SMART

Journal of Business Management Studies

(A Professional, Refereed, International and Indexed Journal)

A SERIAL OF SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST

Vol-11 Number- 1 January - June 2015 Rs.400

ISSN 0973-1598 (Print) ISSN 2321-2012 (Online)

Professor **MURUGESAN SELVAM,** M.Com, MBA, Ph.D
Founder - Publisher and Chief Editor

SCIENTIFIC MANAGEMENT AND ADVANCED RESEARCH TRUST (SMART)

TIRUCHIRAPPALLI (INDIA)

www.smartjournalbms.org

SMART JOURNAL OF BUSINESS MANAGEMENT STUDIES
(A Professional, Refereed, International and Indexed Journal)
www.smartjournalbms.org

DO STRONG BRANDS NEED SALES PROMOTION? AN EXPERIMENTAL STUDY

Amit Bhadra*
Associate Professor, School of Business Management, NMIMS, Mumbai, India
E-mail : amit.bhadra@nmims.edu

and

Sreeram Sivaramakrishnan
Associate Professor, School of Business Management, NMIMS, Mumbai, India
E-mail : sreeram.s@nmims.edu

Abstract

A common tradeoff, encountered by a Brand Manager, is whether to invest in the brand or to allocate resources to sales promotion. The sales promotion would have the advantage of quick results in sales volumes but this short term focus on sales volumes, may result in an erosion of the brand in the long term. In this paper, we address the question of whether the differential advantage gained by investing in brand equity is likely to translate into tangible savings on sales promotions. An experimental set up measures brand equity of two brands in the Panel TV segment first and purchase intentions in the backdrop of a sales promotion. The results of the study show that building brand equity provides substantial advantage over sales promotion and brand managers would thus be well advised to allocate more resources to building brand equity.

Key Words : *Brand Equity, Sales Promotions, Panel TVs*

JEL Code : *M30, M31*

1. Introduction

Sales promotions are all around us. The piled up merchandise at the local grocery store being offered at (seemingly) throwaway rates, the oft-used clearance sales to the more sophisticated cashbacks on purchases using credit cards are all becoming frequent events. The noise generated by sales promotions, has reached a crescendo and there is hardly any brand in the market which seems to be able to resist their allure. Even strong brands seem to be capitulating to the demands of consumers, trade partners and other stakeholders to provide the quick fillip to revenues that sales promotions seem to provide. Consumers, now more deal-prone, do not purchase unless there is a discount or a freebie or a special offer.

Consumer non-durable companies use sales promotions extensively throughout the year and during events and festival seasons wherein

*** Corresponding Author**

the ploy followed is usually to induce trials for new products, cross-promote brands, increase consumption level and liquidate products with short lifespan **(Verma, 2013)**. In the consumer durables and electronics segment where technology is changing at a breakneck speed and price sensitivity is extremely high, technology majors also seem to be adopting similar tactics. Loans, cash backs and premiums seem to be the order of the day.

Low and Mohr (2000) argue that the trend toward sales promotion is only likely to intensify as audiences become more fragmented and advertising costs continue to rise. In India, sales promotions are widely used and according to one estimate, the amount spent on advertisement and sales promotions in 2008 in India, was nearly USD 1.54 billion **(Joseph & Sivakumaran, 2011)**. Considering that media expenses are exorbitant, the actual amount spent on other aspects of sales promotions can be easily at least half of this amount. This would put the total expense on sales promotions at over nearly USD 2.5 billion in 2008. We do not expect this amount to have changed too much till 2014 because of the sluggish business growth during this period.

The ability of sales promotions to achieve quick brand sales has been established beyond reasonable doubt **(Blattberg & Neslin, 1989)**. The question of what kind of brands should use sales promotions still needs to be answered. The examples stated above seem to suggest that companies feel compelled to offer sales promotions despite the nature and the strength of the brand. However, the question arises whether this is absolutely necessary.

2. Statement of the problem

Most companies seem to simply get drawn into a promotion war with competitors, whether or not it is really warranted **(Blattberg & Neslin, 1989)**. Can companies avoid sales promotions and rely on their brand equity alone to achieve sales? Do consumers show higher levels of purchase intention even when no promotional offer is present for a brand which has a higher brand equity?

