Second Edition

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SALES PROMOTION ESSENTIALS

The 10 Basic Sales Promotion Techniques...And How To Use Them

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Foreword

The field of sales promotion has been changing very rapidly. Today the emphasis is on strategic thinking and planning, and the marketer who effectively integrates sales promotion into the overall marketing mix has a distinct competitive advantage. Random couponing or price discounting without regard to such things as consumer behavior, product performance, advertising message, or competitive activity, simply shortchange the total marketing effort.

The authors of *Sales Promotion Essentials* are strong proponents of a fully integrated marketing strategy. The book discusses ten sales promotion tools available to accomplish short-term marketing objectives. It explains how each promotional technique works and under what circumstances the technique should be considered. But more than that, this book provides the strategic understanding and insight into when to use these various promotional devices to maximize the entire marketing plan.

In the past, business growth came fairly easy. When product and service businesses were in the early stages of their life cycles, virtually any kind of promotional activity brought a quick sales response. Now with more mature businesses, growth requires a much more sophisticated promotion plan. *Sales Promotion Essentials* provides a close-up look at the building blocks that form the tactical foundation of a promotion plan, as well as the strategic insight to provide full integration with other elements of the marketing mix.

Dennis Lahey
Director/Advertising & Promotion
Kimberly-Clark

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Chapter One

What Is Sales Promotion and Why Has It Grown?

Sales promotion in the United States is a big, big business—and one that is continuing to grow significantly each year. In 1990, for example, U.S. marketers invested more than $125 billion in sales promotion—more than twice the $49 billion spent in 1980.

To get some idea of how important sales promotion has become to today's marketers, consider these facts:

- Sales promotion represents more than two-thirds of the marketing budget at most consumer products companies.
- In 1990, trade promotion represented 44 percent of marketers' total promotional budget, consumer promotion represented 25 percent, and media advertising represented 31 percent. (In 1980, 34 percent of expenditures were on trade promotion, 22 percent were on consumer promotion, and 44 percent were on media advertising.)
- More than 250 billion coupons (1,000 for every U.S. resident) were distributed in the United States in 1990, up from only 40 billion in 1975.
- In 1990, U.S. consumers saved $3.5 billion by redeeming 7 billion coupons.
- Marketers spent $27 billion in 1989 (a 7.1 percent increase from 1988) on various premiums, including sales and dealer incentives, through-the-mail premiums, continuity plans, sweepstakes and contests.[1]

[1] *Premium/Incentive Business.*

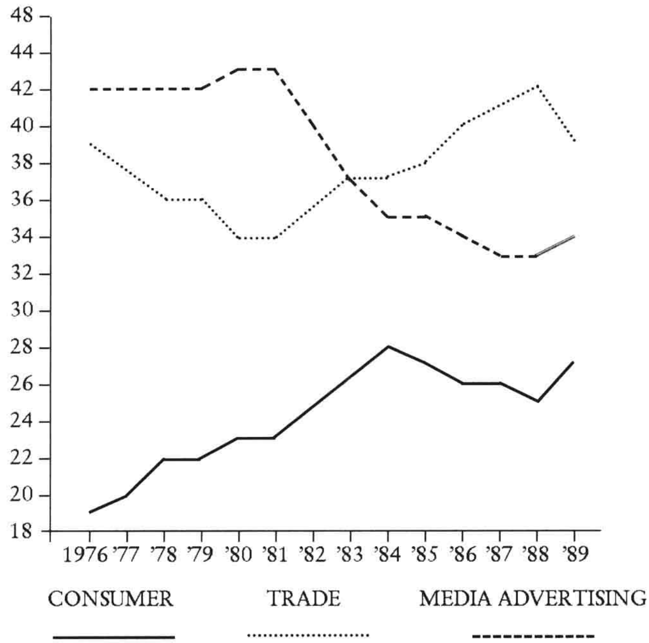

Exhibit 1.1. Change in Promotional Expenditures
Source: NCH Promotional Services.

Why Such Enormous Growth?

Obviously, sales promotion expenditures have become an increasingly important part of doing business in the United States. This tremendous growth can be attributed to a number of factors:

Sales promotion produces results. Dollar for dollar, marketers usually get more immediate "bang for their buck" with sales promotion than with any other marketing activity. Sending out a coupon, running a trade deal, or giving a rebate affects consumer and retailer behavior quickly, usually producing a big spike in sales as buyers rush to take advantage of the short-term deal. Most marketing managers have found that if they need a quick sales boost, sales promotion produces results.

Sales promotion results occur quickly. Communications tools such as advertising or public relations are usually perceived as an investment, with sales occurring at some undetermined point in the future. On the other hand, sales promotion usually works during a finite period of time, often showing results within days or even hours.

