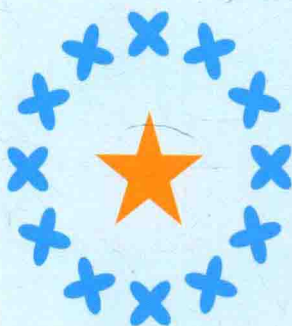


HOW SALES PROMOTIONS AFFECT CONSUMERS:

Theory and Empirical Evidence from China Market

Liaogang Hao

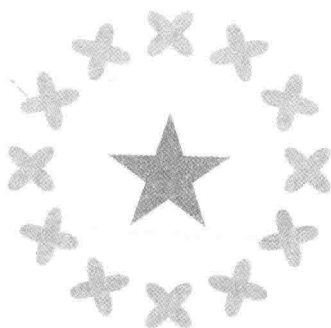


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|| Preface ||

Sales Promotion is one important marketing strategy. In recent years, sales promotion is getting more and more emphasis, since it is viewed as very effective in stimulating sales by more and more marketers. However, compared with other marketing strategies, there is still a lack in the field of sales promotion, especially the antecedents and consequents of sales promotion. Furthermore, the empirical evidence of Chinese consumers, with respects to their consumption modes and behavioral response process towards sales promotion, is also very rare in current literature. Therefore, I think to publish this book has both theoretical and practical significance.

The book incorporates several interesting research papers, which fulfilled the research gaps in the relevant fields and demonstrated the excellent work completed by the author and his research teams.

I believe this book can be beneficial for both marketing scholars and practitioners, especially for those people who are interested in china market and Chinese consumers.

Liaogang Hao
September 2014

Contents

CHAPTER 1 Relevant Theories Regarding Sales Promotions

1.1	Definitions and Objectives of Sales Promotions	1
1.2	Promotional Benefits, the Typical Promotion Strategies and Classification	5
1.3	Consumer Behavior Theories Related to Sales Promotion	8
1.3.1	Behavioral Learning Theories	9
1.3.2	Consumer Perception Theories	11
1.3.3	Theories on the Relationship between Attitude and Behavior	19
1.3.4	Review Comments on the Related Theories	20
1.4	Studies on Consumer Responses to the Promotion Strategies	22
1.5	Studies on Comparing Effectiveness of Promotion Strategies	24
1.6	Studies on the Relationship between Promotion Strategies and Brand Equity	26
1.7	Comments on Relevant Theories and Literatures	28

CHAPTER 2 Studies on China Consumer Market Environment

2.1	Studies on Urban Residents' Consumer Market in China	30
2.1.1	Characteristics of Consumer Demand and the Evolution of Consumer Patterns	31

2.1.2	Change in Structure of Consumer Expenditure	35
2.1.3	The Changes of Durable Goods Market	37
2.1.4	Summary on Characteristics of Chinese Urban Consumer Market	41
2.2	Differentiation Empirical Analysis between Chinese Urban and Rural Consumption Market	41
2.2.1	Analyses on the Per Capita Consumer Expenditure of Urban and Rural Residents	42
2.2.2	Analysis on the Differences Between Urban and Rural Residents' Consumption Expenditure Structure	47
2.2.3	Research Conclusion on the Difference of Urban and Rural Consumer Spending Structure	51
2.2.4	Research Conclusion on the Differences Between Urban and Rural Consumer Market	52
2.3	Impacts of Environmental Characteristics of Chinese Consumer Market on Consumer's Responses to Sales Promotion	53

CHAPTER 3 Comparative Analyses of Sales Promotions

3.1	Study on Consumers' Reactions to Promotion Activity	56
3.1.1	Introduction	56
3.1.2	Literature Review	57
3.1.3	Research Design	61
3.1.4	Data Analysis	63
3.1.5	Conclusion and Discussion	71
3.2	Comparative Research of Lucky Draw and Coupon Promotion	73
3.2.1	Introduction	74
3.2.2	Related Literature Review	74
3.2.3	Research Model and Research Hypothesis	76

