Promotion Strategy

“Buy This”

Marketing Mix

1. Product
2. Price
3. Place (Distribution)
4. Promotion

Upcoming Schedule

Product Strategy

Tuesday	**Lecture**
Thursday	**Class Discussion** on “TruEarth Healthy Foods: Market Research for a New Product Introduction”

Pricing Strategy

Tuesday	**Lecture**
Thursday	**Class Discussion** on “A.1. Steak Sauce: Lawry’s Defense”

Distribution Strategy

Tuesday	**Lecture**
Tuesday	**Class Discussion** on “Natureview Farm”

Promotion Strategy

Tuesday	**Lecture**
Thursday	**Class Discussion** on “Giant Consumer Products: The Sales Promotion Resource Allocation Decision”

Promotion

The component of the marketing strategy with the purpose of informing, persuading, and influencing the customer's purchase decision

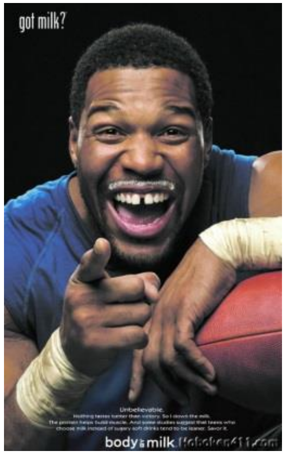
<u>Objectives of Promotions</u>

1. Provide Information
2. Increase Demand
3. Differentiate the Product
4. Accentuate the Product's Value
5. Stabilize Sales
6. Deter Entry

Promotion Goals

1. **Provide Information**
   - Inform the market about the availability of a particular good or service
   - Especially for novel/unfamiliar products
   - For added gimmicks to stir up renewed interest

2. **Increase Demand**
   - Most promotions are aimed at increasing selective demand, the desire for a specific brand
   - Some promotions are aimed at increasing **primary demand**, the desire for a general product *category*
   - Long-term brand demand increases are tempered by stockpiling



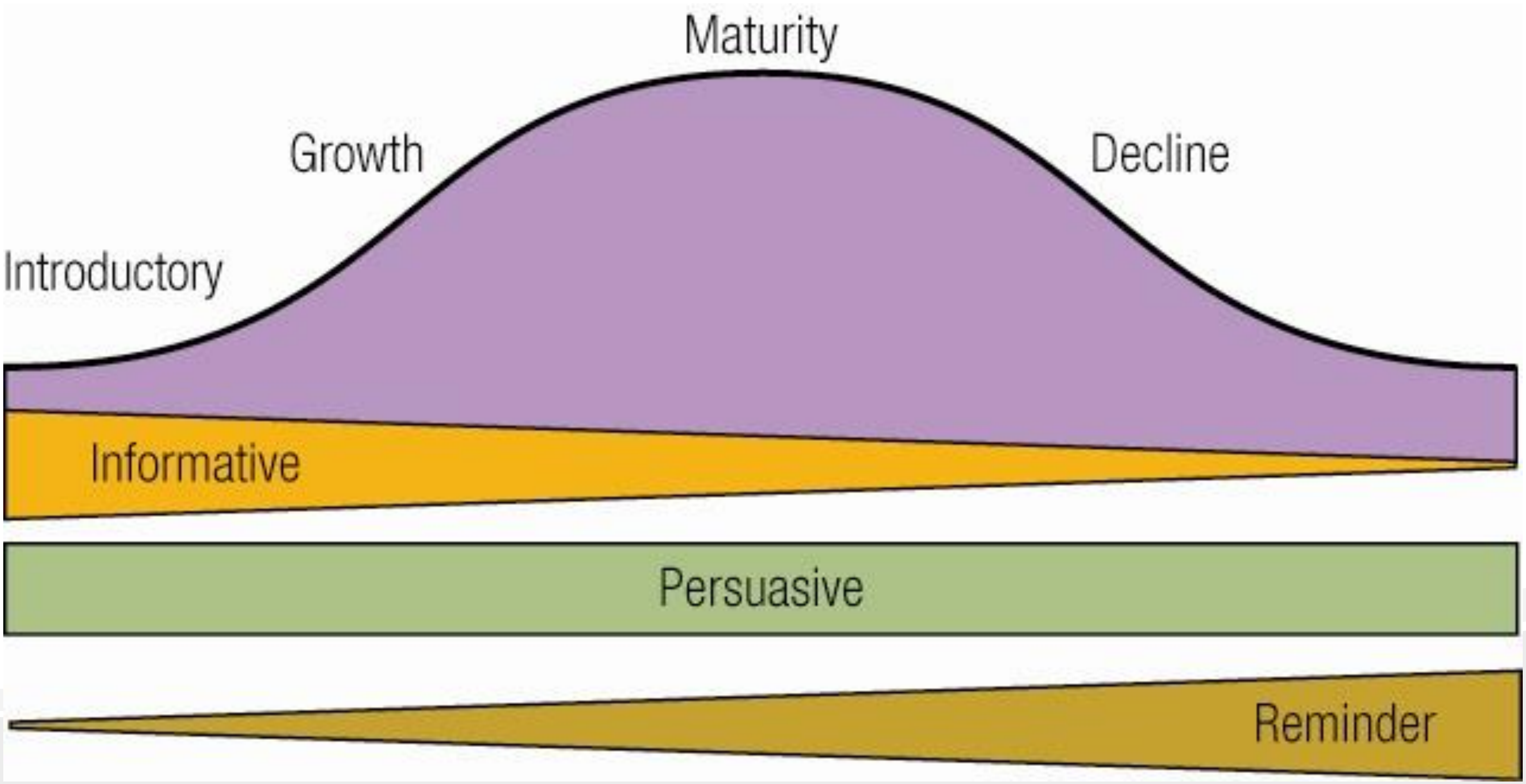
3. **Differentiate the Product**
   - Homogenous demand for many products results when consumers regard the firm's output as virtually identical to its competitors'. Then the firm has virtually no control over marketing variables
   - Promotions are often used to give a product an *image* that is different than competitors'

Promotion Goals

4. **Accentuate the Product Value**
   – Greater value helps justify a higher price in the marketplace.
   – Marketers advise staying away from these words: quality, value, service, caring, and integrity
     - overused and vague.
   – https://www.youtube.com/watch?v=KALfcYdbC58 (Pepsi Max)
5. **Stabilize Sales**
   – For the typical firm, sales fluctuations may result from cyclical, seasonal, or irregular demand
   – Stabilizing these variations is often an objective of promotional strategy

6. **Deter Entry**
   – Prevents consumers from *trying* new products
   – Makes it less likely for the new products to graduate past the difficult introductory stage
   – Ex: A1 vs. Lawry's
   – Discourages future would-be entrants from attempting entry

