SALES PROMOTION

LO4

Sales promotion has become a key element of the promotional mix, which now accounts for more than $71.9 billion in annual expenditures. In a recent survey by *Promo* magazine, marketing professionals reported that approximately 32 percent of their budgets were allocated to advertising, 37 percent to consumer promotion, 24 percent to trade promotion, and 7 percent to other marketing activities.[39] The allocation of marketing expenditures reflects the trend toward integrated promotion programs, which include a variety of promotion elements. Selection and integration of the many promotion techniques require a good understanding of the advantages and disadvantages of each kind of promotion.[40]

Consumer-Oriented Sales Promotions

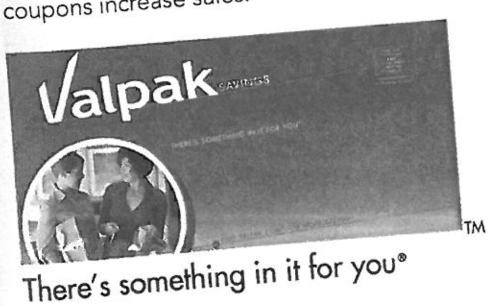
consumer-oriented sales promotions
Sales tools, such as coupons, sweepstakes, and samples, used to support a company's advertising and personal selling efforts directed to ultimate consumers.

Directed to ultimate consumers, **consumer-oriented sales promotions**, or simply *consumer promotions*, are sales tools used to support a company's advertising and personal selling. The alternative consumer-oriented sales promotion tools include coupons, deals, premiums, contests, sweepstakes, samples, loyalty programs, point-of-purchase displays, rebates, and product placements.

Coupons Coupons are sales promotions that usually offer a discounted price to the consumer, which encourages trial. Approximately 332 billion coupons worth $470 billion are distributed in the United States each year. Most coupons are distributed as freestanding inserts in newspapers and reach 60 million households each week. Research indicates that 81 percent of consumers use coupons. Coupon redemption rates have been increasing in recent years as the weak economy has increased the attractiveness of coupons. Consumers redeemed $2.8 billion of the coupons, which was approximately $8.57 per person. Companies that have increased their use of coupons include Procter & Gamble, Nestlé, and Kraft, while the top retailers for coupon redemption were Walmart and Kroger. The number of coupons generated at Internet sites (e.g., www.valpak.com and www.coupon.com) and on mobile phones has been increasing although they account for less than 2 percent of all coupons. The redemption rate for online coupons, however, is substantially higher than other forms of coupons. Groupon and other daily coupon services generated $873 million in sales last year and expect the market to reach $3.9 billion by 2015. The extraordinary growth has attracted competitors such as LivingSocial and Facebook![41]

Coupons are often far more expensive than the face value of the coupon; a 25-cent coupon can cost three times that after paying for the advertisement to deliver it, dealer handling, clearinghouse costs, and redemption. In addition, misredemption, or attempting to redeem a counterfeit coupon or a valid coupon when the product was not purchased, should be added to the cost of the coupon. The Coupon Information Corporation estimates that companies pay out refunds worth hundreds of millions of dollars each year as a result of coupon fraud. Recent growth in coupon fraud has marketers considering adding holograms and visual aids to coupons to help cashiers identify valid coupons.[42]

Coupons encourage trial by offering a discounted price. See the text to learn if coupons increase sales.



Deals Deals are short-term price reductions, commonly used to increase trial among potential customers or to retaliate against a competitor's actions. For example, if a rival manufacturer introduces a new cake mix, the company responds with a "two packages for the price of one" deal. This short-term price reduction builds up the stock on the kitchen shelves of cake mix buyers and makes the competitor's introduction more difficult.

Premiums A promotional tool often used with consumers is the premium, which consists of merchandise offered free or at a significant savings over its retail price. This latter type of premium is called selfliquidating because the cost charged to the consumer covers the cost of the item. McDonald's, for example, used a free premium in a promotional partnership with 20th Century Fox during the release of the movie *Rio*. Collectible toys that portrayed movie characters were given away free with the purchase of a Happy Meal. What are the most popular premiums? According to the Promotional Products Association International, the top premiums are apparel, writing instruments, shopping bags, cups and mugs, and desk accessories. By offering a premium, companies encourage customers to return frequently or to use more of the product. Research suggests that deal-prone consumers and value seekers are attracted to premiums.[43]

McDonald's Monopoly sweepstakes offers a grand prize of $1 million.

