

# DUGOROČNI UČINCI UNAPRJEĐENJA PRODAJE NA IMIDŽ MARKE

## LONG-TERM IMPACT OF SALES PROMOTION ON BRAND IMAGE

UDK 658.626  
Pregledni rad  
Review

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### Ključne riječi:

*marketinške komunikacije, unaprjeđenje prodaje, imidž marke*

### Keywords:

*marketing communications, sales promotion, brand image*

### SAŽETAK

Unaprjeđenje prodaje nezaobilazan je alat u promotivnom miks, posebno na tržištu proizvoda krajnje potrošnje, između ostalog i zbog povećanih pritisaka na tržištu kao što su rastući zahtjevi trgovaca i veći broj konkurenata. Ovi su se pritisci pokazali kao problem za mnoga poduzeća, posebno ona koja su pozicionirana kao premijske marke i ona koja brinu može li unaprjeđenje prodaje imati negativan dugoročni učinak na njihovu poziciju. Iako postoji veliki broj istraživanja provedenih na temu unaprjeđenja prodaje, ona često generaliziraju tehnike unaprjeđenja prodaje i uglavnom se fokusiraju na marketinške alate koji uključuju smanjenje cijene. Prema tome, cilj je ovog rada analizirati i

### ABSTRACT

Sales promotion (SP) is an inevitable tool in the marketing communications mix, especially in the FMCG markets, due to pressures such as retailers' growing demands and increasing competition. This has proven to be an issue for many companies, especially those with a premium brand positioning and those concerned about the impact that SP might have on the long-term image of the company. Despite the fact that literature is replete with research on SP, it seems to be vastly generalized and mostly focused on price reductions. Thus, this paper aims to analyze and discuss the issue of the long-term impact that SP has on companies, especially on premium brands in the FMCG markets. It

raspraviti pitanje dugoročnog utjecaja koji unaprjeđenje prodaje ima na poduzeća, posebno na premijske marke na tržištu proizvoda krajnje potrošnje. U radu je zaključeno da, ako se unaprjeđenje prodaje ispravno koristi, može imati pozitivne dugoročne utjecaje na marku, a samim tim i na poduzeće.

concludes that, when used properly and strategically, SP may have a positive long-term impact on brands.

## 1. INTRODUCTION

In the changing and competitive marketing communication industry it is of vital importance for companies finally to recognize that consumers perceive a brand through all the communication touch-points. This, in turn, implies the importance of a strategic focus in any marketing communications plan, as brand building is a long-term exercise. A brand entails a construct "of, first, an identity that managers wish to portray and secondly, images construed by audiences of the identities they perceive".<sup>1</sup> Furthermore, as brand image refers to the consumers' perception of the brand and all the associations that are formed,<sup>2</sup> companies need to acknowledge the potential of all communication tools available and view them through the long-term impact they might have on the brand image of the company, as a means of creating a positive attitude towards the company.

Brand image and associations consist of several dimensions, most often classified into attributes (descriptive features that characterize a brand), benefits (personal value consumers attach to the attributes) and attitudes (general evaluations of the brand).<sup>3</sup> Del Rio et al.<sup>4</sup> found that each of these factors might have a different effect on consumer responses but, even though the concepts of brand image and associations are in themselves clearly complex (incorporating the above-mentioned factors), for the purpose of this paper we will refer to brand image in its broader sense – whether the perception of the company is positive or negative in relation to other brands and whether consumers perceive less value of the brand when encountering them through different communication tools.

The need to analyze the long-term impact of promotional tools is more important than ever, as marketing communications are becoming increasingly expensive and companies are constantly seeking ways to achieve their objectives in a more cost-effective manner. In the mass communication days, before the extreme competition of the kind we are seeing today or such strong growth of new technologies, a company could charge premium prices and complement its positioning merely with advertising. Today, particularly when

it comes to the FMCG markets, the use of sales promotion (SP) has become inevitable and almost every company needs to use SP as either an offensive or a defensive tool.<sup>5</sup>

## 2. SALES PROMOTION

Sales promotions consist of a variety of marketing tools, which are designed to stimulate purchase by providing an incentive.<sup>6</sup> There are numerous reasons why SP has increased in importance: fierce competition,<sup>7</sup> high cost and decline of the more traditional marketing communications mediums,<sup>8</sup> and short-term perspectives with an emphasis on immediate results.<sup>9</sup>

These factors have been highlighted especially in the FMCG markets, characterized usually by low involvement products; a lack of clear differentiation between brands and extreme competitiveness. Premium brands and market leaders have not been exempted from these issues, as it has been found that followers and market leaders experience the same level of competition,<sup>10</sup> although their brand characteristics may vary greatly.