Advertising objectives in relation to the stage in the product life cycle



The Communication Process

- An effective promotional message accomplishes three tasks:

1. It gains the receiver's attention
   - The less likely this is to occur, the more dramatic the message needs to be.

2. Shared meaning
   - persuade and/or inform
3. It stimulates the receiver's needs and suggests an appropriate method of satisfying them
   - Leads to a purchase or desired action

Promotional Mix

Blend of personal selling and non-personal selling designed to achieve promotional objectives

- **Personal selling**: interpersonal promotional process involving a seller's person-to-person presentation to a prospective buyer
- **Non-personal selling** includes: advertising, product placement, sales promotion, direct marketing, public relations, publicity, guerrilla marketing

Promotional Mix

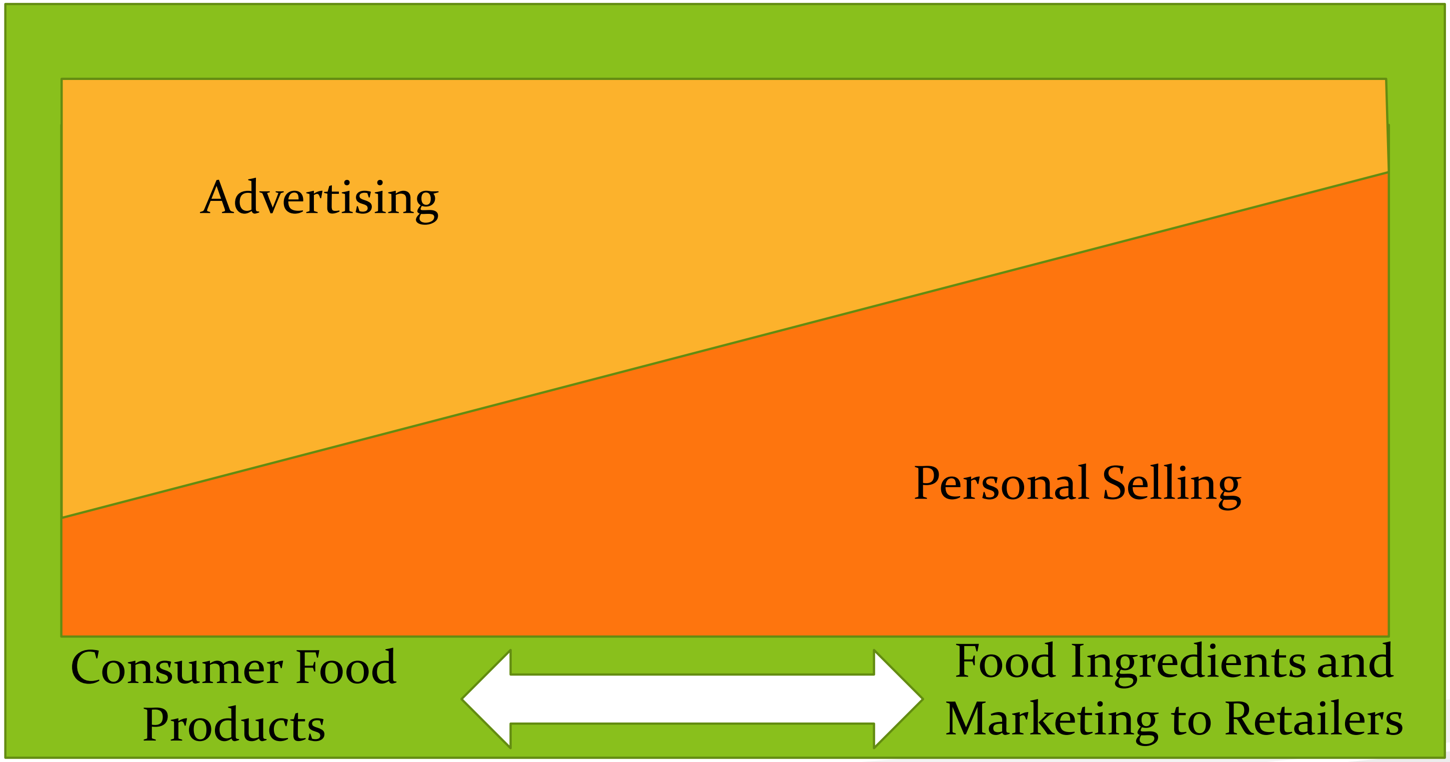
1. **<u>Advertising</u>** – messages paid for by a sponsor, delivered through media.

2. **<u>Sales Promotion</u>** – covers a lot of activities: direct payments to retailers for shelf space, free samples, coupons, trade allowances…

3. **<u>Public Relations</u>** – includes building good relations with the public by obtaining good publicity, building up positive corporate image, and responding to bad publicity/info.

4. **<u>Personal Selling</u>** – oral presentations to potential buyers for the purpose of selling.
   - More important for food processors and manufacturers
   - Ex: convincing a retailer to carry a product; convincing a soda manufacturer to use Stevia.

Relative Importance of Advertising to Personal Selling



Adapted from: Schaffner, D. J., & Schroder, W. R. (2003). *Food marketing: An international perspective*. McGrawHill.

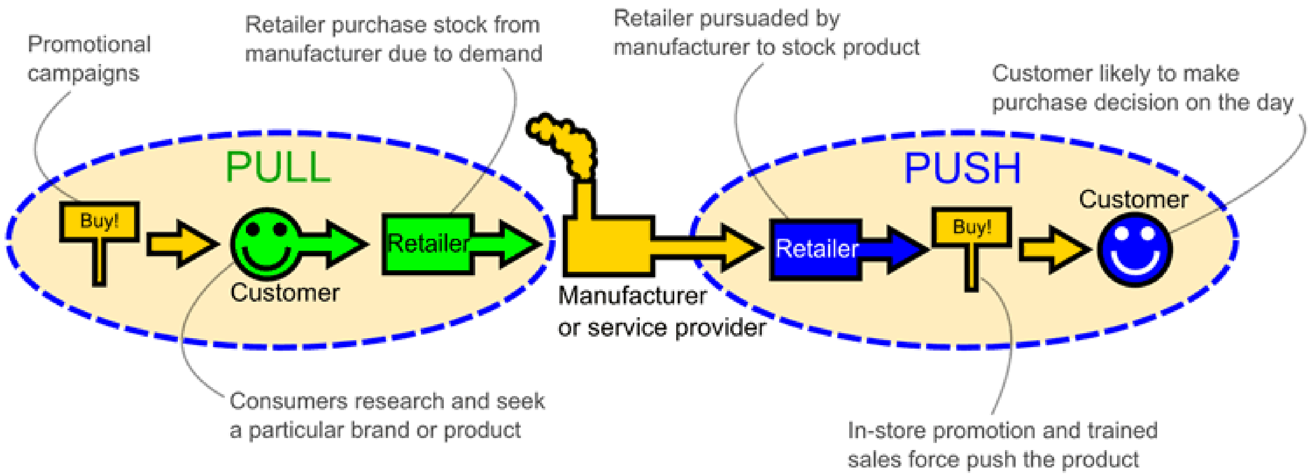
Consumer Markets Vs. Business-to-Business Markets