For many marketers who are under increased pressure from management and/or stockholders to get fast results, sales promotion can therefore be very attractive.

Sales promotion results are measurable. Because promotion results in such quick and strong sales, its effects are easy to observe and measure. Therefore sales promotion has generally been viewed as the most scientific tool in the marketing mix. It has been the subject of a large number of efficacy studies by researchers, who in some cases have been able to create formulas predicting exactly how different kinds and amounts of sales promotion will affect sales in different product categories.

Sales promotion is relatively easy and inexpensive to implement. Many marketers today are able to estimate, with a strong degree of accuracy, exactly what will happen to the sales of a brand, and to the sales of its competitors, based on the results of a particular promotion. This has in many cases made promotions easier to design and carry out, and it has allowed companies to move the design of sales promotion activities to lower levels in the management hierarchy (for instance, sales promotion is generally planned and often managed by assistant brand managers and by project-oriented promotion agencies). In addition, sales promotion may be less expensive than other forms of marketing communications. For instance, printing coupons, distributing them through free-standing inserts, and reimbursing the retailers who redeem them may often be a sizable expenditure. On a cost versus results basis, however, sales promotion may be much less expensive than producing and airing television commercials to reach the same audience, especially since the costs of mass media advertising have gone up substantially in recent years.

Why Sales Promotion Works

The main reason that the sales promotion area has grown so dramatically in recent years is because *sales promotion works*, especially in today's more competitive marketing environment. The apparent effectiveness of sales promotion programs has become more and more important in ensuring the success of a majority of products in the marketplace.

Other factors have also contributed to sales promotion's growth. Most product categories and successful brands in the United States are already mature, meaning that most products' sales increases must come mainly from stealing share from competitors' brands rather than from increasing the size of the category. Also, many categories are composed of parity brands, meaning that it can be difficult to find or create meaningful advertising that differentiates one product from another. Finally, growth in the U.S. economy has

Awareness
Information Gathering
Pre-purchase Evaluation
Decision Making
PURCHASE
Post-purchase Evaluation

Exhibit 1.2. Stages of Consumer Decision Making

slowed, and consumers are often more price and promotion sensitive during periods of recession or slow growth.

Redefining Sales Promotion's Role

The traditional definition of sales promotion has been: *Sales promotion gives consumers a short-term incentive to purchase a product*. This definition is accurate, as far as it goes—coupons or value packs or trade deals or other promotions do give consumers more of a reason to purchase a product immediately, and most of these promotions do last for a reasonably short period of time. However, this definition does not state exactly why promotions work nor how they affect the brand from an overall strategic point of view.

To understand how promotions work, it is important to understand the consumer-buying process. Except in the case of very low-involvement, inexpensive, impulse items, most people do not make snap decisions about what products to buy. Instead, they go through a variety of consideration stages before reaching their final decision, including awareness, information gathering, pre-purchase evaluation, decision making, purchase, and post-purchase evaluation.

Different types of marketing activities often work in different ways to affect various aspects of this buying process. Advertising and public relations, for instance, generally affect the awareness, the information-gathering, and perhaps the evaluation stages for new products, as consumers learn about products and consider whether or not they might be worth buying. These types of promotions also provide reminders about established products, which may be at parity with other brands. Personal selling may also affect the information-gathering and decision-making stages of the buying process, as the salesperson works to relieve consumers' specific doubts about a product and provides extra encouragement to go ahead and make the purchase.

Sales promotion, however, generally works on a direct behavioral level. Generally, rather than influencing awareness or attitudes—which may or may not eventually translate into corresponding behavior—most types of sales promotion hit directly at the decision-making and purchasing stages of the buying process, meaning that while sales promotion usually has less long-term effectiveness, it has more immediate results. Sending consumers a coupon for a product they sometimes use, for example, may not change their overall opinion about that product, but it may cause them to purchase it when they ordinarily would not do so.

Sales promotion is able to change behavior directly because, in short, it alters the price/value relationship that the product offers the buyer. In some cases this means lowering the price, perhaps with a coupon or rebate or trade deal or on-package price discount. In other cases it means adding something of value to the product—for instance, giving consumers a related item in the package or through a mail-in offer, supplying them with more of the product, or offering them a chance to win a prize in a contest or sweepstakes.

Altering the price/value relationship means that consumers get a better deal and therefore have more of a reason to purchase the product. Moreover, because most promotions last for only a short period of time, consumers have a reason to purchase the product immediately, rather than waiting.

As stated, sales promotion has become increasingly important to U.S. manufacturers. However, although the amount of money that companies spend on sales promotion has grown dramatically, most marketers' overall approach to the field has remained basically the same as it was two decades ago.