Perhaps the most pressing issue for manufacturers is an increasing power of retailers<sup>11</sup> as well as a growing strength of retailers' own label brands.<sup>12</sup> Retailers now take up a considerable part of the market share and can dictate the trading terms with manufacturers.<sup>13</sup> Retailers are themselves in a pressure situation where they face competition from other retailers and constantly need to find new ways of providing more value to consumers. Consumers are becoming more demanding in their choice of retailers and may be influenced by factors such as price, location, layout, product range and sales personnel.<sup>14</sup>

Because of a growing retailer power, more demanding customers and a general increase in competition, companies may be forced to use SP in order to retain not only market share in general, but concretely, to receive more shelf space and better terms for their

products. They now need to match the promotions of their competitors and show the flexibility needed in the retail environment. This is especially important for established brands, as new entrants tend to use sales promotions as a means of encouraging brand-switching and breaking existing loyalty.<sup>15</sup>

In the light of these pressures, it becomes clear that companies need to address the issue of SP in their campaigns. However, the often assumed image of SP – that its long-term effects can be devastating for a brand – is a concern for a company, especially one with a premium brand positioning. This form of positioning relies on core values, such as sophistication and high quality, which in turn justify the premium price. They usually incorporate both the intrinsic and extrinsic attributes. A strong brand image is particularly important for these brands, as a “perceived risk is reduced and high quality is conveyed through trust and experience formed through an association with the brand”.<sup>16</sup>

Consequently, this paper explores and analyzes the issue of the long-term impact that SP has on companies’ image and should contribute to a better understanding of the relationship between the SP strategic potential and brand image, with a particular focus on premium brands in the FMCG markets.

### 3. SHORT- AND LONG-TERM EFFECTS OF SALES PROMOTION

The evidence of short-term effects seems to be well documented in the literature. It is suggested that SP can build brand awareness and motivate trial, provide more specific evaluation methods, as they are more immediate and operate in a specific time frame,<sup>17</sup> influence sales,<sup>18</sup> expand the target market<sup>19</sup> and achieve competitive advantage.<sup>20</sup> According to their purpose, SPs are often successful in inducing action, as they encourage consumers to act on a promotion while it is still available. Also, the strength of SP lies in its flexibility to quickly respond to competitor attacks.<sup>21</sup>

Despite these benefits, the question remains whether these effects are made at the expense of the long-term impact that SP may have on companies.

There is evidence pointing towards SP having a negative effect on brands, especially in relation to advertising. It is argued that SP does not have any brand-building impact<sup>22</sup> and could lead to diminishing effects for the brand, particularly well-established ones.<sup>23</sup>

In fact, the Ehrenberg et al.<sup>24</sup> study showed that price-related promotions do not have any effect on brand performance, either in terms of sales or repeat purchase. According to the authors, this is due to the fact that promotions influence existing customers in the first place, with some rare exceptions.<sup>25</sup> This is a concern for companies, whose main objective it is to target new customers or gain more long-term profit, as new customers might only take advantage of the promotion and then go back to their preferred brand. Also, even when the existing customers are targeted and the response is satisfying, these consumers’ price sensitivity may be enhanced, causing difficulties in the long run.

A premium brand needs to justify its high price and its image, and often does so through advertising, but are these media expenditures a waste of money if the image is damaged through other communication channels? Perhaps the easiest advice would be to simply avoid SP due to this potential risk, but as we have seen in the FMCG markets, SP cannot easily be avoided and market characteristics force companies to address this issue. In addition, it is arguably the FMCG markets that face the largest issue of competition and lack of differentiation among products; and these are all the problems that successful branding might ease.