Contests Contests represent a fourth sales promotion tool in which consumers apply their skill or analytical or creative thinking to try to win a prize. This form of promotion has been growing as requests for videos, photos, and essays are a good match with the trend toward consumer-generated content. For example, PepsiCo sponsored the "Crash the Super Bowl" contest, asking people to create their own 30-second ad about Doritos and Pepsi MAX. A panel of judges selected 10 finalists from the 5,600 entries, and the public voted online for its favorite. The winner aired on the Super Bowl, and when one of the ads hit No. 1 on *USA Today*'s Super Bowl Ad Meter, it was awarded a $1 million bonus! If you like contests, you can enter online now at websites such as www.contests.about.com.[44]

Sweepstakes Sweepstakes are sales promotions that require participants to submit some kind of entry but are purely games of chance requiring no analytical or creative effort by the consumer. Popular sweepstakes include the HGTV "Dream Home Giveaway," which receives more than 76 million entries each year, and McDonald's Monopoly, which offers a grand prize of $1 million.[45]

Two variations of sweepstakes are popular now. First are the sweepstakes that offer products that consumers value as prizes. Mars Chocolate, for example, created a sweepstakes where consumers enter a UPC code from M&M's products for a chance to win one of five Toyota automobiles. Coca-Cola has a similar sweepstakes called "My Coke Rewards" that allows consumers to use codes from bottle caps to enter to win prizes or to collect points to be redeemed for rewards. The second are the sweepstakes that offer an "experience" as the prize. For example, one of television's most popular series, *American Idol*, and AT&T sponsor a sweepstakes for a chance to win a trip for two to the season finale of *American Idol* in Los Angeles. Similarly, Coca-Cola and Celebrity Cruises created a sweepstakes where consumers enter for a chance to win a trip to the Olympics. Federal laws, the Federal Trade Commission, and state legislatures have issued rules covering sweepstakes, contests, and games to regulate fairness, ensure that the chance for winning is represented honestly, and guarantee that the prizes are actually awarded. Several well-known sweepstakes created by Publishers Clearing House and *Reader's Digest* have paid fines and agreed to new sweepstakes guidelines in response to regulatory scrutiny.[46]

Samples Another common consumer sales promotion is sampling, which is offering the product free or at a greatly reduced price. Often used for new products, sampling puts the product in the consumer's hands. A trial size is generally offered that is smaller than the regular package size. If consumers like the sample, it is hoped they will remember and buy the product. When Mars changed its Milky Way Dark to Milky Way Midnight, it gave away more than 1 million samples to college students at nightclubs, several hundred campuses, and popular spring break locations. Awareness of the candy bar rose to 60 percent, trial rose 166 percent, and sales rose 25 percent. Recent research indicates that 63 percent of college students who receive a sample will also purchase the product. Overall, companies invest more than $2.3 billion in sampling programs each year.[47]

Point-of-purchase displays help increase consumers' attention in a store.

Loyalty Programs Loyalty programs are a sales promotion tool used to encourage and reward repeat purchases by acknowledging each purchase made by a consumer and offering a premium as purchases accumulate. The most popular loyalty programs today are credit card reward programs. More than 75 percent of all cards offer incentives for use of their card. Citibank, for example, offers "Thank You" points for using Citi credit or debit cards. The points can be redeemed for books, music, gift cards, cash, travel, and special limited time rewards. Airlines, retailers, hotels, and grocery stores also offer popular loyalty programs. Specialty retailers such as Toys 'Я' Us and Best Buy have enhanced their reward programs to add value to their offerings as they compete with low-cost merchandise. There are now more than 2.1 billion loyalty program memberships, for an average of 18 for each household in the United States, which accumulate $48 billion worth of points each year.[48]