	Consumer Market	Business-to-Business Market
Promotional Mix	1. Advertising	1. Personal Selling
	2. Sales Promotion	2. Sales Promotion
	3. Personal Selling	3. Advertising
	4. Public Relations	4. Public Relations
Advertising Media	TV, radio, newspapers, mags, outdoor signs	Trade journals, direct mail, directories
Sales Promotion Media	Displays, contests, recipes, demos, samples	Trade exhibitions, formulas, processing assistance, samples

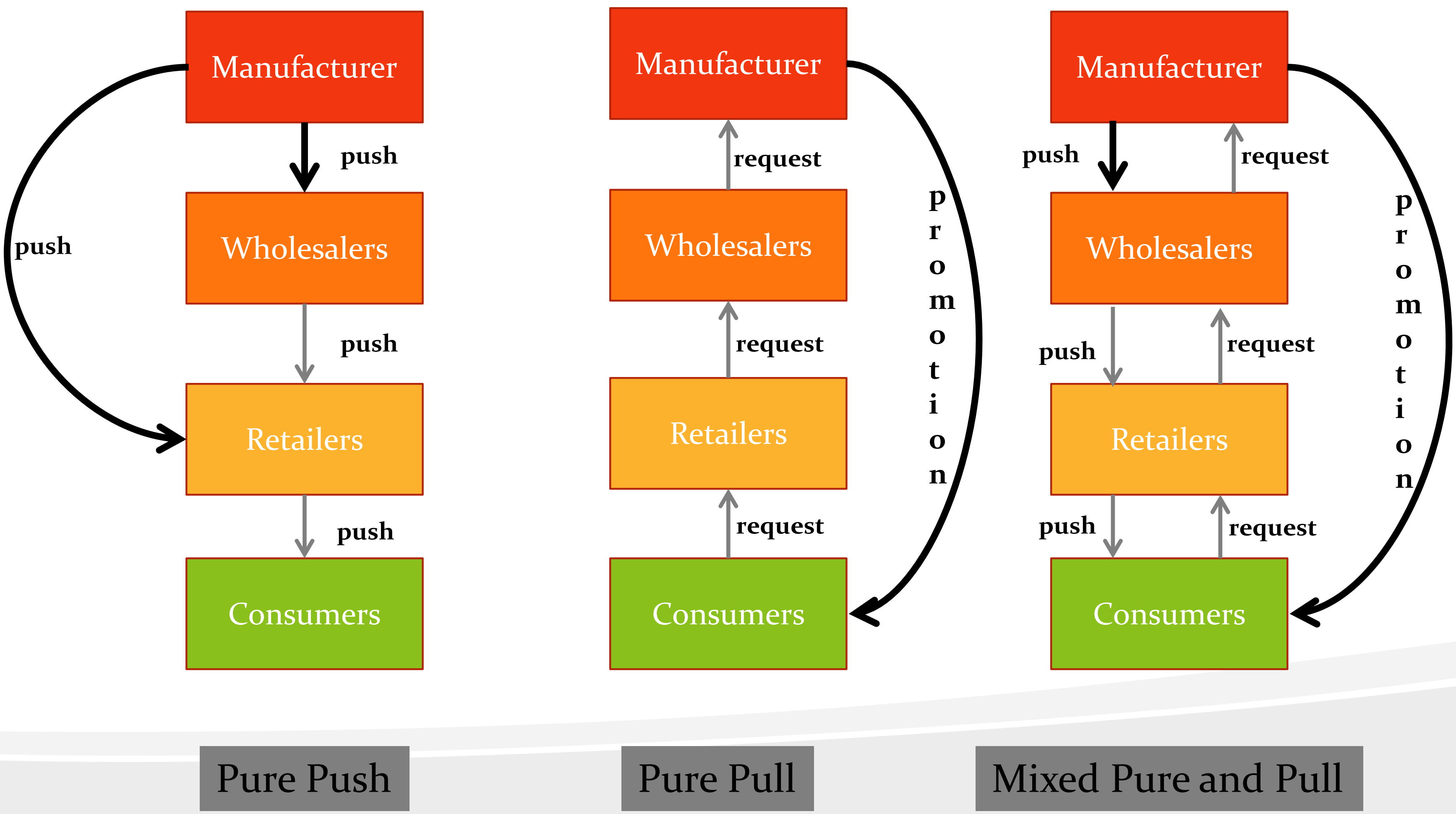
Adapted from: Schaffner, D. J., & Schroder, W. R. (2003). *Food marketing: An international perspective*. McGrawHill.

