

Most include a **distinct invitation to engage in the transaction now**.

Strategy 1-6

Promotional Objectives and Types

Objective	Promotional Type
Increase repeat buying	In-pack coupons, continuity programs (eg. frequent flyer, "N for" retail promotions)
Increase market share among brand switchers	FSI coupons, coupons targeted to users of other brands, retail promotions.
Increase retailer's promotion frequency	Trade deals, combination of consumer promotions and trade deals (big-bang theory)
Enhance the product's image	Co-op image advertising with image-oriented retailers
Increase category switching	Retail promotions, FSI coupons, large rebates
Target deal-sensitive consumers	Coupons, "N for" retail promotions
Increase category consumption	Retailer promotions, promotions tied to events (eg. back to school)
Increase trial among non-users	Cross-couponing, free samples, trial packs, direct-mail coupons
Liquidate short-term inventories	Trade deals, rebates, inventory financing
Increase distribution	FSI coupon, (increase demand), trade deals (increase DPP)

"N for" = multiple unit promotion (6 for 99¢)
 FSI = free standing insert in newspapers and magazines
 DPP = dealer price promotion.

Strategy 1-7

Promotional Type

- Sampling
- Price-cut offers by Manufacturer
- Couponing
- Premium offers included in- or on-pack
- In-store Display

Strategy 1-8

Key Considerations for Sampling Implementation

sampling implementation can be

- door to door
- by mail
- free with the purchase of another product

the size of the sample can vary.

Strategy 1-9

Key Considerations for Manufacturer-price-off Offer

The seller must determine

- the total quantity of the promotion
- the percentage of the price off
- the frequency of the price off

(a too-frequent price-off offer may lead buyers to expect the discount to continue or to perceive the regular price as an increase.)

Strategy 1-10

Key Considerations for Couponing

The redemption rate

- is important (and easy to measure)
- depends on the value of the coupon (Reibstein and Traver 1982).

Strategy 1-11

Key Considerations for Premium Offers Included in- or on-pack

• The **selection** of the **premium** and the **duration** of the **offer** is important.

• The premium should be **consistent with the quality image** of the brand

(if appropriate should be in place long enough so that a regular buyer can obtain a set such as glassware).

Strategy 1-12

Key Considerations for In-store displays

•In-store displays are **effective means of moving merchandise**.

•**Display space is limited and the display must pay for itself** according to the retailer's criteria for such programs.

Strategy 1-13

Generalizations about Promotional Effects:

1. Temporary reductions in retail price cause short-term sales to spike.
2. Brands that have higher shares of the market are less deal elastic.
3. The frequency of deals changes the consumer's reference price.
4. The greater the frequency of deals, the lower the height of the sales spike in response to a deal.
5. Cross-promotional effects are asymmetric, and promoting higher quality brands affects weaker brands (and private label products) disproportionately.
6. Retailers pass through to consumers less than 100 percent of trade deals.
7. Display and feature advertising have strong effects on item sales.
8. Advertising promotions can result in increased store traffic.
9. Promotions affect sales in complementary and competitive categories.

Strategy 1-14

Temporary reductions

•Temporary reductions in retail price increase sales substantially.

•Researchers have found that temporary retail-price promotions (promoted through supermarket flyers, for example) cause short-term sales to spike.

(In contrast, it is rare to see such a response for most consumer advertising on television or in other media.)

Strategy 1-15

Higher Share Brands: Less Deal Elastic

Brands that have higher shares of the market are

•less deal elastic.

•show less sales response to deals, even though they may capture a large proportion of switchers.

Strategy 1-16

The Frequency of Deals Changes the Consumer's Reference Price

•It explains why brands that are heavily promoted lose **equity** (i.e., consumers think they are **less valuable**).

•A lower consumer reference price reduces the premium the firm can charge for a brand in the marketplace.