3. Objectives of the study

There have been attempts in the past to answer the above questions in a limited manner. However, it is obvious that these answers would assist in generating greater support (or opposition) for brand building and less (or more) support for short term expediency.

This research adopts an experimental approach to answer these questions. The research is divided into two studies. Study 1 ascertained the brand equity of two prominent consumer durable brands amongst a sample from a population while study 2 measured buying intentions when a sales promotion was withdrawn. There was considerable difference in the preference for the weaker brand, as indicated by the Study 1 vis-a-vis the stronger brand. Though the difference in measured brand equity was only 25 percent, the difference in buying intention was nearly 195 percent. We feel this result underscores the importance of building strong brands and not falling into the trap of excessive sales promotions.

4. Literature Review

Several studies have demonstrated that brand leaders can command higher price differences and they are more immune to resistance to price increases. In a competitive sense, brand leaders draw a disproportionate share of the market vis-a-vis competitors with weaker brands. At the same time, prior research has demonstrated that market leaders are relatively immune to price competition from these small share brands **(Hoeffler & Keller, 2003)**

Therefore, this begs a question as to why strong brands need to indulge in sales promotions. This literature review first defines and elaborates aspects of brand equity and then moves onto outline research in sales promotion before culminating in the confluence of the two topics.

Brand Management is concerned with building sustainable competitive advantage for the brand that would result in higher profits and a steady revenue stream **(D. A. Aaker, 1996; Keller, 1993)**. Brand researchers have conceptualized several ways by which brands can influence current as well as future purchases and can influence consumer buyer behavior. **(David Aaker, 1992)**, **(Jennifer Aaker, 1997)** and **(Keller, 1993)** have noted how consumers perceive and evaluate brands based on brand awareness levels, brand image and brand personality.

(Aaker, 1992, 1996) suggests that Brand Associations, Brand Loyalty, Brand Awareness, Perceived Quality and other brand assets add up to Brand Equity. Brand Equity should result in greater choice probability by consumers and it is reflected in willingness to pay premium prices. **(Keller, 1993)** conceptualizes a new term - customer-based brand equity-which he defines as "the differential effect of brand knowledge on consumer response to the marketing of the brand".

Amongst the many marketing activities undertaken by marketing departments, none takes so much of time and energy as sales promotions. Sales promotion encompasses all promotional activities other than advertising, personal selling and public relations. **(Blattberg and Neslin, 1990)** summarize the various definitions offered by several authors and consider sales promotion as *"an action-focused marketing event whose purpose is to have an impact on the behaviour of the firm's customers."*

Considerable amount of research has been done on the effects of sales promotions on the brand value of the item promoted. Both positive and negative effects have been reported. The negative effects cited in literature, included diverting consumers' attention from brand attributes and channelling attention toward finding the best deal, making the brand usage experience a "secondary reinforcer" **(Blattberg & Neslin, 1989; Rothschild & Gadis, 1981)**. Another more damaging possibility is that frequent promotions directly undermine attitudes towards the brand. For example, the consumer questions why it is necessary to keep promoting the product and concludes that there is something wrong with the product. This is a type of attribution referred to as "object perception" **(Mizerski et al., 1979)**. This undermines favorable attitudes toward the brand that are the foundation of a sound consumer franchise.

On the other hand, **Palazon-vidal et al (2005)**, in an experimental study, found that sales promotions have positive effects on brand equity. They found that sales promotions can be used to build brand knowledge because individuals exposed to promotion stimuli, evoked a greater number of and more favourable associations. Also non-monetary promotions build customer franchise since they create more favourable associations than monetary promotions. They also found that monetary incentives were more effective for utilitarian products while non-monetary promotions were equally effective for both utilitarian and hedonic products.

There is, however, a dearth of studies on the perception and effectiveness of sales promotions with varying brand equity.

Studies have indicated that effects of promotional cross-elasticities are asymmetric (the effect of Brand A's promotion on Brand B's sales is not the same as the effect of Brand B's promotion on Brand A's sales) **(Blattberg & Neslin, 1989)**. This means that in some promotion wars, one brand may fare better than the other depending on the relative brand equity. Companies are adapting strategic focus which leads to promotions that defy or delay imitations and yield disproportionate benefits for companies that have already built a strong competitive position **(Gelb, Andrews, & Lam, 2007)**.