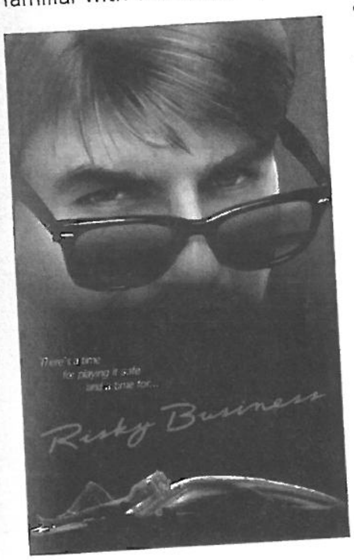
Point-of-Purchase Displays In a store aisle, you often encounter a sales promotion called a point-of-purchase display. These product displays take the form of advertising signs, which sometimes actually hold or display the product, and are often located in high-traffic areas near the cash register or the end of an aisle. The point-of-purchase display for Nabisco's annual back-to-school program is designed to maximize the consumer's attention to lunch box and after-school snacks and to provide storage for the products. Annual expenditures on point-of-purchase promotions now exceed $20.3 billion and are expected to grow as point-of-purchase becomes integrated with all forms of promotion.

Rebates Another consumer sales promotion tool, the cash rebate, offers the return of money based on proof of purchase. For example, Apple recently offered a $100 rebate to consumers who purchased an Apple computer and a printer during a three-month promotion period. When a rebate is offered on lower-priced items, the time and trouble of mailing in a proof of purchase to get the rebate check often means that many buyers never take advantage of it. However, this "slippage" is less likely to occur with frequent users of rebate promotions. In addition, online consumers are more likely to take advantage of rebates.[49]

product placement
A consumer sales promotion that uses a brand-name product in a movie, television show, video, or commercial for another product.

Product Placements A final consumer promotion tool, **product placement**, involves the use of a brand-name product in a movie, television show, video game, or commercial for another product. It was Steven Spielberg's placement of Hershey's Reese's Pieces in *E.T.* that first brought a lot of interest to the candy. Similarly, when Tom Cruise wore Bausch and Lomb's Ray-Ban sunglasses in *Risky Business* and its Aviator glasses in *Top Gun*, sales skyrocketed from 100,000 pairs to 7,000,000 pairs in five years. After *Toy Story*, Etch-A-Sketch sales increased 4,500 percent and Mr. Potato Head sales increased 800 percent. Product placement has also grown in television programs. *American Idol* ranks No. 1 with Coca-Cola, Ford, and AT&T

Product placement can take many forms today. Are you familiar with these examples?



product appearances, followed by *Celebrity Apprentice* and *The Biggest Loser.* Companies are usually eager to gain exposure for their products, and studios believe that product placements can add authenticity to the film or program. The producers usually receive fees in exchange for the exposure. The latest James Bond film, for example, recently earned $45 million in product placement revenue. Complaints that product placement has become excessive have led the Federal Communications Commission to begin development of guidelines for TV product placement, while the British government recently passed a law allowing product placement if a bold "P" logo is shown before and after the program.[50]

Trade-Oriented Sales Promotions

trade-oriented sales promotions
Sales tools used to support a company's advertising and personal selling directed to wholesalers, distributors, or retailers.

Trade-oriented sales promotions, or simply *trade promotions*, are sales tools used to support a company's advertising and personal selling directed to wholesalers, retailers, or distributors. Some of the sales promotions just reviewed are used for this purpose, but three other common approaches are targeted uniquely to these intermediaries: (1) allowances and discounts, (2) cooperative advertising, and (3) training of distributors' salesforces.