Push or Pull Strategies

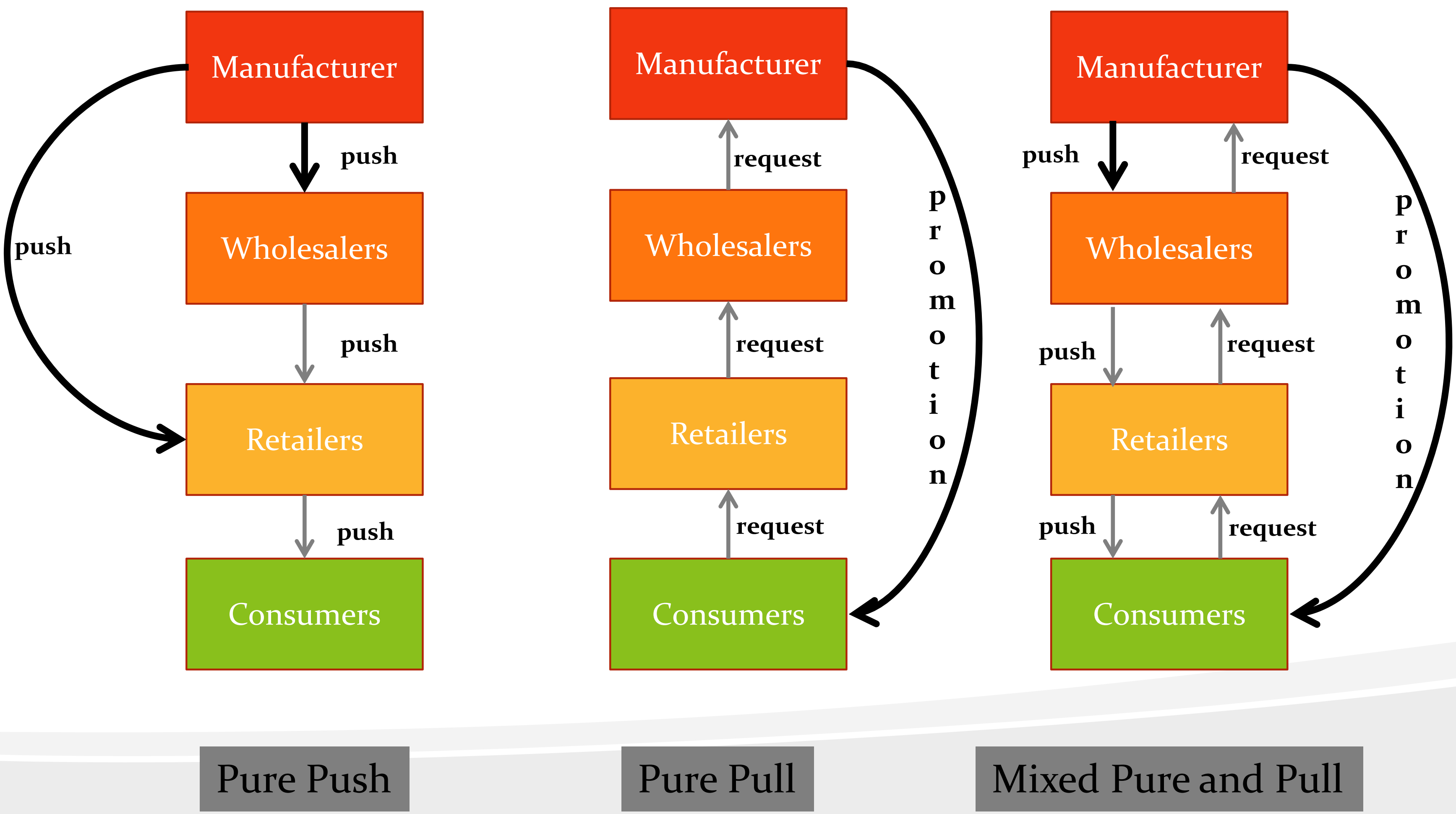
- **Push Strategies** producers use sales promotions to push products through the food distribution channel
  - Uses trade-oriented promotions
  - Negotiation with retailers to stock your product
  - Point of sale displays
- **Pull Strategies** aim to induce *consumers* to purchase and request more
  - the information of increased (or initial) demand works its way upstream towards the producer
  - consumers *pull* product towards themselves
  - Advertising and mass media promotion
  - Sales promotions and discounts ; Word of mouth referrals; customer relationship management.



Examples of Push and Pull Strategies



Source: Adapted from Schaffner, David J., William R. Schroder, and Mary D. Earle. *Food Marketing: An International Perspective*. Boston, MA: WCB/McGraw-Hill, 1998. Print.



Source: Adapted from Schaffner, David J., William R. Schroder, and Mary D. Earle. *Food Marketing: An International Perspective*. Boston, MA: WCB/McGraw-Hill, 1998. Print.

Push or Pull?

- Irradiated ground beef?

- Cheerios?

Sales Promotions

Marketing activities that stimulates customer (trade or consumer) purchasing

- Includes: displays, coupons, contests, product demonstrations, trade-shows, and various non-recurrent selling efforts
  - but ***not*** ads, personal selling, guerrilla marketing, PR
- **Consumer Promotions** – promotions that appeal to consumers
- **Trade Promotion** – sales promotions that appeal to marketing intermediaries, such as retailers, rather to consumers

Types of Trade Promotions

- *Food companies spend more on trade promotions than on consumer promotions!*
- **Trade Allowances** - deals offered to wholesalers and retailers for purchasing or promoting specific products
- **Cooperative Advertising** is a cash contribution from producer to the retailer's ad budget.
  - Product flyers, direct mail flyers, direct mail campaigns, featured products in retailer TV ads.
  - Two components
    - Accrual rate – max amount defined by a % of purchases made by the reseller
    - Participation rate - % of ad expenditures paid for by manufacturer
  - The more you give to the retailer, the more clout you'll have
    - Typically 50%-100% is paid by producer
  - Especially cost-effective for small firms who want to target local retailers

Types of Trade Promotions

In-Store Sampling

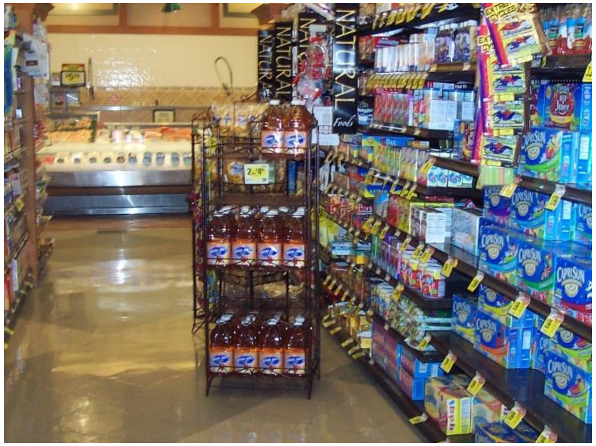
- an excellent way to get people to the trial stage
- very costly
- retailers often pay directly for labor, so cooperative ad money is needed

Types of Trade Promotions

- **Point-of-Purchase (POP) Displays** - a display or other promotion located near the site of the actual buying location
  - Increases sales by 2x to >10x!
  - But can be costly to set up (retailers does it typically, but many are done by producer)
  - Only a handful offered by suppliers are used by retailers
  - Must pay the retailer!
  - **Checkout Aisle Displays** are designed to induce impulse purchasing
    - reason why candy is sold in checkout aisle

More Point-of-Purchase Displays

- **Special Displays and Favorable Shelf-Space**
  - Must pay the retailer to use them
  - Visibility, awe, and high traffic are key
  - **End-of-Aisle** and **Mid-Aisle Displays** are especially effective
    - everyone sees end of aisle displays
    - mid-aisle displays "confront" consumers



- **Aisle Interrupters** are signs or displays that extend into the aisle
- **Glorifiers** are small on-shelf stages that elevate a product above those around it
- Etc.