5. Hypothesis of the study

The great challenge faced by marketers today is to establish a balance between brand equity, building activities and sales promotions, aimed at meeting current sales targets. Marketers use brand equity development and sales promotion as tools. However, they would like to know how effective sales promotion initiatives are likely to be under conditions when the brand equity is high versus when it is low. If building brand equity does not provide a considerably higher increment to sales than a sales promotion, then a marketer would continue to use sales promotions. All brand research seems to suggest otherwise and advocates brand building for a sustainable, tangible advantage. Hence the null hypothesis for this study was formulated as below:

$H_0$1: If the brand equity of a brand is higher than that of a competitor, the consumer's willingness to buy in the absence of a sales promotion is not significantly higher than the brand equity differential.

6. Methodology

The research was split into two distinct studies. The research design was experimental. The product chosen was panel TVs. Panel TVs is a term that has come into use in the past few years with the advent of the plasma TV and the LCD TV. The panel TV category consists of plasma, LCD, LED and 3D TVs. There are several players in the Indian market including the Korean giants like Samsung, LG, the Japanese behemoths, like Sony, Sanyo, Toshiba, Chinese players like Vu, Huawei and some Indian players like Videocon and Onida. In order to study the effect of brand equity on sales promotions, we needed to identify two brands that were quite distinct in their offerings while maintaining a similar level of sales promotion activity. The two brands chosen were a large multinational brand (Brand A) and an Indian brand (Brand B). The choice of brands was dictated by the market share of the brands which was taken as a reflection of the relative brand strengths. Brand A is amongst the market leaders, with a market share exceeding 20 percent and Brand B commands a market share of approximately 9 percent[1]. This was also borne out by the first study which elicited brand equity scores. Certain companies follow a very clear no-discount and no-promotion policy. Both brands selected were offering promotions and there was a sufficient level of promotional activity, both across the print media and in retail stores. The former was checked through a media database while the latter was done manually by visiting a sufficient number of multi-brand retail stores. The on-the-ground promotion activities, across these brands, seemed to be of a similar level during the period just preceding the study. There were grave difficulties in measuring actual promotional spends and thus an objective comparison was not possible.

Sample Selection and Data Collection

The population considered for the study was the urban middle class, salaried individuals in the age group of 25-40. These were individuals in junior to middle executive levels in Indian and MNC firms and can be considered representative of the aspiring middle class of India.

The Researchers had access to homogeneous samples of this population since the School of Business Management, NMIMS offered several executive education programs. Due to the nature of the program and the admission process, there was considerable homogeneity amongst the samples chosen for the study. There were several divisions, across executive programs, which satisfied the criteria stated above. Divisions were randomly selected for administering the questionnaires.

Period of the study

The study was conducted during the period July 2013 to December 2013.

Tools Used - Study 1: Measuring brand equity

Two of the more prominent brand equity measures used in literature have been **Keller's Consumer Based Brand Equity (2003)** measurement and **Yoo & Donthu's (1999)** brand equity scale. The latter measure is based on the brand equity dimensions proposed by **David Aaker (1991) and Keller (1993).**

Analysis and Discussion

Study 1: Measuring Brand Equity

Three classes were randomly selected for this study and a total of 95 responses were collected. The results of the study corroborated all the media brand studies, with Brand A having a significantly higher Brand Equity (BE) score of 32.37 versus Brand B (25.97). The difference was significant at the 95% confidence level as seen in **Table 1**.

Having established brand equity scores for both brands, the second stage of the research was embarked upon.

Tools Used-Study 2: Effect of Sales Promotion

The core idea of the research was to ascertain whether companies, with good brand equity, needed to spend on sales promotions. If we could simulate a situation where a respondent is faced with two brands, without sales promotions, then the choice of the brand would tell us brand preference. However, simply asking for brand preference, without a sales promotion in the background, would make the respondents choose the brand with a higher brand equity. It was thus important to make sure that a sales promotion element gets triggered in the respondent's mind. Behavioural economists rely on priming respondents and then eliciting responses **(Gino & Ariely, 2012; Mazar, Amir, & Ariely, 2008)**. In order to prime respondents to the idea of a sales promotion, the question was framed in such a way that a sales promotion was offered and then withdrawn.