Most companies today know that sales promotion is a good way to increase short-term sales and profits. Many sales promotions have become more complex in recent years, often incorporating a variety of promotional elements. In addition, as noted, many marketers and researchers are increasing their attempts to measure the results of sales promotion activities and to conduct them in a more scientific manner.

Nevertheless, the field of sales promotion has in general remained oriented to the short term. In addition, promotions are often not well related to the other strategic elements of the brand's marketing mix. Most of the research into sales promotion has centered on how particular promotions, and levels of promotion, affect short-term sales, not on how those promotions fit into the overall marketing mix and into the overall strategic focus of the company or brand.

As a result, sales promotion is often viewed as a simple, reactionary device in the war to increase immediate sales and profit. Many companies even view sales promotion as no more than a necessary evil—although marketers often wish they could get rid of their promotions or reduce their importance, a mixture of competitive pressures, consumer expectations, and desire for short-term profit often cause those managers to keep investing money in sales promotion.

In short, sales promotion has tended to be a tactically driven discipline. Marketing managers have typically used promotions as short-term volume boosters, often without much analytical thought.

What has generally been missing in the industry is a strategic focus, that is, an examination of how various sales promotion activities affect the overall short-term and long-term positions of the brand in the marketplace. Each category in the market has a different set of dynamics at work within it, and each brand within each category has its own strengths and weaknesses, its own unique positioning and reputation, and its own set of loyal or fickle customers. To be fully effective, sales promotion programs need to recognize all of these factors, and they should be developed in the context of everything else that's happening with a particular brand.

It is therefore appropriate to move to a more strategic definition, one that recognizes sales promotion's role in the overall brand-building process: *Sales promotions are marketing and communications activities that change the price/value relationship of a product or service perceived by the target, thereby (1) generating immediate sales and (2) altering long-term brand value.*

This definition recognizes that sales promotion motivates consumers to purchase a product immediately, either by lowering the price (with the use of coupons, trade discounts, or other means) or by adding value (for instance, with the use of sweepstakes or value packs).

In addition, the definition takes into consideration the concept of a target audience, implying that promotion should be aimed at a specific group of consumers rather than at the population at large. It also recognizes the role of sales promotion in the area of perceived value, suggesting that this is not always a simple matter of concrete attributes and actual price.

Most significantly, the new definition addresses the effect that sales promotion has on the long-term brand value (also known as the brand franchise). The brand franchise is important because it determines how likely consumers are to buy a particular product rather than one of its competitors' products, all else (such as price or distribution) being equal. A stronger brand franchise means that customers are less likely to be affected by competitive promotional activities. In addition, because it means that there is a consumer demand for the product, retailers are more likely to be willing to carry it and possibly to accept a lower margin on it.

Sales promotion does have a residual market value, that is, there may be a long-term effect on the brand franchise after the promotion is over. Sales promotion may also have an effect on the relationship value of the brand, that is, on how positively or negatively consumers feel about a particular product or company.

These types of long-term effects from sales promotion have usually been viewed as negative, with many people believing that too much promotion detracts from the long-term value of the brand. This problem has been particularly prevalent in certain consumer products categories, such as soft drinks or paper and plastic products, where frequent discounting has made the "real" price of the product unclear and has taught consumers and retailers to buy only on deal.

However, depending on the particular situation and goals, sales promotion may also have a positive long-term effect on the brand and on residual market value. The scope of this effect—and whether it occurs—depends on the individual situation, the particular promotion used, and the type of customer targeted.

The rest of this book is designed to help you plan sales promotion programs within a more strategic framework. It will examine the kinds of effects that various sales promotion activities have in different situations—in terms of affecting short-term sales before and immediately following the promotion, and in terms of the long-term value of the brand.

Planning Sales Promotion

Like any other type of marketing activity, sales promotion needs to be evaluated in the context of how it fits into the overall strategy for a particular brand. To be able to conduct promotion activities effectively, it is helpful for marketers to first answer the following questions:

1. *Who are the customers we want to reach?* It is an accepted tenet of marketing that not all customers are alike. In fact, a large percentage of traditional marketing activities is oriented toward segmenting consumers into relevant groups and then determining the appropriate messages to be used to target each group.

Most marketing activities segment consumers according to demographics, psychographics, and other permanent personal characteristics that are assumed to affect the kinds of products that these people are likely to need or desire. Awareness of these personal characteristics is useful in developing products, packaging, advertising, public relations, or other kinds of activities that affect consumer attitudes toward products. Such an awareness is essential to the evaluation of how useful those products are likely to be to them.