Slotting Allowances

One-time payments a supplier makes to a retailer as a condition for the initial placement of the supplier's product on the retailer's store shelves or for initial access to the retailer's warehouse space

- Slotting occurs 70-90% of all new grocery products
- Per item-retailer-metropolitan area, slotting fees are typically between $2,300 and $22,000
- Nationwide introduction of a new product costs $1.5-$3 million in slotting fees
- Helps retailers defray the costs (*What costs?)*
  - from lost sales from the established product(s) that lose shelf-space (possibly removed)
  - associated with the risk of stocking a new product (lower perceived risk → lower slotting fee)
    - new product failure rate = 70%
    - more promotional activities → lower risk to retailer → lower slotting fees
- Tend to be lower when the product is distributed through direct store delivery (DSD) instead of through the retailer's warehouse.
- Fees reflect the scarcity of shelf-space
  - Ex: frozen/refrigerated products have highest fees. *Why?*
    - high cost to expansion and a product class characterized by a lot of new products
- Pay-to-stay fees and exclusive deals (paying retailers not to carry the competitor) are rare

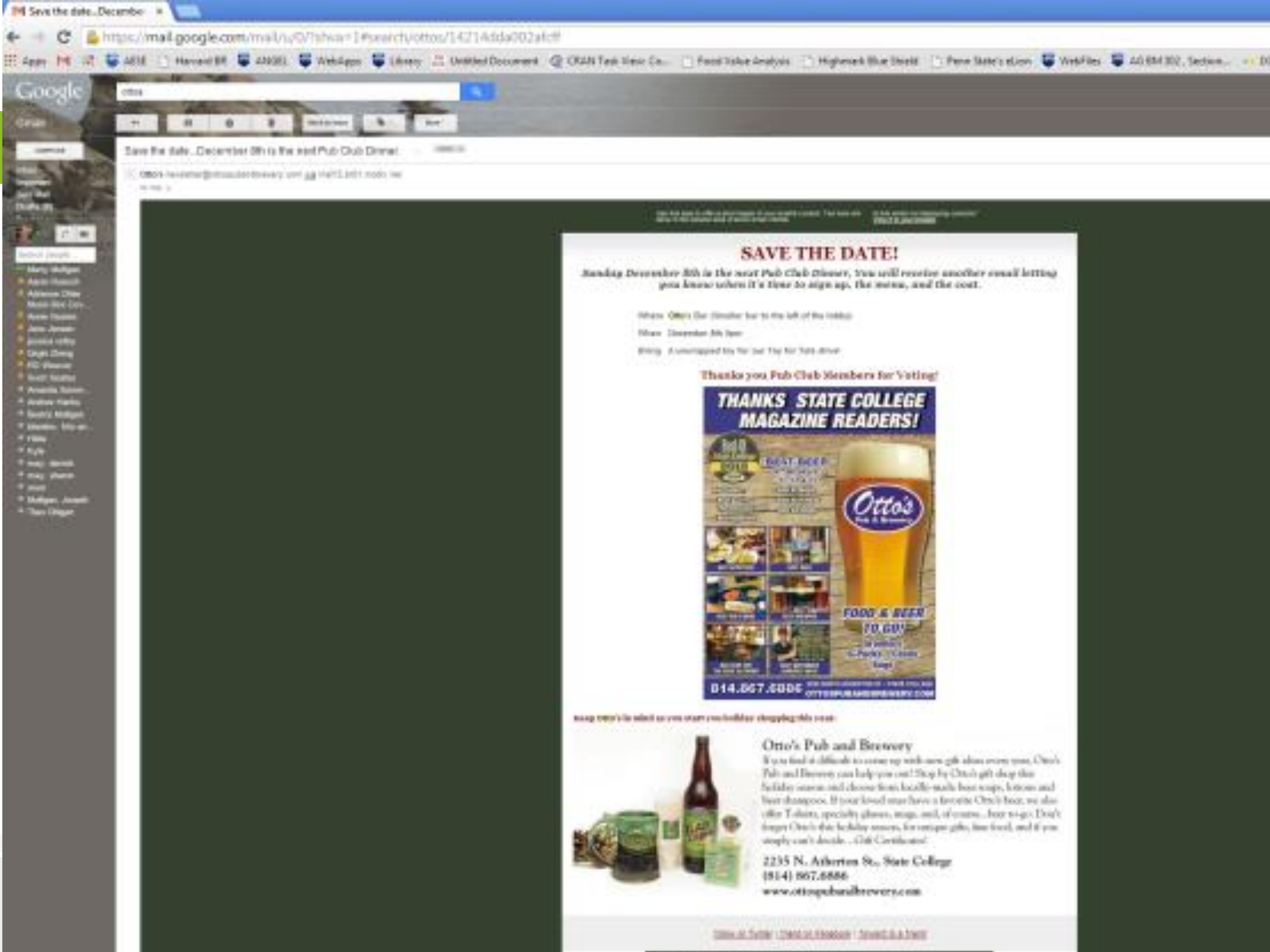
Types on Non-Personal Selling

- **Product Placement**
  - http://www.youtube.com/watch?v=8lgLYGBbDNs (Wayne's World)
  - Marketer pays a motion picture or television program owner a fee to display his or her product prominently in the film or show
  - Reese's Pieces and *E.T.*
    - Mars declined Speilberg's pitch to use M&M's in *E.T.*
    - Hershey agreed to the use of Reese's Pieces along with including E.T. in $1,000,000 worth of commercials
    - http://www.youtube.com/watch?v=AfAzUAxWELU
    - http://www.youtube.com/watch?v=PYmSlbH4bEY
    - Reece's Pieces sales went through the roof
    - After that, product placement became popular
  - Ex: Gatorade on every sideline

- **Outside Advertising** – billboards, signs, sides of buses, etc.
  - $6.3 billion spent annually

Types on Non-Personal Selling

- **Direct Marketing**
  - Direct communications other than personal sales contact between buyer and seller, designed to generate sales, information requests, or store visits
  - Mailed coupons, emails, Tweets, etc.
  - Careful, can be annoying
  - Most appropriate when there is a high degree of involvement and a high relationship level between the firm and consumer.
    - Ex: Pub Club


SAVE THE DATE!
Thanks you Pub Club Members for Voting!
THANKS STATE COLLEGE MAGAZINE READERS!
Otto's
FOOD & BEER TO GO!
814.867.6886
Otto's Pub and Brewery
2235 N. Atherton St., State College
(814) 867.6886