Strategy 1-17

The greater the frequency of deals, the lower the height of the sales in response to a deal

This result is likely to be caused by

- (1) **consumer expectations** about the frequency of deals,
- (2) changes in the **consumer's reference price**,
- (3) **stockpiling effects** from previous deals.

Strategy 1-18

Cross-promotional effects are asymmetric (High Quality Brands vs. weaker Brands)

- One possible explanation for this asymmetry in switching is **differences in brand equity**.
- An extension of this finding focuses on asymmetries in brands' perceived type.
- Promoting **higher-tier brands** generates **more switching** than does promoting lower-tier brands.

Strategy 1-19

Retailers pass through to consumers less than 100percent of trade deals

- Retailers are the vehicles** for passing trade promotional money on to consumers.
- Sellers should recognize that most brands receive far **less than 100 percent** pass-through.

Strategy 1-20

Display and Feature — Heavy Effects—

- Display and feature advertising have **heavy effects** on **item sales**.
- Feature advertising and display **interact synergistically**.

Strategy 1-21

Advertising Promotions Increased Store Traffic

- Advertised promotions of some products and categories do have an impact on **store traffic**.
- With increased store traffic may come **store switching** or consumers **visiting multiple stores**.

Strategy 1-22

Effects of Promotions on Sales of Complementary and Competitive Category

- Practitioners understand this effect but not its magnitude.
- The **impact** of promoting one category on the sales of a **complementary or competing category** is very likely a **function** of the **type and characteristics** of the categories themselves.

Strategy 1-23

General Findings (Blattberg and Neslin, 1990)

- Brand loyalty may (or may not) be affected.
- New triers may (or may not) be attracted.
- Promotions interact with other elements of the marketing mix advertising, in particular.
- Promotional results interact with production and distribution, affecting inventory levels rapidly and dramatically.
- Promotional frequency influences promotional effects and is linked to the average length of the product's purchase cycle (how often the consumer purchases the product).
- The type of promotion selected may have differential effects on brand loyalty and promotional attractiveness.
- Promotion size may have threshold and saturation effects, suggesting a sales-response relationship.
- Firms may experience different levels of success in implementing promotions; a failure may be due to poor implementation, a poor promotion design, or both.

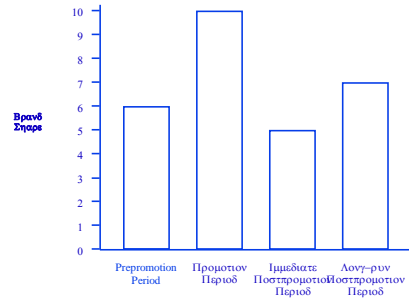
Strategy 1-24

Typical Methods for Consumer Promotion Evaluation

In the comparison of the sales or the share among the period of **before**, **during**, **after** the promotion, Researchers **evaluates** the **increments** of sales are **gained** by the promotion.

Strategy 1-25

Promotional Effects



Strategy 1-26

Statistical Modeling Substitution Methods of Before-after Analysis of Promotion

- Possible to apply many variations of promotion by one model
- Average value of promotional effects can be obtained by parameter estimation.

Strategy 1-27

Statistical Modeling Method

- Blattberg and Wisniewski (1987)
- SCAN*PROmodel by Wittink et al. (1987)

These models have been used in retailers or manufacturers.

Strategy 1-28

Blattberg and Wisniewski (1987) Model

$$S_{it} = \exp \left[\alpha + \beta_1 R_{it} + \beta_2 (1 + D_{it}) + \sum_{k \neq i} \delta_k / P_{k,t} + \gamma_1 A_{i,1,t} + \gamma_2 A_{i,2,t} + \gamma_3 A_{i,3,t} + \phi_1 X_{i,t} + \phi_2 E9_{i,t} + \phi_3 NF_{i,t} + \lambda T_{i,t} + \phi_5 C_{i,t} + \varepsilon_{i,t} \right]$$