Also, as previously implied, retailers and the characteristics of the retail environment play an important role in customers’ perception of a brand. Not surprisingly, it has been found that the context in which a brand is seen influences the brand image perception, and might damage the brand in some cases. For instance, display features in a store may trigger different responses in consumers. If a company has invested

marketing communications efforts in establishing a high-quality brand image and the product is then placed in an undesirable context (for instance, in proximity to the brands associated with lesser quality), consumers may perceive less brand value.<sup>26</sup> Thus, it may be the retailers who have ultimate control over the brand image.

The SP activities of companies could have an additional impact on the whole market category as well. Dawes<sup>27</sup> found that a successful price promotion did expand the category while the promotion lasted, while having a negative long-term effect of decreased sales in the period *after* the promotion. A reason for this might lie in the fact that people tend to buy greater quantities during the promotion, and this leads to weaker demand once the promotion has finished. Another, equally distressing theory about the promotional impact on the category is that since SP tends to encourage brand-switching, the category does not benefit as a whole as people switch to even lower prices.<sup>28</sup>

### 3.1. Price sensitivity

One of the most discussed negative effects concerns consumer price sensitivity. Findings show that SP tends to increase consumer price sensitivity, due to the formation of reference prices.<sup>29</sup> When consumers buy a product, they start to compare the price to the reference price, as opposed to the actual one. If a consumer is used to buying two coffees for the price of one, when the SP is removed, the actual price of the coffee suddenly seems more expensive. However, this implies that, in order for consumers to become too price sensitive, promotions would have to happen frequently, since consumers do not tend to always remember prices.<sup>30</sup>

Naturally, different consumers react differently to prices and SP, depending on their own predispositions and preferences. For instance, customers loyal to a specific brand will perhaps not switch even when presented with the most tempting offer while others actively search for the best offer available. Promotions can, however, lead to a greater number of people becom-

ing offer-seekers as, Mela et al.,<sup>31</sup> found that, looking long-term, price promotions do make both loyal and non-loyal customers more sensitive to price.

### 3.2. Sales promotion in relation to advertising

When the effects of SP are analyzed, both in the academia and among practitioners, SP is often compared to advertising. This is probably due to the fact that their impacts are viewed as opposite – SP with known short-term effects while advertising is generally considered a brand-building tool. Usually, this relationship symbolizes the direction a company chooses to take – whether it chooses to allocate most of the budget on SP or advertising implies whether its focus lies on short-term or long-term objectives, as incorrect as this assumption might be. Companies may strategically use both methods or have them complement each other, as many companies do successfully. Also, these kinds of discussions and assumptions imply that the advertising effect on brand-building is indisputable.

On the one hand, studies have shown that a premium brand is more likely to be supported by advertising while a product with a lower price is likely to allocate more funds into SP.<sup>32</sup> It has also been found that, in relation to SP, advertising makes consumers less price sensitive,<sup>33</sup> which is a problem often associated with SP. There is, of course, evidence pointing towards the positive impact that advertising has on brand image.<sup>34</sup>

On the other hand, long-term effects of advertising are as difficult to measure as those of SP. Considering the relationship between advertising and brand image, one would need to rethink the assumption that advertising has such a powerful influence on the company's image. Advertising is not necessarily powerful enough to differentiate brands or affect brand image even though it has been found to contribute to other important aspects, such as providing publicity and protecting an already established brand.<sup>35</sup> Therefore, a

number of organizations are moving their funds away from advertising to sales promotion, public relations and direct marketing.<sup>36</sup>

Either way, many managers do face a dilemma of how to allocate their budgets;<sup>37</sup> therefore, this is an issue that needs to be addressed. If we were to accept the assumption that advertising is a better tool for establishing and reinforcing a positive brand image than SP, the answer for companies would be simple – they would just use advertising and ignore the rest of the promotional mix. However, all the already mentioned pressures the FMCG market is facing today force companies not to question whether they should use SP, but how to use it successfully.