Types on Non-Personal Selling

- **Public Relations**: firm's communications and relationships with its various publics
  - motivation for a lot of corporate charity and Triple Bottom Line initiative
- **Publicity**: stimulation of demand for good, service, place, idea, person, or organization by unpaid placement of commercially significant news or favorable media presentations
  - can be a cost effective way for a small firm to get attention
  - http://www.dailymail.co.uk/news/article-2356263/Joey-Chestnut-breaks-world-record-winning-SEVENTH-straight-Nathans-hot-dog-eating-competition.html (Nathan's Hot Dogs)
  - http://www.youtube.com/watch?v=J_9U-04hlYk (Ocean Spray)
- **Guerilla Marketing**: Unconventional, innovative, and low-cost marketing techniques designed to get consumers' attention in unusual ways.
  - Especially effective with young people
  - Ex: having representatives hang out on campus promoting goods to you
  - Ex: painted graffiti logos, flyers everywhere
  - Coke

RONALD MCDONALD HOUSE CHARITIES

Types of Non-Personal Selling

Advertising - Paid, non-personal communication through various media by a business firm, not-for-profit organization, or individual identified in the message with the hope of informing or persuading members of a particular audience

Ad Strategies

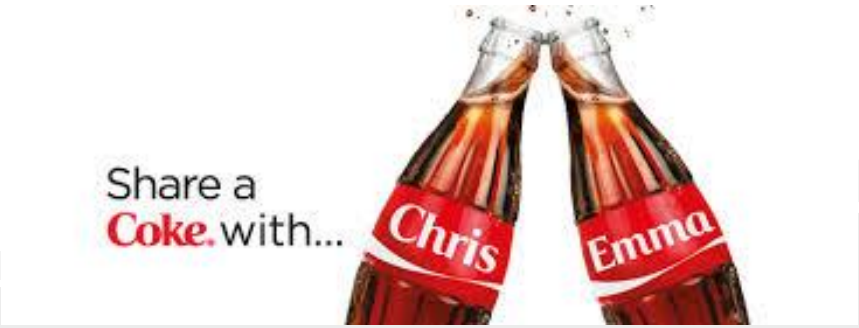
- **Comparative Ads** directly or indirectly compares the product to dominant brands.
  - *Why don't dominant brands use comparative ads?*
    - Don't want to provide awareness for the less known brands
  - Useful for new brands
    - provides a favorable comparison
    - confronts a large share of the market to *make a choice*
- **Celebrity Testimonials**
  - The use of celebrity spokespeople to try to boost the effectiveness of an advertising message
  - Accounts for about 20% of all U.S. ads.
  - Improves product recognition
  - http://www.youtube.com/watch?v=jNZpOpkooHk&feature=related (Pizza Hut and Jessica Simpson)
- **Interactive Advertising**
  - Involves two-way promotional messages transmitted through communication channels that induce message recipients to participate actively in the promotional effort.
  - Creates a dialogue, providing more material as the user asks.
  - Ex: Websites, games, etc.
  - http://www.scarecrowgame.com/ (Chipotle ad and game)

Disruptive Advertising

- Consumers become overwhelmed and bored with marketers' efforts
- More dramatic and engaging methods are needed to overcome this
  - guerrilla marketing & interactive ads, etc.

Coke's Disruptive Advertising

- *Share a Coke** (Australia, 2011)
  - 150 names, and relationships (e.g. dad) were put on Coke labels
  - consumers could order customized labels for others online
  - consumers had Coke put names on Australia's version of Time Square and sent an image of it up to the consumer's phone
  - Wildly successful. *Why?*
- *Where will happiness strike next?*
  - *i.e. "Happiness Machine"*
  - cost $60k to make
  - 6,100,000 views on YouTube
  - makes viewers happy.



*Gourville, John, and Fisher, Noah, 2013. "Liquid and Linked," Case Study. Boston. Harvard Business Publishing

Ads and Extrinsic Messages

- Starting in the 60's & 70's, food ads started to go away from emphasizing intrinsic attributes of food*
  - Not much to emphasize if the product is not very different than competitor's
  - Themes started to emerge that appeal to social status, fears, consumer insecurities, values, and **needs**
    - recall findings from ladder interviews
  - http://www.ispot.tv/ad/7nZT/cheerios-good-for-your-heart

(Cheerios)

* Schor, J. B., & Ford, M. (2007). From tastes great to cool: children's food marketing and the rise of the symbolic. *The Journal of Law, Medicine & Ethics*, 35(1), 10-21.

Common Ad Motifs

- Medical Miracle
  - food depicted as having drug-like properties
  - Ex: https://www.youtube.com/watch?v=CPdmTsmhfYg
- Mood Alteration
  - consumption will make you happy
  - https://www.youtube.com/watch?v=udsWPmb3XOo
- Scarcity / Desperation / Addiction
  - often with a competitive aspect
  - shows the effort people will go to get the product
    - demonstrates value
  - If the need the product *that* badly, it must be good!
  - https://www.youtube.com/watch?v=19Al2TD6O_Y

Common Ad Motifs

- Glamour
  - appeals to the person's ideal self (see self-concept, Lecture 3)
- You're the Boss / Power / Entitlement
  - emphasizes customization; appeals to unique preferences
  - Ex: Burger King's "Have It Your Way"
  - https://www.youtube.com/watch?v=nv5WTZM0Myk
- Trickery
  - typically with a sense of triumph, justice, or accomplishment
  - https://www.youtube.com/watch?v=2ltgsp7QwKU

Loyalty Cards

- Average household had 22 memberships in 2010, but only 10 actively used
- Collects data
  - can be used for consumer specific marketing
    - recall the coupon learning theory application
  - used for demand analysis and to make marketing decisions
  - uses your address to send you advertisements
- Induces a sense of membership, and yes, loyalty
- Make people feel like they're getting a deal
  - shelf price is an anchor, loyalty card price feels like a discount
  - induces consumer to purchase more when consumers feel like it's a great opportunity
- Serves as a "billboard in your wallet" that reminds you of the store
- Some have cumulative rewards, such as cheaper gas, cash back, special deals
  - makes people feel like they're being "productive" when they purchase more
- Safeway: "There's going to come a point where our shelf pricing is pretty irrelevant because we can be so personalized in what we offer people." –Safeway CEO Steve Bard
- Albertsons: "We found that tracking individual shopping habits isn't as critical to our overall strategy as knowing what our customers in our neighborhoods are shopping for." –Albertson's Spokesperson

No longer offered

Stockpiling

When consumers purchase an atypically large amount of a product in response to temporarily low unit prices, without increasing their consumption rate.

- A cost saving shopping strategy.
- Requires consumer price expectations. *Why?*
  - Purchases are accelerated to avoid higher future prices.
- Practicality of this behavior depends on the food's spoilage rate. *Why?*
  - Difficult to stockpile fresh blue berries, easy to stockpile tomato soup.
- Undermines promotions designed to increase long-term sales.
  - Can cause price promotions to *decrease* long-term revenue.

