

# THE ROLE OF PROMOTIONS ON THE RETAIL MARKET

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## **Abstract:**

*The time periods which precede consumption peaks such as Easter and Christmas, are extremely favorable to the exposure of special offers in stores, in such occasions, the differentiating effort of producers and retailers is maximum, both from a financial point of view and from the perspective of the originality of proposals, structure of exposure spaces, preparation of wrappers/packages etc. Lacking signals of consumption recovery, great shop chains rely on attracting clients through promotional offers. Offers such as "2 plus 1 free", "1 plus gift" or "Buy 20% more at the same price", usually supported by suppliers reducing their margins, are more and more complemented by promotional offers which take money out of retailers' pockets, like offering gasoline tickets, gift tickets or prepay cards to customers who leave the shop with their baskets full. Promotional offers have mostly helped alimentary producers maintain their sales volume during the crisis.*

**Key words:** promotional offers, market, crisis, consumer, retail.

**JEL classification:** M31

**SALES PROMOTION:** ensemble of techniques, actions and means which can cause a rapid but probationary, local and temporary increase of sales, based on the attachment of a concrete, punctual advantage to the potential buyers interested in the respective product/service.

Sales promotion uses specific equipments and advertising supports "selling on the spot", distinctly created for each selling operation, such as: refrigerated wall cases, exposure shelves, mannequins, posters, stickers, neon signs and many others in the same field. Interior arrangements, festive decorations and the general methods used to enliven the atmosphere in the store or at the sales point are other forms of sales promotion.

Promotion belonging to the producer or seller is a marketing technique used to gain a short-term sales boost. For obtaining durable effects, merchants must understand that every buyer has their own opinions and criteria based on which they decide to buy. Increases recorded by self-promotion vary according to the product and its "life-cycle" on one hand, but also on the maturity of the shop on the other hand. Experts estimate that self-promotion can determine sales increases of 25%.

Merchants involved in promotional offers rely firstly on their own experience. In foreign countries, such as the USA, for example, there are specialized agencies that only do this.

There are traditional methods of promotion in these cases as well, meaning fliers which present own products. Merchants do not always go with price promotional offers, but they try to attract customers by organizing all sorts of events with the occasion of anniversaries, which attract buyers into their shops, keeping them from going over to the rival shops.

Loyalty cards, for example, represent pure retail advertising. Most merchants rely on cards to encourage people to consume.

In organizing a promotion, merchants must pay attention to the sales objective, the customer segment to which the promotional offers are addressed, and the proposed results.

Low-profile sellers do not use specialized agencies to organize their own promotional offers. The collaboration with experts is only used in announcing promotional offers through fliers and posters and distributing them to customers.

In most cases, promotional actions are organized according to the season, certain periods of the year, the momentary requirements and the quantity of product provided by the producer.

That's why it can be said that there is no determinative period in organizing promotional offers. According to the proposed objective, beer promotional offers can be organized in summer, to obtain high sales targets and in winter to support them.

The advantages of promotional offers are:

- Self-promotion can increase the number of clients with 30-40%
- For as high a rate of success as possible, merchants triple the shelf spacing assigned for promotional offers
- Self-promotion can cause sales increases of 25%
- Usually, merchants organize 2-3 promotional offers each week.

Raffles with substantial prizes have recorded the highest response rate.

Raffles or promotional contests, though only effective during the campaign have also proven really successful.

According to some studies, raffles for loyal customers have had the highest response rate, followed by current promotional offers, which have recorded a very good response rate.

To increase sales, merchants also use promotion of their own products.

Other forms of promotion to which merchants have oriented are price cuts for the products nearing the end of the stock. The cut is simply calculated: the add-on is no longer 30% but only 5%.

In 2010, traditional merchants have used marketing strategies which involved minor investments, trying to attract clients, in an unfavorable period for sales.

2010 has brought multiple challenges to traditional merchants, such as the continuing expansion of modern retail, the decrease of purchasing power, the increase of the VAT.

This year, traditional merchants have used marketing strategies with minimal investments, but with efficient results: self-promotion, promotional offers organized in partnership with the producer, raffles, all completed with the close relationship with customers.

Orientation towards a type of promotion is also made according to the salary level of the population living in the vicinity of the shop. If a merchant buys a product at a good price, they advertise it through a price promotion. The same, if they receive a large quantity of a product, they promote it for faster selling. Of course, this is not the only way to promote a product, the selling of a new or lower-selling product together with a successful one being practiced quite often. Thus, clients are attracted to buy more than they had planned.

Usually, the way to promote a product in a shop is chosen by the buyers themselves, being strongly linked to the presentation and selling characteristics of the product.