Strategy 1-29

$$S_{it} = \exp \left[\alpha + \beta_1 R_{it} + \beta_2 (1 + D_{it}) + \sum_{k \neq i} \delta_k / P_{k,t} + \gamma_1 A_{i,1,t} + \gamma_2 A_{i,2,t} + \gamma_3 A_{i,3,t} + \phi_1 X_{i,t} + \phi_2 E9_{i,t} + \phi_3 NF_{i,t} + \lambda T_{i,t} + \phi_5 C_{i,t} + \varepsilon_{i,t} \right]$$

S_{it} = 期間tにおけるブランドiの販売個数
 R_{it} = 期間tにおけるブランドiの通常価格
 P_{it} = 期間tにおけるブランドiの実際の価格
 $D_{it} = (R_{it} - P_{it}) / R_{it}$ で定義される販促ディスカウント
 $A_{i,1,t}$ = 広告Aに対するダミー変数
 $A_{i,2,t}$ = 広告Bに対するダミー変数
 $A_{i,3,t}$ = 広告Cに対するダミー変数
 $X_{i,t}$ = デイスペレイ活動 (デイスプレイ店舗の数による)
 $E9_{i,t}$ = 価格が9で終わるプロモーションに対するダミー変数
 $NF_{i,t}$ = 何個でいくらかというプロモーションに対するダミー変数
 $T_{i,t}$ = プロモーションの週 (最初の週=0)
 $C_{i,t}$ = 販促週の修正 $\begin{cases} \ln 0.65 & (\text{第一週}) \\ \ln 0.35 & (\text{最終週}) \end{cases}$
 $\varepsilon_{i,t}$ = ランダム誤差
 $\alpha, \beta, \gamma, \delta, \lambda$ はパラメーター

Strategy 1-30

Wittink et al. (1987)Model SCAN*PRO

$$S(i,1,t)=\alpha_{il}\times \prod_{j=i}^JP(i,j,t)^{\beta(ij)}\gamma_{1,i,j}^{D(1,i,j,t)}\gamma_{2,i,j}^{D(2,i,j,t)}\gamma_{3,i,j}^{D(3,i,j,t)}e^{u(i,1,t)}$$

Strategy 1-31

$$S(i,1,t)=\alpha_{il}\prod_{j=i}^JP(i,j,t)^{\beta(ij)}\gamma_{1,i,j}^{D(1,i,j,t)}\gamma_{2,i,j}^{D(2,i,j,t)}\gamma_{3,i,j}^{D(3,i,j,t)}e^{u(i,1,t)}$$

ただし、
 $S(i,1,t)$ =店舗*i*,期間*t*におけるブランド1の販売量
 $P(i,j,t)$ =店舗*i*,期間*t*におけるブランド*j*の単位価格
 $D(1,i,j,t)$ =チラシ広告 *feature**k*に対するインディケーター変数
 $=\begin{cases} 1 & \text{ブランド}j\text{が店舗}i,\text{期間}t\text{においてチラシ広告が行われた場合} \\ 0 & \text{その他} \end{cases}$
 $D(2,i,j,t)$ =ディスプレイ活動に対するインディケーター変数
 $=\begin{cases} 1 & \text{ブランド}j\text{が店舗}i,\text{期間}t\text{においてディスプレイが行われた場合} \\ 0 & \text{その他} \end{cases}$
 $D(3,i,j,t)$ =チラシ広告とディスプレイ活動が同時に行われた場合のインディケーター変数
 $=\begin{cases} 1 & \text{ブランド}j\text{が店舗}i,\text{期間}t\text{においてチラシ広告とディスプレイが同時に行われた場合} \\ 0 & \text{その他} \end{cases}$
 $u(i,1,t)$ =誤差項
J=ブランドの数
N=店舗数
T=週の数

Strategy 1-32

Problems of Statistical Modeling

Two decisive Problems

- Multicollinearity
- Wrong Sign of Parameters

Strategy 1-33