3.2.4	Experimental Design and Results	80
3.2.5	Research Conclusion and Discussion	86

CHAPTER 4 Empirical Studies of Price Promotions

4.1	Framing Effect of Price Discount Promotions on Consumer Behavioral Intention	89
4.1.1	Introduction	89
4.1.2	Literature Review of Price Discount Presentations	90
4.1.3	Development of Research Hypotheses	93
4.1.4	Study 1	98
4.1.5	Study 2	106
4.1.6	Conclusion and Discussion	112
4.2	Price Discount Depth and Its Effect on Consumer Responses	114
4.2.1	Theoretical Models Depicting Consumers' Response to Price Discounts	114
4.2.2	Development of a Joint Model Depicting Consumers' Response to Price Discounts	120
4.2.3	Examination of the Overall Fitness of the Integrated Model	127
4.2.4	Further Investigation of the Gender Difference	144
4.2.5	Conclusive Discussion	148
4.3	Effects of Price Discount Frequency on Consumer Behavioral Intention	149
4.3.1	Developing Hypotheses regarding the Effects of Promotion Frequency	150
4.3.2	Research Design and Data Collection	153
4.3.3	Data Analysis and Results	156
4.3.4	Further Examining the Effect of Consumers' Gender	160
4.3.5	Conclusive Discussion	162

4.4 Theoretical and Practical Implications 164

 4.4.1 Theoretical Implications 164

 4.4.2 Practical Marketing Implications 167

References 169

Index 180

CHAPTER 1

Relevant Theories Regarding Sales Promotions

1.1 Definitions and Objectives of Sales Promotions

A widely accepted definition of Sales Promotion could not be found in the existing marketing literatures. Table 1.1 lists several important views on Sales Promotion's definition. However, some views conflict with others resulting in that we are often confused with the definition of Sales Promotion. Actually, Sales Promotion consists of all promotional activities except for advertising, personal selling, public relations and direct marketing. In order to get a complete and scientific definition of Sales Promotion, we must notice the key points of the definition.

Table 1.1 The Different Definitions of Sales Promotion

Source	The different definitions of sales promotion
Institute of Sales Promotion (2004)	Sales Promotion is the marketing activities that are planned and implemented to not only enhance the attractiveness of the products and services, but also positively change consumers' behaviors resulting in the consumers can get the additional benefits from the process of purchasing or participating.
Kotler et al (2003)	Sales Promotion is a variety of short-term stimuli to encourage consumers to buy a product or service.
Shimp (2000)	Sales Promotion is a sum of stimuli through which manufacturers can induce traders and customers to buy a brand and encourage sales teams to aggressively work. Meanwhile, retailers can motivate the customers to make the instant purchases with the stimulus that is beyond basic benefits the brand provides and can temporarily change the customers' perception of the brand price or the brand value.

续表

Source	The different definitions of sales promotion
Schultz et al (1992)	Sales Promotion is the marketing and communicating activities that change the audiences' perception of the price and value relationship of a product or service. Therefore, Sales Promotion can: (1) produce the instant purchases; (2) change the brand value in long-term.
Blattberg, Neslin (1990)	Sales Promotion is marketing activities that focus on action and its purpose is a direct impact on the behaviors of the customers.
Haugh (1983)	Sales Promotion is to provide additional value and stimuli to the sales staffs, distributors and customers, and thus the companies can achieve the ultimate goal that induces them to make instant purchases.
Schultz, Robinson (1982)	Sales Promotion directly induces and stimulates the sales teams, distributors and consumers and its main objective is to create instant purchases.
Davis (1981)	Sales Promotion represents the inherently complementary marketing efforts. At the same time, it is usually carried out in a limited period of time and induces buying behaviors.
Webster (1971)	Sales Promotion can be defined as "the short-term actions inducing consumers to buy".
Han (2005)	Sales Promotion refers to a kind of marketing tool in which the companies provide a variety of short-term incentives (such as discount, gifts, coupons) to promote sales.

Blattberg and Neslin (1990) suggested that in the defining process there are five points need to notice: (1) Sales Promotion focuses on action; (2) Sales Promotion is marketing events; (3) Sales Promotion has a direct impact on behavior; (4) Sales Promotion significantly affects consumers and marketing agency; (5) Sales Promotion creates immediate sales. Therefore, we absorb in some views of other researchers and give the following definition: Sales Promotion is a sum of all marketing activities through which the companies offer a variety of short-term stimuli to consumers to directly affect the consumers' value perceptions and purchasing behaviors on a product or service, and thus encourage consumers

to make instant purchases.