Organizing a promotion requires teamwork. The decisions of choosing a product for promotion belong to managers, who appoint a person to select the products and sort them into the shop, in a place as accessible to customers as possible, usually at the entrance.

For a certain effect, merchants triple the surface meant for promotional offers and place them as close to the entrance as possible. Communication on the most suitable channels also contributes to the success of promoted products.

Recommendation of the product by merchants also has a certain effect on the decision to buy. Product degustation, the bi-monthly editing of a self-published magazine, signaling at the selling spot, placing the products in visible places, are methods used for announcing promotional offers.

Modern retail has aroused the appetite of Romanians for promotional offers, which work as powerful influence factors in the choices they make from the shelves.

The periods preceding consummation peaks, such as Easter or Christmas, extremely favorable to exposing special offers in shops. In such occasions, the differentiating effort of producers and retailers is maximum, both financially and from the standpoint of proposal originality, organization of exposure spaces, preparation of wrappers/packages etc.

Keeping in mind the difficult economic context that we are going through, it can be said that 2009 has been a good year for promotional offers, throughout its entire course.

After several studies, it has been established that Romanians have a similar behavior to customers in nearby countries and even Western European countries.

The more we look to the West, we notice that customers there are more and more used to think in terms of "wise choices", to compare the prices and to aim towards the most favorable offer from their point of view, which is sustained by the much higher shares of private brands.

If until now the interest of Romanians was aimed at "buy something, surely get something in plus" offers or special wrappers and gifts attached to the product, lately price offers have come into focus more and more.

In a period in which the number one priority of most people will be trying to reduce expenses, the first step is orientating towards better cost alternatives to be able to keep the product category into consumption. Keeping in mind this behavioral pattern, it can be estimated that, for the market of high-demand goods, price reduction, larger quantity at the same price or 2 products for the price of one will be the most sought in the following period.

An increase is also expected in the interest towards loyalty cards, which offer the feeling that loyalty towards a certain shop is indeed rewarded, either under the form of acquiring points convertible into new products to buy, or by discounts clearly established per acquisition. Procentually 5% discount of the total amount of shopping seems to be a minimal threshold, below this limit being considered too little to be perceived as a real act of opening towards customers.

The financial situation of customers must also be taken in consideration, the level of education and the gender are the most influential demographic elements when it comes to promotion reactions.

Women are usually responsible for daily shopping and managing the family finances. Being more sensitive towards aspects linked to saving money, they look more for a pleasing price/quality/quantity report and are attracted to the "X% extra" "buy 1, get 2" "extra product attached" type of promotional offers.

Elderly people are more conservative, have a behaviour dominated by sluggishness and have much more difficulties in changing their preferences. In their case, the main trigger in the interest towards a promotion is price, which in most cases, is the element of conversion to another product or another brand.

Youngsters and children are more attracted to new items, to product range expansions, their "expertise" being especially present in the area of dairy products, sweets and personal care products.

In the case of the mainstream and especially value levels, the battle for the argument of accessibility, of the previously mentioned “wise choice” is great. We are talking here about customers with an “opportunistic” behaviour, to which price and quantity promotional offers act as very important drivers. Not the same happens in the premium zone, where customers tend to become loyal to the brands/products/services that they acquire, the affective bond with them being strong and the emotional benefits harder to replace.

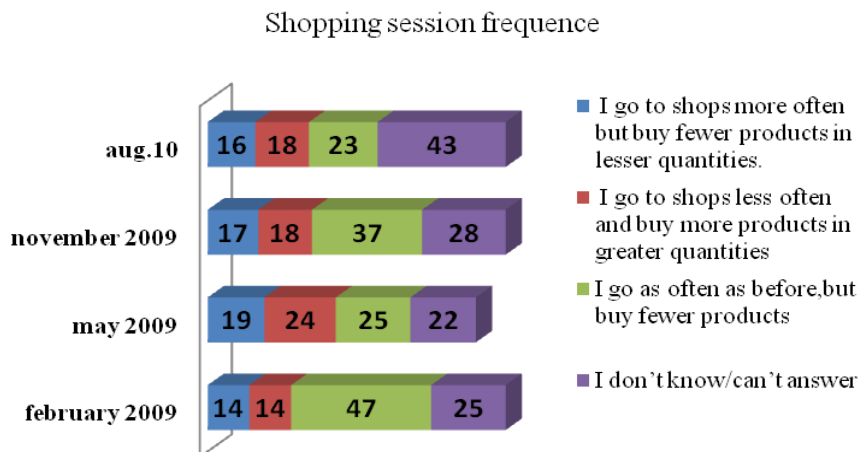
The modern Romanian retail market is more and more influenced by store promotional offers, approximately 97% of buyers orienting themselves according to this aspect when choosing products off the shelves.