Home Pantry: Enemy of the price promotion

Stockpiling Example

- Susie typically buys and consumes one 32 oz jar of pasta sauce per week. She has a high degree of brand loyalty for Classico.

- She doesn't even consider other brands
  - Her long-term demand is perfectly inelastic.
- She usually pays $3.00 per jar

- Today the sale price is $2.00
- She buys 5 jars
- She maintains the same *consumption* rate (32 oz./wk)
- <u>Analysis</u>
  - *Without the sale* Susie would have paid $15 for her pasta sauce over the next 5 weeks. Instead she pays only $10.
  - It appears that the promotion was a success because short-term revenue was increased by $7 = 5*$2.00 - $3.00.
  - But long-term revenue was decreased by $5 = 5*($3.00 - $2.00).

Stockpiling and Elasticities

- Results in over-estimation of price elasticities:
  - Not taking into consideration Susie's dynamic shopping behavior, Classico would think she is very price sensitive.
  - They measure her price elasticity to be [(5-1)/1] / [(2-3)/3] = - 12 → *extremely price sensitive*
  - But she would have bought the same quantity of sauce no matter what the price was!
    - Thus her long-term price elasticity is in fact [(5-5)/5] / [(2-3)/3] = 0.
    - → she has *perfectly* inelastic demand in the long-term

Long-Term Effects of Price Promotions

- Price promotions can be very good for stealing from competition, but also steals from yourself
- Static model of laundry detergent demand overestimates own-price elasticities by 30%
- Under-estimates cross-price elasticities by a factor of 5!
  - brand switching is much more severe when taking into account

TABLE VIII

AVERAGE RATIOS OF ELASTICITIES COMPUTED FROM A STATIC MODEL TO LONG-RUN ELASTICITIES COMPUTED FROM THE DYNAMIC MODEL[a]

		64 oz.						128 oz.					
Brand	Size (oz.)	All[b]	Wisk	Surf	Cheer	Tide	Private Label	All[b]	Wisk	Surf	Cheer	Tide	Private Label
All[b]	64	1.03	0.13	0.14	0.12	0.13	0.15	0.14	0.17	0.17	0.18	0.21	0.34
	128	0.17	0.24	0.26	0.20	0.28	0.35	1.23	0.09	0.11	0.09	0.15	0.22
Wisk	64	0.14	1.20	0.13	0.17	0.12	0.13	0.16	0.22	0.14	0.22	0.25	0.20
	128	0.25	0.27	0.23	0.31	0.26	0.28	0.08	1.42	0.08	0.13	0.18	0.11
Surf	64	0.14	0.13	0.93	0.16	0.13	0.14	0.18	0.18	0.12	0.18	0.22	0.28
	128	0.25	0.22	0.18	0.27	0.25	0.18	0.12	0.11	1.20	0.08	0.15	0.14
Cheer	64	0.12	0.17	0.16	0.84	0.09	0.13	0.14	0.24	0.16	0.14	0.22	0.24
	128	0.25	0.26	0.26	0.12	0.23	0.22	0.09	0.12	0.06	0.89	0.15	0.07
Tide	64	0.16	0.17	0.13	0.13	1.26	0.15	0.22	0.28	0.16	0.26	0.22	0.37
	128	0.25	0.31	0.22	0.24	0.22	0.31	0.11	0.16	0.08	0.13	1.44	0.31
Solo	64	0.15	0.12	0.15	0.14	0.12	0.14	0.17	0.15	0.15	0.30	0.30	0.28
	128	0.23	0.20	0.24	0.21	0.21	0.25	0.07	0.07	0.06	0.16	0.17	0.21
Era	64	0.21	0.12	0.13	0.13	0.10	0.19	0.43	0.17	0.15	0.22	0.19	0.35
	128	0.31	0.22	0.24	0.25	0.17	0.38	0.19	0.08	0.09	0.11	0.10	0.22
Private label	64	0.19	0.15	0.14	0.17	0.17	1.02	0.32	0.22	0.15	0.26	0.31	0.25
	128	0.29	0.28	0.34	0.30	0.39	0.29	0.16	0.12	0.13	0.10	0.27	1.29
No purchase		2.12	1.13	1.15	1.40	1.27	2.39	1.80	7.60	2.26	14.11	2.38	10.86

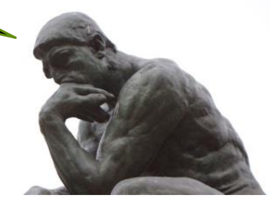
[a] Cell entries i and j, where i indexes row and j indexes column, give the ratio of the (short-run) elasticities computed from a static model divided by the long-run elasticities computed from the dynamic model. The elasticities for both models are the percent change in market share of brand i with a 1 percent change in the price of j. The static model is identical to the model estimated in the first step, except that brands of all sizes are included as well as a no-purchase decision, not just products of the same size as the chosen option. The results from the dynamic model are based on the results presented in Tables IV–VI.

[b] Note that "All" is the name of a detergent produced by Unilever.

own-price elasticity

Hendel, I., & Nevo, A. (2006). Measuring the implications of sales and consumer inventory behavior. *Econometrica*, 74(6), 1637-1673.

When Might Stockpiling Increase *Consumption*?



- **When the product is salient**
  - a) product is frequently used (can become go-to food)
  - b) product has been recently consumed
  - c) frequent exposure to product's marketing communications (product closer to mind's surface)
  - d) recently exposed to product's marketing communications (prompts consumption urge)
  - e) product is stored in a salient location (such as on a table or counter or in the front portion of a cupboard or refrigerator)

- **Other factors**
  - f) versatile foods (can be used instead of other foods)
  - g) highly perishable (need to use it up to avoid spoilage loss)
  - h) perceived as having been bought on promotion (cheap consumption)
  - i) perceived as having high storage costs (want to use it up to make space)
  - j) is a stand-alone product, not an ingredie

- Even so, purchasing rates are likely to decrease when more is bought at once.

Wansink, B. (1996). "Can package size accelerate usage volume?" *The Journal of Marketing*, 1-14.

Costco et al.