#### **4. SALES PROMOTION GENERALIZATIONS AND LACK OF A STRATEGIC FOCUS**

Considering the relevant literature and the findings discussed in the previous section closer, however, it should be noted that most of the negative effects of SP are caused primarily by price reduction. An issue that is undoubtedly raised when viewing most of the SP literature is the vast amount of generalizations that are made between various forms of SP. Findings, for instance those regarding brand building, are quickly assumed to represent all SP types, which might be the reason why sales promotion is often viewed in a negative light or why advertising seems to be a more desirable option to use when building brands. Little consideration is given to the fact that there are several different aspects of SP, which is somewhat surprising given its wide range of methods. One would imagine that it deserves a more updated and empirical research.

One of the possible reasons why researchers have focused their studies on price reductions and coupons might be that these are some of the most widely used techniques.<sup>38</sup> However, as SP becomes increasingly im-

portant for industries, all the individual tools it entails should be analyzed independently. In order to learn about the full potential and value of SP, it is important for companies to start distinguishing between the forms of sales promotion that add value and those that do not.<sup>39</sup> Also, SP techniques are often viewed more tactically than strategically. As significant as the tactical implementation might be, it still has its focus on short-term effects, and disregards the long-term impact. It is recognized that companies are sometimes surprised by a competitor's attack and react with an SP offer; however, a strategic plan should incorporate these risks as well and prepare for the management of the competitor's activities.

Such inadequate understanding of the effects of different SP methods makes it difficult for researchers and managers to conclude what the true impact of SP is. While managers may focus on short-term sales and disregard a more long-term impact on image, researchers tend to generalize SP, which in the end, still leaves a number of questions unanswered.

#### **5. TYPES OF SALES PROMOTION**

Marketing literature makes several different classifications of SP, depending on who is targeted by the promotions, the format of the promotion and the means by which value is added to the product. Hence, authors distinguish between trade/retailer or "push" promotions, and consumer or "pull" promotions.<sup>40</sup> Another differentiation refers to consumer, trade and retailer promotions. Similarly to the pull strategy, consumer promotions are usually used by manufacturers to influence the end-user. In trade promotions manufacturers try to influence channel members, most often retailers. Retailer promotions refer to the initiatives taken by retailers to attract consumers.<sup>41</sup> The most common classification of SP is made between value-increasing and value-adding promotions.<sup>42</sup>

## 5.1. Value-increasing and value-adding methods

The classification of value-increasing and value-adding promotions has direct implications for our discussion. The former manipulate the price or quantity of the product while the latter do not influence the price or the core product.<sup>43</sup>

Value-increasing methods are some of the more familiar in the retail environment, such as coupons, BOGOFs and bonus packs. The popularity of these forms of SP are linked to the feeling of receiving more value for money, either in the form of price reduction or adding more quantity to the product.

Although price promotions are most widely used and have proven to be effective in changing consumer behavior short-term,<sup>44</sup> these methods focus primarily on price-sensitive consumers. Hence a risk of a perceived decline in value,<sup>45</sup> as noted in the first part of this discussion.

The example of Procter & Gamble's unsuccessful Every Day Low Pricing (EDLP) strategy illustrate these conclusions: it was found that the price cuts were associated with decreased value, as the company had previously promoted its brands as premium brands.<sup>46</sup>

These findings further confirm the assumption that SP may have negative long-term effects and decrease the value of a brand. On the other hand, there are promotions that are more directly brand-building in intention.<sup>47</sup> Value-increasing methods would not be best suited to a relatively affluent and less price-sensitive target audience. But based on the mentioned characteristics of value-adding promotions, they might be expected to be more appropriate for a premium brand.

## 5.2. Value-adding methods

Value-adding methods include the methods such as samples, gifts, information (brochures or in-store

magazines), competitions, point of purchase displays and demonstrations. We will not fully explore all the individual value-adding tools but may only attempt to consider a few. For instance, sampling has proven to be powerful in encouraging trial and providing specific targeting, which in turn may motivate repeat purchase and increase the brand experience.<sup>48</sup> In addition, sampling provides consumers with the opportunity to make their own judgment with regards to brands. This can be a good starting point for a future, improved relationship.<sup>49</sup>

Premiums, particularly gifts, may prompt an affective response from consumers;<sup>50</sup> however, it is worth noting that premiums can cause negative effects, such as perceived manipulation if not carefully selected.<sup>51</sup> Nonetheless, with careful consideration and planning it is possible to find a premium which suits and interacts with the target audience. The most significant aspect should be to make sure that there is a fit between the product and the premium.