According to studies, 25% of buyers often choose a promotional product, approximately 72% sometimes make this choice, whilst only 3% are sensitive towards promotional offers.

Also, buyers often choose a cheap brand instead of that they prefer, and excluding promotional offers, discounts represent an important element in choosing products. To better observe how all the forms of promotion described above can be applied, the frequency of shopping sessions and the type of shops preferred by customers must be followed.

Customers prefer to go shopping with the same frequency but buy less products.

The following figure shows the frequency of customer shopping sessions in the economic crisis period. :



*Figure no 1: Shopping session frequency*  
Source: ISRA Center

As seen in the study above, we can certainly say that going to the shop with the same frequency but reducing the number of items has remained a priority. In August 2010, it can be observed that, as in the previous year, going shopping with the same regularity has stayed on the first place, whilst on the second place, equally, customers go to stores more often but buy fewer products in lesser quantities, or go more rarely and buy more products in larger quantities.

Romanians in the urban area are especially price-oriented, always seeking price cuts, bargains or promotional offers, and when they choose a shop, they are not too interested in the facilities it offers, but nevertheless want to buy fresh, quality products. They are more inclined towards buying according to promotional offers found in retailer catalogues and do not shop in large quantities. Generally, these shoppers are women, aged over 55 and with an average education.

Promotional catalogues have a higher impact on women and elderly people.

Romanians are fairly oriented towards the efficiency of the act of buying. Not only do they plan it and do research before, but they do not wish to give too much time to this activity, preferring to shop from a single venue.

Most Romanians in the urban environment consider that the most important thing when they go shopping is being treated well by the staff of the shop.

Promotional offers and small prices are regaining superior positions in the influence of customer loyalty towards shops.

In a recession, customers do not give up on strictly necessary products, alimentary or not, but priorities their expenses by reducing the sums meant for clothes, long-term products, entertainment, holidays, gasoline, utilities etc.

The strategies to be adopted or readapted in recession times in the progress of promotional offers are:

If we should mention *retailers*, they should experiment more, increase the typological variety of promotional offers and measure their effect every time, both on a short term and on a long one, including upon the value of the shopping basket products, buying cross-sold products, re-buying at the next shopping session etc.

Certainly promotional offers bring an array of possibilities too rarely explored in Romania.

Referring to *producers*, they should not only optimize sales through promotional offers, but rather find a balance through which they could increase both the sales and the value of the brand.

To accomplish the objective of every promotional offer, producers choose a different version of promotion for each product, according to the customer category to which it is addressed. Thus, we can remark promotional offers which require a large quantity at the same price, price cuts, instant prizes, the offering of gifts or extra products for the purchase of some products and contests.

The adhesion to a promotional offer is also given by the age of the customer. From these promotional techniques, youngsters are interested in those consisting of instant prizes and contests, and settled people traditionalists are attracted to those including price cuts and a large quantity at the same price. Clients will always choose a product in favor of another the moment they see qualities in it that give it more value, which producers try to provide through these promotional techniques.

There have been promotional offers which have worked very well on a short term, but which on a long term have created major weaknesses to the brand or have significantly eroded its brand equity. In such situations, the producer simply "milks" the brand in the favor of some short-term benefits. On a long term, we've seen in our studies spectacular downfalls of brands which, along time have built their "value" exclusively on promotional offers.

In the same order of ideas, it is emphasized that promotional offers with substantial price cuts must have a very short duration, not to affect the positioning of the brand. In other words, it is preferable that they're replaced with special offers on product packages.

The crisis we are experiencing is not usual, nor controllable, nor predictable, nor short-term; it is only predictable that things will continue to change throughout the whole year and, to minimize loss or take chance of opportunities, we must also be continually changing. The permanent changes of the market, visible in Romania as well, will force Romanian retailers to adapt. People will think differently, the moment of consumption pause that they took in the first months of the year being also a moment of reassessing priorities.

Indeed, some promotional offers and communication campaigns developed along time did nothing but erode the status of the respective brands, this being the number one threat in managing such actions. The main challenge for retailers is to

understand as good as possible the reactions of customers: what they put on their shopping list, how they choose the place from which they buy, what products they choose from a certain category, how they've changed their consumption portfolio ,how they plan their anti-crisis strategies. Once the answers to these questions are found, they will be able to fold their actions in the reception of new customer needs. Whoever understands the importance of making this move first will consolidate their position in the customers' preferences, gaining a decisive advantage in ensuring customer loyalty.

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