- Club stores use lower prices and multipacks to induce consumer stockpiling. *Why?*
- Effectively pays consumers for storage space (home pantry, fridge)
- Allows Costco to save on *their* inventory costs
- They make money on volume, not margins
- Does induce increased consumption rates in many cases

Brand Tarnishing

When an event, e.g. a promotion, negatively effects a brand's equity

- Marketers of premium brands promote very selectively to avoid tarnishing their brands
  - Ex: Grey Poupon

    - Grey Poupon price = $.34/oz.
    - French's Yellow Mustard price = $.16/oz

} prices Wegman's 10/2013

    - If you saw a low promotional price for Grey Poupon in French's price range, it would give the impression they are comparable
      - i.e. Grey Poupon is not as good as you thought
      - signals lower cost of production → lower quality
      - signals less demand → lower prestige, lower quality
      - removes exclusive impression of the product

- Ex: Chester's Fries 99¢ label has lowered my opinion of the product
  - for 99 cents, it must be crap!
- Distribution decisions can also tarnish a brand
  - Ex: you might not want your super premium product tarnished by being sold at Ollie's


JOIN OLLIE'S ARMY HERE!
*EARN SAVINGS WITH EVERY PURCHASE
*FREE MEMBERSHIP *DISCOUNT CERTIFICATES
☆THE FEW ☆THE CHEAP ☆THE PROUD
MENS JEA
BLOWOU
$7.99
Bargain BOOKS
KLAND ARE CHEAP!
DEALS THAT'LL MAKE YA'... YAHOO!
YOU WON'T GET SNOWED
NOVELS
INSPIRATIONAL
COOKING
DVDs

Why Are People Brand Loyalty?

- Do people buy the same brand repeatedly because
  - they *love* the brand?
  - because they have in the past (e.g. during childhood)?
  - because where they live it is the best option?
    - e.g. costs vary by region; products may work best given their situation
  - switching “costs” prevent switching?
    - don’t want to risk trying something new; don’t want to reevaluate the purchasing policy.
  - because everyone else is buying the product?

Brand Loyalty Can Be Persistent

- 40% can be explained by a person's past experiences
  - the rest is explained by supply side and regional factors
- Suppose a population was moved from geographic market A to geographic market B.
  - How long would it take the transplanted population to have market shares the same as those in indigenous to B?
    - 20 years!

Promotional Discounting is Not a Long-Term Solution to Gaining Market Share

TABLE 7—FIRST MOVER ADVANTAGE

	Years to equate shares				
	Price discount by second entrant				
First entrant's head start (t)	10%	18%	26%	34%	40%
1 year	10	4	2	1	1
5 years	27	12	6	3	1
10 years	33	19	10	5	2
15 years	36	23	$\boxed{13}$	7	3
25 years	37	26	16	9	4
Baseline demand (μ) of second entrant implied by this price discount	0.55	0.60	$\boxed{0.65}$	0.70	0.75

Notes: An entry in the table is the number of years that a second entrant would need to maintain a certain price discount in order to achieve parity in brand shares. Rows indicate the assumed number of years that the first entrant was in the market alone. Columns indicate the size of the price discount. See Section C for details. The relationship between price discounts and baseline demand is estimated from aggregate IRI data on prices and quantities as described in Appendix D.

Estimates from Nielsen grocery store data

- Ex: If the 1st mover has a 15 year head start, and you provide a 26% discount, it will take 13 years to reach 50% market share.
  - Compare this to the market share if they entered the market simultaneously: 65%

Bronnenberg, B., Dube, J.-P., Gentzkow, M., 2012, "The Evolution of Brand Preference: Evidence from Consumer Migration," *American Economic Review*, 102(6): 2472-2508.

Promotion Budgeting Practices

- Percentage of Sales
  - does not attempt to ensure promos are profitable
- Competitive Budgeting
  - budget according to industry norms
  - can have wide variation within an industry
- Affordability
  - spend what the company can afford
  - 20-30% of firms use this method
  - ignores profitability and can result in overspending, or more often, under-spending
- Objective-and-Task Spending
  1. Define promo objectives
  2. Determine what tasks are to be done to accomplish the objectives
  3. Decide what the cost of the tasks and do cost-benefit analysis to decide if it's worth it

	Ad % of Sales
Packaged Foods	5.2
Cereal	13.2
Candy and Gum	14.2
Beverages	8.5
Fast-Food	6.0
Grocery Retailers	.4

Factors Effecting Promotional Expenditures

- Stage in the life-cycle
  - Ex: In the introductory stage, large expenditures are needed to create awareness and gain trials (by both retailers and consumers)
- Market Share
  - High-market share producer usually need more promotional spending as a percent of sales than low-share brands

Cereal Producer	Ad % of Sales
General Mills	9.4 (includes other products)
Kellogg	18.1

- Competition and Clutter
  - In a market with many competitors and high spending, a brand must promote more heavily to be heard through the clutter and noise in the market
- Product Differentiation
  - A brand that is similar to other brands in its product class requires heavy promoting to differentiate itself
  - Ex:

The Value of Promos

- Are very difficult to calculate
  - need counterfactuals
    - not fair to ask, “How much did profit increase before and after promo?”
    - need to know how much profit increased because of the promo
    - unfortunately, we have only 1 reality
  - much of a promo’s value is in long-term effects
- Generally, the hidden value of promos is believed to be higher than most expect (in most cases)
- But studies generally do detect long-term effects lasting more than a few months.*

* Bagwell, K. (2007). “The economic analysis of advertising.” *Handbook of Industrial Organization*, 3, 1701-1844.

Adding Up a 

’s Value: Six Effects

1. **Contemporaneous** - the immediate increase in demand
2. **Carry-Over Effects** – increases in demand may persist in the future as customers remember the past promotions
   - promotions are remembered
   - good-will has been generated
   - strength of the effect deteriorates over time
3. **Purchase Reinforcement** – because a purchase is made, repeat purchasing is likely to occur to some extent.
   - these additional purchases would not have occurred without the promotion and so should be credited to the value of the promo
   - recall learning theory

Dekimpe, M. G., & Hanssens, D. M. (1995). The persistence of marketing effects on sales. *Marketing Science*, *14*(1), 1-21.

Adding Up a 

's Value: Six Effects

4. **Feedback Effects** – promo spending is influenced by current sales which depend on *past* promos.
   - Ex: increased promos in period *t* → increased sales in *t* → increased promos in *t+1* → increased sales in *t+1* → …
     - Credit should be given to the initial promo for the subsequent sales increases because without it, none of these effects would have taken place

5. **Firm-Specific Decision Rules** – past and future expenditure patterns will affect the impact of current promotional activities
   - Ex: If A.1. was going to run a Memorial Day promo no matter what, but also ran one on the weekend before Memorial Day, the first promo shouldn't be credited with *increasing* sales too much because it decreased the effectiveness of the Memorial Weekend promo.

6. **Competitive Reactions** – competitors will observe your promotional activity and may respond in such a way that your promo's long-term effect is nullified or even negative
   - Ex: Lawry's aggressive introductory promo and A.1. contemplating dropping a nuclear bomb on them.

Dekimpe, M. G., & Hanssens, D. M. (1995). The persistence of marketing effects on sales. *Marketing Science*, *14*(1), 1-21.