As was stated in Chapter 1, however, sales promotion usually works best in affecting behavior, not attitudes. Therefore it seems to make more sense with sales promotion to segment consumers according to their general *behavior*, that is, whether or not they buy the brand, or another product in the category, some or all of the time.

2. *What are the reasons for that behavior?* Just because two people act the same way doesn't necessarily mean that their reasons for doing so are the same. For instance, a person may leave a party early because he is bored, because he is shy, because he hates loud

music, because he has a headache, or because he has another engagement. In order to persuade him to stay, it is necessary to understand *why* he's leaving, not just to observe his behavior. We can then take the appropriate action (give him an aspirin, turn down the stereo, or simply let him leave).

The same principle applies to the field of sales promotion. Consumers may choose to purchase or not to purchase a product for a wide variety of reasons. For instance, they may buy a particular brand because they believe it is the best one on the market, because it is less expensive than competitive products, because of habit, or because of a combination of these factors.

It is important to analyze why consumers behave the way they do, because this may affect whether—and by how much—they will be influenced by a particular sales promotion program.

3. *What is the goal of the program?* Different sales promotion programs are used for different reasons in order to achieve vastly different ends. For instance, some promotions are designed to achieve consumer trial, with the hope that triers will convert to future buyers. Promotions may be used to match or preempt competitive activities, in order to keep loyal customers from defecting to other products. Some promotions are designed solely to create a short-term sales spike, perhaps to meet the profitability goals of a certain period of time. Obviously, there are many reasons why sales promotion is used—and this needs to be considered in the planning process.

To tie these elements together, it is helpful to introduce a framework that segments consumers into different categories based on their buying behavior.

One commonly used scheme is a segmentation framework developed by Professor Leigh McAlister (University of Texas, Austin). This framework segments consumers of a product category according to whether they are brand loyal (generally using just one brand) or switchers (alternating between two or more brands). According to the model, loyal customers may stockpile (that is, buy products on deal and hoard them for future use) some or all of the time, or they may be classified as not deal-prone. Switchers may also be classified as not deal-prone (assumably interested in variety or in meeting different needs with different products), or they may let promotions affect their product choices, perhaps sometimes stockpiling product when they get a particularly good deal.

Used in a strategic analysis, the McAlister model can help promotion managers to better understand their customers. However, it is a bit simplistic in that it assumes that consumers either are or are not deal-prone. In reality, the dichotomy isn't nearly that complete. Almost all consumers are sometimes influenced by some kind of

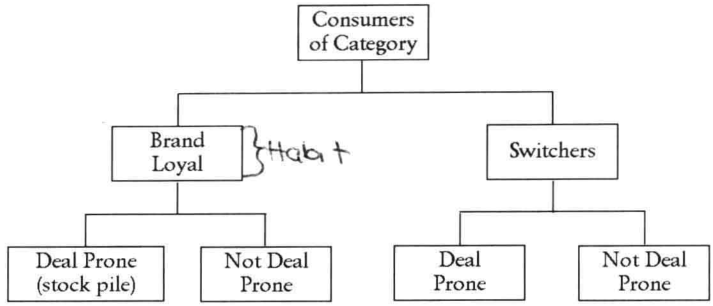

Exhibit 2.1. McAlister Segmentation Model

sales promotion. For instance, a woman who believes that clipping coupons is a waste of time may still purchase a product because of an on-package price reduction or a sweepstakes, and even the most ardent coupon clipper may sometimes buy an attractive product at a high price without a coupon.

Therefore, for the purpose of this book, it seems to make more sense to categorize consumers by their typical buying behaviors and by what appears to be causing those behaviors. It then becomes possible to choose appropriate promotional techniques that match the specific goals for the brand.

Based on their purchase behaviors, consumers can generally be divided into five categories: loyal users, competitive loyals, switchers, price buyers, and nonusers of the category.

Loyal Users

Loyal users are people who buy a particular brand on a more or less consistent basis. (The term *loyal user* has actually become a relative one in recent years, as fewer consumers have chosen to stick with just one brand. For instance, in some categories, such as toilet tissue, even the most loyal users may buy a particular brand only 60 percent of the time or less. For the purposes of this book, therefore, we will assume that a loyal user is someone who usually, but not necessarily always, buys a particular brand.)

When addressing a company's own loyals, the goal is not to change behavior but to reinforce it, thereby preventing defection and/or increasing current customers' consumption of the brand.

Reinforcing Existing Behavior

In very few cases are consumers unconditionally loyal to a particular product. Instead, they usually make the purchasing decisions they do because of a specific set of factors. They may honestly believe that "their" brand is the best one on the market, or they may think