

Sales Promotions – Good or Bad?

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Introduction

Sales promotions have become a vital tool for marketers and its importance has been increasing significantly over the years. In India, sales promotions expenditure by various marketing companies is estimated to be Rs 5,000 crores and the emphasis on sales promotion activities by the Indian industry has increased by 500 to 600 percent during the last 3 to 5 years (Economic Times, June 15, 2003). In the year 2001, there were as many as 2,050 promotional schemes in the Rs 80,000 crore FMCG Industry (Dang et. al, 2005).

Given the growing importance of sales promotion, there has been considerable interest in the effect of sales promotion on different dimensions such as consumers' price perceptions, brand choice, brand switching behaviour, evaluation of brand equity, effect on brand perception and so on. One of the purposes of a consumer promotion is to elicit a direct impact on the purchase behaviour of the firm's customers (Kotler, 1998; Blattberg and Neslin, 1990). Research evidence suggests that sales promotions positively affect short-term sales (Priya, 2004). Research on price promotion has consistently reported high sales effect and high price elasticity for brands which are on promotion (Blattberg, Briesch and Fox, 1995). Studies have shown that price promotions enhance brand substitution within a product category (Dodson et al, 1978), affect aggregate sales (Gupta, 1998), and significantly affect stock piling and purchase acceleration (Blattberg, Eppen and Lieberman, 1981, Neslin, Henderson and Quelch, 1985). However, there have also been studies that suggest that sales promotion affects brand perceptions.

Researchers have found out that promotions, especially price promotions, have negative effect on brand equity (Mela et al, 1997). In another study, Schultz (2004) argues that over dependence on promotions can erode consumers' price-value equation. The results of a study by Jedidi et. al (1999) indicates that in the long term, advertising has a positive effect on brand equity where as price promotions have a negative effect. Similarly, Yoo et. al (2000), based on structural equation model, suggests that frequent price promotions, such as price deals are related to low brand equity, where as high advertising spending, high price, good store image and high distribution intensity are related to high brand equity. There is also a managerial belief that if a brand is supported with frequent promotional offers, the equity of the brand tends to get diluted. On the contrary, there have also been studies that indicate brands benefit from promotions. Amongst the elements of marketing mix, sales promotions have long-term influence on brand equity (Yoo et. al, 2000). Mariola & Elina, (2005), based on a sample of 167 buyers suggest that monetary and non-monetary promotions are useful to create brand equity because of their positive effect on brand knowledge structures.

The researchers in this study propose to explore whether the phenomenal growth of sales promotion as a promotional tool in marketing products in India is perceived favorably by the consumers and examine the differential effect, if any, of two types of sales promotion namely cash discount and free gift on consumers perception.

Objectives of the Study

The specific objectives of the study are:

1. To examine the perception of customers on sales promotion
2. To examine the differential effect, if any of two types of sales promotions Viz., cash discount and free gift on the perception of customers.

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Hypotheses of the Study are:

1. H0: The customers perceive sales promotions favorably.
2. H0: There is no differential effect on consumer perception about type of promotions Viz. cash discount and free gift.

Defining the Terms Used in the Study

For the purpose of our study, we follow the definition of sales promotions as a “diverse collection of incentive tools, mostly, short term designed to stimulate quicker and/ or greater purchase of particular products/services by consumers” (Kotler, 1998). Sales promotions are classified as price and non- price based on the nature promotions (Campbell and Diamond, 1992; Blattberg and Neslin, 1990). Price promotions are defined as ‘promotions such as Coupons, Cents off, Refunds, and Rebates that temporarily reduce the cost of the goods or service’ (Cooke, 1983). Non- price promotions are defined as promotions such as giveaways (freebies), or contests in which value is temporarily added to the product at full price.

Methodology

The study is based on primary data derived through sample survey using pre-tested structured instrument (questionnaire). In order to study the perception of customers on sales promotion, the researchers used fast moving consumer durables, CTV, Washing machines, refrigerator etc. customers as respondents.