Allowances and Discounts Trade promotions often focus on maintaining or increasing inventory levels in the channel of distribution. An effective method for encouraging such increased purchases by intermediaries is the use of allowances and discounts. However, overuse of these price reductions can lead to retailers changing their ordering patterns in the expectation of such offerings. Although there are many variations that manufacturers can use with discounts and allowances, three common approaches are the merchandise allowance, the case allowance, and the finance allowance.[51]

Reimbursing a retailer for extra in-store support or special featuring of the brand is a *merchandise allowance*. Performance contracts between the manufacturer and trade member usually specify the activity to be performed, such as a picture of the product in a newspaper with a coupon good at only one store. The merchandise allowance then consists of a percentage deduction from the list case price ordered during the promotional period. Allowances are not paid by the manufacturer until it sees proof of performance (such as a copy of the ad placed by the retailer in the local newspaper).

A second common trade promotion, a *case allowance*, is a discount on each case ordered during a specific time period. These allowances are usually deducted from the invoice. A variation of the case allowance is the "free goods" approach, whereby retailers receive some amount of the product free based on the amount ordered, such as 1 case free for every 10 cases ordered.[52]

A final trade promotion, the *finance allowance*, involves paying retailers for financing costs or financial losses associated with consumer sales promotions. This trade promotion is regularly used and has several variations. One type is the floor stock protection program—manufacturers give retailers a case allowance price for products in their warehouse, which prevents shelf stock from running down during the promotional period. Also common are freight allowances, which compensate retailers that transport orders from the manufacturer's warehouse.

cooperative advertising
Advertising programs by which a manufacturer pays a percentage of the retailer's local advertising expense for advertising the manufacturer's products.

Cooperative Advertising Resellers often perform the important function of promoting the manufacturer's products at the local level. One common sales promotional activity is to encourage both better quality and greater quantity in the local advertising efforts of resellers through **cooperative advertising**. These are programs by which a manufacturer pays a percentage of the retailer's local advertising expense for advertising the manufacturer's products.

Usually, the manufacturer pays a percentage, often 50 percent, of the cost of advertising up to a certain dollar limit, which is based on the amount of the purchases the retailer makes of the manufacturer's products. In addition to paying for the advertising, the manufacturer often furnishes the retailer with a selection of different ad executions, sometimes suited for several different media. A manufacturer may provide, for example, several different print layouts as well as a few broadcast ads for the retailer to adapt and use.[53]

Training of Distributors' Salesforces One of the many functions the intermediaries perform is customer contact and selling for the producers they represent. Both retailers and wholesalers employ and manage their own sales personnel. A manufacturer's success often rests on the ability of the reseller's salesforce to represent its products.

Thus, it is in the best interest of the manufacturer to help train the reseller's salesforce. Because the reseller's salesforce is often less sophisticated and knowledgeable about the products than the manufacturer might like, training can increase their sales performance. Training activities include producing manuals and brochures to educate the reseller's salesforce. The salesforce then uses these aids in selling situations. Other activities include national sales meetings sponsored by the manufacturer and field visits to the reseller's location to inform and motivate the salesforce to sell the products. Manufacturers also develop incentive and recognition programs to motivate a reseller's salespeople to sell their products.

learning review

10. Which sales promotional tool is most common for new products?
11. Which trade promotion is used to encourage the local advertising efforts of resellers?

PUBLIC RELATIONS

LO5

publicity tools
Methods of obtaining nonpersonal presentation of an organization, product, or service without direct cost.

As noted in Chapter 14, public relations is a form of communication management that seeks to influence the image of an organization and its products and services. In developing a public relations campaign, several methods of obtaining nonpersonal presentation of an organization, product, or service without direct cost—**publicity tools**—are available to the public relations director. Many companies frequently use the *news release*, consisting of an announcement regarding changes in the company or the product line. The objective of a news release is to inform a newspaper, radio station, or other medium of an idea for a story.

A second common publicity tool is the *news conference*. Representatives of the media are all invited to an informational meeting, and advance materials regarding the content are sent. This tool is often used when new products are introduced or significant changes in corporate structure and leadership are being made.

Nonprofit organizations rely heavily on *public service announcements* (PSAs), which are free space or time donated by the media. For example, the charter of the American Red Cross prohibits any local chapter from advertising, so to solicit blood donations local chapters often depend on PSAs on radio or television to announce their needs.

learning review

12. What is a news release?
13. What type of publicity tool is used most often by nonprofit organizations?