The question primes the respondent to think in terms of a sales promotion. And the choice of brand thus is in the backdrop of a sales promotion which has been withdrawn. Two separate sets of respondents were asked to respond to one single question pertaining to one brand. Thus a respondent was not comparing the two brands in her mind but whether they would purchase the brand, given that a sales promotion had been recently withdrawn. This was established through extensive pre-testing.

In case purchase preference for a brand was driven largely by sales promotions in general, then the response to the question would be largely negative. Also in case the preference for a brand was not contingent on sales promotions, then there would be significant positive responses to the question.

It was also important to make sure that prior brand preferences stated in Study 1 did not carry through to Study 2. This was accomplished by making sure that the two studies were conducted across different groups of respondents. Since the executives across the divisions were enrolled in similar programs, there was considerable homogeneity amongst the respondents, as mentioned earlier. Thus there was very little chance of a consistency bias creeping in.

Analysis and Discussions: Study 2: Effect of Sales Promotion

The results of this study are presented in **Table 2**. There were 103 questionnaires collected for Brand A and 109 were collected for Brand B. Respondents, who were willing to buy a particular brand, answered "Yes" despite the sales promotion being withdrawn. The percentage of respondents who answered in the affirmative for Brand A was nearly double that of Brand B. This result was also significant at the 95% confidence level.

Combining the results of the two studies, we find that a 25% increment in BE score corresponded to a whopping 195% increment in purchase intention. Thus the null hypothesis can be rejected.

7. Findings and Suggestions

Based on the analysis and results, it can be concluded that Brand Equity has a disproportionately high impact on purchase intention.

According to **Keller (2001)**, firms are more likely to enjoy benefits like price premiums and more effective marketing programs upon achievement of Brand Resonance. Brand Resonance occurs when all the other brand-building blocks are established and customers express a high degree of loyalty. There are thus no short cuts to achieving this sustainable advantage but several lasting rewards if a firm does manage to achieve it. Models like the Consumer Based Brand Equity Model **(Keller, 2001)** can be utilized by marketers to establish brand resonance for their respective brands.

8. Conclusion

A large portion of marketing budgets of consumer goods companies, gets allocated to sales promotions. This amount, as mentioned earlier, is increasing given the competitive pressures. Competition is not only for market share or revenues but also for capital, as typified by the analyst pressures on companies.

The question raised at the beginning of this research was whether sales promotions are a necessary evil and whether brands, with high brand equity, need to pursue such paths which may in the long run cause harm to the brand. Earlier research, which has entered into the realm of theory, studied the effect of sales promotions on brand equity and salience. The relationship was found to be negative in many cases and positive in some.

Price promotions have a very close relationship to pricing decisions and furthermore, price is an important quality signaling mechanism and frequent price cuts can have significant adverse effects on brand equity **(Erdem, Keane, & Sun, 2008)**. While some studies found that higher-quality brands gain more from a price cut than lower quality brands **(Blattberg & Wisniewski, 1989)**, others found the opposite **(Bronnenberg & Wathieu, 1996). Keller (1993)** states that consumers are more responsive to the marketing mix of brands with high levels of brand equity. **Blattberg and Wisniewski (1989)** provide empirical evidence of higher promotion elasticity of high quality brands in the case of a duopoly between brands of differing perceived quality.

The current study approached this matter from the aspect of brand equity and measured the need for sales promotion. The relationship was again found negative which may be an intuitive finding but is still a significant result. This can be considered a useful theoretical contribution and warrants further empirical testing. The interesting aspect of the study is that the purchase intention was quantified, given a certain difference in brand equity.

9. Limitations

This study was done in a single location and on respondents who belonged to a specific demographic profile. Also the purchase intention may not translate into actual buying behavior which can only be tested using actual shopper data. However, the starkness of the results seems to verify the dominant influence of brand equity on purchase intentions, whether or not a sales promotion is present.

10. Scope for further research

More sophisticated experiments could lead to a better understanding and modeling of this trade-off. Thus a brand manager would be in a position to allocate funds towards brand building activities and sales promotions with greater control over the results.

11. References

Aaker, D. A. (1991). Measuring brand equity across products and markets. *California Management Review*, (Spring), 38,3.

Aaker, D. A. (1992). Managing the Most Important Asset/ : Brand Equity. *Planning Review*, *20*(5), 56.

