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BUSINESS SERVICES

MEASURING THE VALUE OF SALES PROMOTIONS

Many organizations include significant budget allocations for sales promotions designed to induce trial of both existing and new products. Marketing managers waver between strategies that focus on the short-term behavioral incentives obtained by sales promotion and advertising designed to build brand awareness and generate category sales.

Price promotions can be applied as stimuli prior to and post behavior, but also as mechanisms that lead to improved category-wide product sales. Industry has found that price promotions not only shift the demand for the promoted product, but also the demand for substitute, complementary and products within similar categories. As price promotions continue to exhibit the power to generate multiple-product sales, retailer pricing strategies can exploit the joint substitute/complement relationship among retail products.

Promotional cross-elasticity has been used mainly to show substitution effects and complementary products sales, yet there has been little research on the effect of cross-promoting goods that are not direct substitutes or complements. The promotional strategy of pricing products relative to one another or the setting of an item's price on the basis of the expected effects of that price on the sales of other products is defined as implicit price bundling. Particularly, implicit price bundling is the pricing strategy whereby the price of a product is based on the multitude of price effects that are present across products without providing consumers with an explicit joint price.

Empirically, prior research has demonstrated the value of price promotions on attracting new users (Bawa and Shoemaker, 1987), retaining loyal customers (Deighton, et al. 1994 and Tellis 1988), stimulating multiple product sales, and provoking brand-tier switching (Nowlis & Swinson 2000). As firms continue to utilize promotions to create a competitive advantage, stimulate product sales, and increase market share, the question becomes whether immediate or delayed value promotion is best to achieve these goals. Specifically, there are two distinct sales promotions; front-loaded and rear-loaded.

Front-loaded promotions are value incentives that provide the consumer with an immediate benefit upon purchase. Front-loaded promotions include: peel-off coupons, direct-mail coupons, and FSI coupons. Brand managers utilize front-loaded incentives as operant tools to entice consumers to switch away from competing brands. Conversely, on-pack coupons, contests, and loyalty programs that stimulate repeat purchases and provide incentive stimuli after the purchase are classified as rear-loaded promotions. Manufacturers and retailers both manipulate rear-loaded incentives as respondent conditioning tools to prevent consumers from switching away on subsequent purchases by rewarding their future purchases.

Experimental evidence has shown that the type of promotion vehicle used (immediate versus delayed value) affect the sale of cross-category products. In closing, price promotions have been found to generate consumer responses that are 74% brand choice elasticity (Gupta 1988). The brand choice elasticity percentage represents the consumer switching between brands holding all other variables constant. This immediate sales increase may be attributable to within-category brand switching, as well as to a category-expansion effect of price promotions (Chintagunta 1993, Van Heerde 1999). This information allows managers to increase store performance by implementing price promotion strategies that entice consumers to purchase multiple products concurrently.

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