The instrument consisted of questions pertaining to experience in availing schemes, interest in schemes, perception about the scheme etc. The questions were framed such a way that researchers can identify whether they will recommend the scheme or not and any difference between two types of sales promotions Viz. cash discount and free gift. Data was collected from 120 consumers in Kottayam District.

For testing the hypotheses, Chi-square tests were administered at 5% level of significance.

Findings of the Study**1. Experience in availing schemes***Inferences*

Table 1 shows that, among the 120 respondents, 41 (34.2%) have availed promotional schemes while purchasing the products and 79 (65.8%) have not availed any such schemes

Table No. 1

Availed Scheme	Number	Percentage
Yes	41	34.2
No	79	65.8
Total	120	100

2. Perception about Promotional Schemes*Inferences*

Table 2 shows that, 33 (27.5%) of the respondents have perceived that promotional activities are genuine, 42 (35%) have perceived negative and 45 (37.5%) are doubtful.

Table No. 2

Genuine or not	Number	Percentage
Yes	33	27.5
No	42	35.0
Doubtful	45	37.5
Total	120	100

3. Interest in Promotional Schemes

Inferences

Table 3 shows 39 (32.5%) of the respondents are interested in purchasing products under promotional schemes, 31 (25.8%) are not all interested in availing schemes and 50 (41.7%) will respond to the scheme on merit.

Table No. 3

Interested	Number	Percentage
Yes	39	32.5
No	31	25.8
Depends on scheme	50	41.7
Total	120	100

4. Cash Discount Vs Free Gift

Inferences

Table 4 shows that 67 (55.8%) of the respondents are for cash discount while 53 (44.2%) consider free gift better than cash discount.

Table No. 4

Promotional schemes	Number	Percentage
Cash discount	67	55.8
Free Gift	53	44.2
Total	120	100

5. Promotional Scheme Vs Satisfaction

Inferences

Table 5 shows that out of the 120 respondents only 41 have availed some or other promotional schemes. Only 13 (31.7%) are satisfied with promotional schemes while 28 (68.3%) are not at all satisfied with schemes. Proportion of unsatisfied customers is significantly higher than the unsatisfied respondents.

Chi square test indicate that cash discount and free gift are not significantly different as far as satisfaction is concerned.

Table No. 5

Observed Frequencies			
	Are you satisfied		
Scheme availed	Yes	No	Total
Cash discount	8	14	22
Free Gift	5	14	19
Total	13	28	41
Critical Value = 3.841455, p -Value = 0.490541			

6. Whether Promotional Schemes Will Be Recommended

Inferences

Table 6: Chi square test shows that irrespective of whether a respondent have availed scheme or not they are not going to recommend this scheme to friends.

Table No. 6

Observed Frequencies			
	Will you recommend scheme		
Have you availed scheme	Yes	No	Total
Yes	13	28	41
No	20	59	79
Total	33	87	120
Critical Value = 3.841455338, p -Value = 0.457119007			

7. Reason for not recommending

Inferences

Table 7 shows that respondents are not recommending sales promotion schemes because products thus purchased having less quality, not proper after sales service, schemes are not credible and durability of the products are in question.

Table No. 7

1	Product Quality	23	29.1%
2	After Sales Service	18	22.8%
3	Genuineness (Credibility)	17	24.7%
4	Durability	21	30.4%

Conclusion

The study finds ample evidence to conclude sales promotion schemes are not perceived favorably by respondents and there is no differential effect between two types of promotional schemes Viz. cash discount and free gifts. In summary the conclusion drawn from the study are :-

- The customers are not perceiving sales promotion scheme favorably (Null Hypotheses 01 is not supported).
- There is no differential effect on consumer perception about type of schemes Viz. cash discount and free gift (Null Hypotheses 02 is supported)

Scope for further research

The study should be extended to different product categories in fast moving consumer durables. The study will be conclusive if Fast Moving Consumer Goods (FMCG) consumers are also considered for study. The profiles of the respondents, the geographic, demographic or psychographic are to be considered for further studies.

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