Aaker, D. A. (1996). Measuring brand equity across products and markets. *California Management Review*, *38*(3), 102–120.

Aaker, J. L. (1997). Dimensions of Brand Personality. *Journal of Marketing Research*, *34*(3), 347. doi:10.2307/3151897

Blattberg, R. C., & Neslin, S. A. (1989). Sales promotion: the long and the short of it. *Marketing Letters*, 81–97. Retrieved from http://link.springer.com/article/10.1007/BF00436151

Blattberg, R. C., & Neslin, S. a. (1990). *Sales Promotions: Concepts, Methods and Strategies*. Prentice Hall PTR.

Blattberg, R. C., & Wisniewski, K. J. (1989). Price-induced patterns of competition. *Marketing Science*, *8*(4), 291–309. doi:10.1287/mksc.8.4.291

Bronnenberg, B., & Wathieu, L. (1996). Asymmetric promotion effects and brand positioning. *Marketing Science*, *15*(4), 379-294. Retrieved from http://pubsonline.informs.org/doi/abs/10.1287/mksc.15.4.379

Erdem, T., Keane, M., & Sun, B. (2008). A dynamic model of brand choice when price and advertising signal product quality. *Marketing Science*, *27*(6), 1111–1125. Retrieved from http://pubsonline.informs.org/doi/abs/10.1287/mksc.1080.0362

Gelb, B., Andrews, D., & Lam, S. (2007). A Strategic Perspective on Sales Promotions. *MIT Sloan Management Review*, (Summer).

Gino, F., & Ariely, D. (2012). The dark side of creativity: original thinkers can be more dishonest. *Journal of Personality and Social Psychology*.

Hoeffler, S., & Keller, K. L. (2003). The marketing advantages of strong brands. *Journal of Brand Management*, *10*(6), 421–445. doi:10.1057/palgrave.bm.2540139

Joseph, J., & Sivakumaran, B. (2011). Consumer Promotions in the Indian Market. *Journal of International Consumer ...*, *23*(2), 151–165. doi:10.1080/08961530.2011.543056

Keller, K. L. (1993). Conceptualizing, Measuring, and Managing Customer-Based Brand Equity. *Journal of Marketing*, *57*(1), 1. doi:10.2307/1252054

Keller, K. L. (2001). *Building customer-based brand equity: a blueprint for creating strong brands*. Retrieved from http://202.120.148.199/ Files/Custome+rBased+ brand+Equity+Model.pdf

Keller, K. L. (2003). *Strategic Brand Management: Building, Measuring, and Managing Brand Equity*. Upper Saddle River, NJ: Prentice-Hall.

Low, G. S., & Mohr, J. J. (2000). Advertising vs sales promotion: a brand management perspective. *Journal of Product & Brand Management*, *9*(6), 389–414. doi:10.1108/10610420010356984

Mazar, N., Amir, O., & Ariely, D. (2008). The Dishonesty of Honest People: A Theory of Self-Concept Maintenance. *Journal of Marketing Research*, *45*(6), 633–644. doi:10.1509/jmkr.45.6.633

Palazón-vidal, M., & Delgado-ballester, E. (2005). Sales promotions effects on consumer-based brand equity. *International Journal of …*, *47*(2), 179–204.

Rothschild, M. L., & Gadis, W. C. (1981). Behavioural Learning - its relevance to marketing. *Journal of Marketing*, *45*(No.2 Spring), 70–78.

Verma, S. (2013). The Free Economy. *Businessworld*.

Yoo, B., & Donthu, N. (1999). Developing and validating a multidimensional consumer-based brand equity scale. *Journal of Business Research*, *52*(1), 1–14. doi:10.1016/S0148-2963(99)00098-3

Table 1

Results of Study 1 - Brand Equity Scores – Mean across the sample

One-Sample Statistics				
	N	**Mean**	**Std. Deviation**	**Std. Error Mean**
BE Brand A	95	32.37	4.33	0.44
BE Brand B	95	25.97	3.97	0.41

Source: IBM SPSS Statistics 19 output for t-test performed by authors

Table 2

Results of Study 2 – Purchase Intentions in the backdrop of a sales promotion

	Yes	**No**	**Total**	**Percentage**
Brand A (Multinational Brand)	70	33	103	68%
Brand B (Indian Brand)	38	71	109	35%

Source: Statistical analysis by authors