Since sales promotion consists of consumer promotion, trader promotion and sales teams promotion, and the three kinds of promotions have different marketing objectives, in this book, we mainly focus on consumer promotion and the main promotion goal we discuss is the consumer marketing objectives. White (2002) believes that sales promotion can help marketers achieve the following several objectives: (1) encouraging new customers to use the products; (2) improving the loyalty of existing customers; (3) successfully dealing with the competitors' threat; (4) establishing and maintaining customer database; (5) ensuring that retailers are willing to maintain enough stocks and displays of the promotional products. Yeshin (2006) articulates that sales promotion can help marketers achieve such objectives as:

(1) Sales promotion can induce customers to try new products. An important function of sales promotion is to induce consumers to try new products.

(2) Sales promotion can improve a particular market positioning of a product. Some promotional activities are always aimed at the market segments (e.g., the market segments based on gender, age, geographical location, consumption habits, lifestyle, psychological factors), rather than all markets, which gives the customers the information on the promotional activities' target market and strengthens the effect of target market information on the promotional product or brand.

(3) Sales promotion can benefit existing customers and successfully restrict the competition. Sales promotions can be used to restrict competitiveness from the competitors.

(4) Sales promotion can attract new customers to buy promotional products. With the promotional stimulus, companies can attract the new customers to try the brand products who have never used the kind of products or the competing brands.

(5) Sales promotion can stimulate repeated purchase behaviors of the promotional products. An important function of promotional activities is to stimulate repeated purchase behaviors of the promotional products and achieve long-term customer loyalty on the brand.

(6) Sales promotion can stimulate more frequent purchases. Through promotions companies can induce existing customers to find the new functions and new usage occasions of the promotional products so that the usage frequency and amount of the products will be increased, which can contribute to boost sales growth.

(7) Sales promotion can encourage consumers to buy more than one every time. Through some combination of promotional tools (such as bundling, buy one get one free), companies can facilitate consumers to increase the amount of a single purchase and reserve this kind of products.

(8) Sales promotion can encourage consumers to buy a large package. By designing promotional tool to promote consumers to buy largely packaging products, companies can achieve increased sales and prevent consumers to buy products of the competing brands.

(9) Sales promotion can mitigate seasonal fluctuations in sales. With some specific promotional tools companies can stimulate consumers' needs for the promotional products in off-season and mitigate seasonal fluctuations in sales.

(10) Sales promotion can encourage consumers to switch the attitude and behaviors on brands. Sales promotion employs some marketing strategies to induce customers who are loyal to the competing brands to buy the promotional brand, and thus expands the market share.

(11) Sales promotion can strengthen other functions of marketing communications. Combined with other marketing communications activities, companies can use sales promotion to achieve the expected brand positioning of products.

(12) Sales promotion can build brand equity. By stimulating consumer to

make interaction with the promotional brand, companies can induce customers to generate a positive cognition on the promotional brand and strengthen the brand equity.

(13) Sales promotion can help companies successfully deal with competition. Companies can design specific promotional activities targeted against promotional activities of the competing brands to reduce the customers' perceived value and attractiveness of the competing brand, which minimize the loss probability that the customers switch to the competing brands.

1.2 Promotional Benefits, the Typical Promotion Strategies and Classification

Considering the benefits sales promotion provides with companies, the sales promotion can help companies attract new customers from the competitor, induce existing customers to buy more and persuade customers to buy the higher-margin products of the brand. Prior literatures on marketing have discussed the profits sales promotion can provide. As Yeshin (2006) suggested that sales promotion can: (1) encourage consumers to try new products, enhance the ability of advertise to get attention and increase consumer demands; (2) encourage repeated purchases of a product; (3) increase the amount of purchase or usage and thus increase the amount or frequency of purchase for each purchase; (4) provide some short-term incentives to potential customers to maintain customers are willing to try new products; (5) effectively improve the mature brand sales through repeat recommendation; (6) help consumers see the new packaging and increase brand awareness of new packaging; (7) minimize the negative impact from competitors' promotional or advertising activities; (8) make full use of existing events via specific promotional activities; (9) change consumption patterns of consumers and thereby reduce sales fluctuation; (10) improve the brand's image among potential customers with some types of promotional tools, such as contests,

sweepstakes, charity events; (11) strengthen the appeals of advertising; (12) encourage retailers to purchase for reducing the risk of out of stock; (13) ensure that products have more amount of and more compelling retail counter space; (14) encourage retailers to purchase the products that they had never purchased, so as to enhance the purchase level; (15) promote middleman to adjust stock level; (16) motivate sales teams; (17) stimulate middleman.