Long-term benefits can be achieved by the use of competitions, through a larger market, customer base and, most importantly, more positive brand image.<sup>52</sup> It is implied that competitions are likely to lead to repeat purchases and opportunities for brand-building. In addition, a competition can be a good base for further marketing communications, for instance, by generating media coverage, more point-of-sale displays in the stores as well as networking and working with other companies. Also, it provides the opportunity for the company to gather valuable data about consumers which could, in turn, be used to build long-term relationships with consumers.

Premium brands may also incorporate more sophisticated methods that may induce long-term loyalty and an improved brand image, such as loyalty cards or the airlines' frequent flyer clubs. Retailers are increasingly using loyalty programs to discourage store switching, and these have proven to be successful for many retailers in terms of the possibility of data collection<sup>53</sup> and impact on sales.<sup>54</sup> Such programs have also provided an opportunity to build relationships with customers, which is an important aspect in strategies such as in-

egrated marketing communications and relationship marketing. Although the use of these methods might prove to be more difficult to implement by companies in the FMCG markets, it is certainly another value-adding tool to consider in the SP repertoire.

Findings about value-adding promotions, though scarce, do show that there is a distinction between various aspects of SP in terms of the long-term benefits they can provide. In order to use SP, one does not need to reduce the price or add more quantity to the product but may instead use the methods which can be a powerful substitute for brand-building advertising and “when properly used, it need not take away from a brand’s image”.<sup>55</sup> When a company uses SP sporadically, customers will not perceive the techniques as an overall part of the brand.<sup>56</sup>

## 6. CONCLUSION

Inherently, sales promotion techniques are intended to have a direct impact on buying behavior,<sup>57</sup> which implies their short-term focus. However, every aspect of communication by a company has some sort of effect on the company’s brand image, and therefore any company which has recognized the importance of thinking strategically knows that it must look beyond short-term effects. In terms of brand building, SP has traditionally been associated with a negative long-term impact due to its predominantly price-orientated nature. But, as we have seen, this view has neglected the full scope of SP methods.

A strategic marketing communications plan will clearly state the elements, such as the objectives, target audience and positioning, which will all help the company decide upon the sales promotion method that is most suitable for the company and the particular campaign. A company positioning itself as cost-effective may, for instance, wish to incorporate the value-increasing methods, while a premium brand might wish to look

toward more brand-building techniques. The enhanced planning in the SP process, along with a closer analysis of all the SP methods, will lead a company with a premium brand positioning to the more creative forms, which do not rely on product discounts.

When integrating SP into the marketing communications plan, messages will reinforce each other, regardless of the medium or tool used. Tools can be inter-related, for instance, by using advertising to promote promotions or, as we have seen, by using competition to enhance public relations. By understanding the impact each individual promotional tool has, managers will achieve synergy between the methods more easily. Therefore, the challenge for managers should not be whether to allocate funds to advertising or SP, but rather to find a way to connect these methods.

What we have also seen emerge from the literature is a doubt whether or not either advertising or SP can influence brand image – a question that surely needs more empirical answers. But, at least for now, we do know that companies can rarely exclude SP from their campaigns due to the factors such as increased competition and pressure from retailers. They can, however, choose to use the SP elements which have proven to be more effective in enhancing the company’s image, and should certainly do so if they have a premium brand positioning. Incorporating SP strategically, given all its characteristics, may turn out to be quite challenging for a company, but: “Today’s and tomorrow’s marketing managers really do not have the choice whether or not to use sales promotion but only whether to use these valuable tools poorly or skillfully”.<sup>58</sup>

## Acknowledgement

The author would like to gratefully acknowledge Danijel Lukić for his critical comments on the manuscript.

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