From the perspective of the impacts on consumer behavior sales promotion provides, Peattie (1994) holds that sales promotion directly affects consumers' behaviors through the following aspects: (1) changing the time of purchase; (2) switching brands; (3) increasing the amount of purchase; (4) using of alternative products; (5) increasing the amount of storage of alternatives. From the perspective of the benefits sales promotion provides with customers, Chandon et al. (2000) believed that the benefits sales promotion provides with customers should be divided into practical benefits and hedonic benefits. The practical benefits include: (1) monetary benefits, sales promotions can help consumers save money; (2) quality benefits, sales promotion allows consumers to buy better quality products can not be afforded in other situations; (3) convenience benefits, sales promotion can reduce consumers' searching and decision-making costs. The hedonic benefits include: (1) the value-performance benefits, sales promotion can induce consumers feel that they are a smart shopper and get a re-affirmation of individual values, and thus help consumers improve self-concept and individual values; (2) exploratory interests, sales promotion provides a variety of shopping environment full of excitement to meet consumers demands for information and exploration; (3) entertainment interests, sales promotion provides consumers fun and aesthetic value in the form customers loved. Raghubir et al. (2004) summarize three impacts sales promotion on customers: (1) economic impact, sales promotion can provide customers monetary or non-monetary benefits, the reduction of trading hours and the simplification of purchase decision

process; (2) information impact, sales promotion can spread consumers of information unknown to consumers; (3) emotional impact, sales promotion can make consumers exposed to the information of promotional activities and arouse consumers to generate certain feelings or emotions. Therefore, the promotional interests we discussed in this book mainly included the impacts on consumer behavior of sales promotion and a variety of interests consumers perceived from a particular promotion.

Marketers should design the promotion strategies based on main promotional objectives. There are many types of promotional objectives, and similarly, there are many types of promotion strategies. Yeshin (2006) indicated that the promotion strategies include: (1) the promotion based financial incentives (such as coupons, every day low price promotion, lowest price promotion, voucher promotion, etc.); (2) the promotion based on products (such as package promotion for rewarding, free gift promotion, free product trial, etc.); (3) other promotions (such as joint promotion, lottery, contests promotion, customer loyalty programs, etc.). Compared with promotion based on financial incentives, the impact of non-monetary promotions are usually positive and helps companies establish a unique brand image and brand association. Moreover, the frequencies these promotion strategies are applied in the marketing practice are different. Kotler (2003) pointed out that the common promotion strategies includes special promotions, coupons, vouchers, displays of sale point, store displays, buy one get one free, gift, free sample gift, special packaging, lucky draws and sales contests.

There are a variety of categories for sales promotion in existing marketing literature. Some are based on the perspective of corporate promotion management. Yeshin (2006) indicated that the sales promotion can be divided into four categories: (1) the sales promotion that manufacturers use to stimulate traders; (2) the sales promotion that manufacturers use to provide incentives to stimulate consumers; (3) the sales promotion that manufacturers directly release on its own

sales teams; (4) the sales promotion that retailers use to consumers. Similar classification also appears in Ingold (1995) study. However, Stewart and Gallen (1998) believed that sales promotion can be divided into trade promotions and consumer promotions, where consumer promotions can be further divided into price-related promotions and non-price promotion. Moreover, Blattberg and Neslin (1990) suggested that sales promotion should be divided into retailer promotions, consumer promotions and trade promotions according with the implementation principals and the main objects of sales promotion.

Meanwhile, others are based on the perspective of consumer perceptions. Diamond et al. (1989) noted that sales promotions can be divided into “monetary promotion” and “non-monetary promotion”. Chandon et al. (2000) proposed a classification way based on the benefits sales promotion provides, i. e. utilitarian benefits and hedonic benefits, and sales promotion can be divided into four categories: (1) high utilitarian benefits and high hedonic benefits (such as free products); (2) high utilitarian benefits and low hedonic benefits (such as coupons); (3) low utilitarian benefits and high hedonic benefits (such as gifts); (4) low utilitarian benefits and low hedonic benefits (such as lucky draw). Peatie et al. (1997), Gilbert and Jackaria (2002) indicated that sales promotion strategies can be divided into the “value increasing” promotion and the “value added” promotion.

1.3 Consumer Behavior Theories Related to Sales Promotion

There are various forms of promotional activities. Under the same promotion budgets, different promotional activities can give consumers the different perception of benefits and lead consumers to do different behaviors, and thus companies can achieve different marketing purposes. Therefore, whether the effect of promotional activities is optimal under the same promotion budget depends on how cus-