DOI: https://doi.org/10.37075/EA.2022.3.08

Economic Alternatives, 2022, Issue 3, pp. 485-494

Price Promotions – the Problematic Child of Marketing

Received: 28.01.2022
Available online: 30.09.2022

Elena Kostadinova*

Abstract

Price promotions account for more than half of companies' marketing budgets, and in many countries, sales from promotions are reaching unsustainable levels despite these promotions' unsatisfactory results. This paper presents the findings from a single case study on price promotion decision-making at a large consumer packaged goods (CPG) company in Bulgaria. The findings suggest that price promotion decisions made by the company are largely inertial and based on very limited information, promotions are used to maintain leadership in terms of volume market share, and there is a lack of alignment between marketing and financial goals. Combined information on advertising and sales changes following price promotions in nine product categories was employed as additional empirical material.

Keywords: price promotions, CPG, advertising, promotion effectiveness

JEL: M31

Introduction

Price promotions now account for more than 50% of CPG[1] firms' marketing budgets (Bolton, Shankar & Montoya, 2010; Daws, 2017). After analyzing data from hundreds of categories and sales data on trillions of dollars in 2015, the global market research agency Nielsen issued chilling reports on the efficacy of trade promotions. Specifically, the majority of promotions in the U.S. and U.K. did not break even and were losing money for suppliers (Nielsen, 2015). A similarly grim picture was painted by the Boston Consulting Group in their analysis from the same year, which found that 20–50% of promotions at a global retail chain did not generate a remotely noticeable increase in sales (Goad et al., 2015). Dissatisfaction with the effectiveness of price promotions has been the rule rather than the exception among businesses, and still about $1 trillion is spent annually on promotions (Nielsen, 2015).

The Bulgarian market is not exempt from this promotional rollercoaster. A large proportion of retail sales in the FMCG sector in Bulgaria is also generated by promotions, ranging from 35% for basic food items to 77% for some impulse categories (Chankova, 2014). Bulgarian consumers exhibit high price sensitivity, which is characteristic of the whole region and applies to all FMCG categories (Chankova, 2014). The increased sensitivity is thought to be related to the large

* Chief Assistant Professor, PhD. Department of Marketing and Strategic Planning, University of National and World Economy.

[1] Consumer packaged goods

share of Bulgarian households' expenditures that these goods occupy (Chankova, 2014). Research on price promotion decision-making is an under-developed area (Bogomolova, Szabo & Kennedy, 2017), and there is a need for descriptive studies that can elucidate current managerial practices to improve the quality of future marketing decisions (Bogomolova, Szabo & Kennedy, 2017). This paper presents findings from a single case study on price promotion decision making at a large Bulgarian CPG company. The research aims to examine how a practicing brand manager makes price promotion decisions (Perkins & Rao, 1990) in nine popular food product categories; which factors affect these decisions and whether these practices are confirmed by current academic knowledge on the matter (Bogomolova, Szabo & Kennedy, 2017).

Background

Sales are persistently used as a key indicator of brand performance, and most managers believe that no other marketing instrument can generate such an immediate effect on sales, particularly price promotions (Bogomolova, Szabo, & Kennedy, 2017). Price is the most easily changeable element of the marketing mix (Kalra & Goodstein, 1998), and it is the most potent when driving short-term gains. The advent of real-time sales data, difficulties measuring long-term effects of brand building activities, such as advertising, short tenure of brand managers, and use of quarterly data to assess companies' performances (Lodish & Mela, 2007) have contributed to the myopia that has made discounting the standard means for resolving various marketing issues (Bogomolova, Szabe, & Kennedy, 2017). The escalation of price promotions is also associated with the rising influence of retailers, whose priorities differ from those of manufacturers and result in a power conundrum (Ailawadi, 2001). A lack of in-depth evaluation of the effectiveness of promotions due to the absence of suitable data and unrealistic expectations is common (Bogomolova, Szabe, & Kennedy, 2017). An increase in sales is often the main measure of a promotion's effectiveness (Shankar et al., 2011; Bogomolova, Szabe, & Kennedy, 2017), but even isolating the gross effect of a promotion can be a difficult task. The in-depth evaluation of a promotion's effectiveness is mostly hampered by a lack of assessment of baseline sales (e.g. sales in the absence of a promotion) (Ataman, Van Heerde, & Mela, 2010). Estimating the additional revenue earned by a promotion is of critical importance when evaluating its effectiveness, but finding "clear" data (Lodish & Mela, 2007; Bogomolova, Szabo, & Kennedy, 2017) can also prove difficult, as the largest part of many brands' sales are made through promotions (Scriven et al., 2017). Even with the correct estimation of baseline sales, there is no consensus among academics on the constituent parts of a promotional bump, which is of critical importance when evaluating the profitability and competitive impact of promotions (Van Heerde, Leeflang, & Wittink, 2004). Inducing a trial is one of the main goals of sales promotions (Santini et al., 2016), and brand managers believe that promotions can attract new buyers who will become regular buyers of the full-price product (Rothschild & Gaidis, 1981). However, previous research does not support this managerial conviction, and several studies have demonstrated that price promotions largely attract the same crowd (Ehrenberg et al., 1994; Daws, 2018). Recent research by Daws (2018), who examined promotions in 18 consumer goods categories in the UK and US, showed that the majority of buyers who buy a brand on promotion have already bought the brand at least once in their last five purchases from the same product category. Various negative effects of price promotions have been identified by academic research, including increased price sensitivity (Mela, Jedidi, & Bowman, 1998) and brand equity erosion (Jedidi et al., 1999). Increased price sensitivity is associated with a lower ability of brands to induce switching from competitors during a promotion (Kopalle, Mela, & Marsh, 1999). Frequent price promotions have also been found to lower reference prices (Kalyanaraman & Winer, 1995) and reduce baseline sales (Kopalle, Mela, & Marsh, 1999). The astonishing amounts of money spent on promotions call for a sober evaluation of the actual reasons why companies continue to allocate the largest part of their marketing resources to activities that produce unsatisfactory results.

Methodology

Research approach

The case study of focus in this research represents both a typical example of the broader phenomenon of increased promotional spending by large CPG companies and a revelation since the study is the first to investigate the factors influencing price promotion decision-making in Bulgaria. The research could be characterized as abductive, as it involves a systematic combination of a theoretical framework, empirical fieldwork, and case analysis (Dubois & Gadde, 2002). The abductive approach has been deemed particularly suitable for business research (Dubois & Gadde, 2002) and for exploring business-to-business relationships (Ja¨rvensivu & To¨rnroos, 2010). The analysis comprised empirical information from two sources: an in-depth interview and data on sales dynamics in nine product categories. The latter was used as an additional empirical material to add richness and depth to the study (Flick, Kardorff & Steinke, 2004).

Case study description

This case study explored the factors that motivate price promotion decisions at one of the largest CPG companies in Bulgaria. This case was chosen because CPG companies worldwide are among the biggest spenders regarding price promotions and are among the worst affected by the crisis of escalating and ineffective discounts (Nielsen, 2015). The chosen company is one of the largest food manufacturers in Bulgaria and in the Balkan region and sells several hundred products under tens of brands, many of which are market leaders in their respective product categories, which makes the company a good representative of the Bulgarian FMCG sector. Despite the prevalence of promotions, quantitative and qualitative data on their use in Bulgaria are largely absent. Information about price promotions has been perceived as sensitive internal data, and it is rarely disclosed or discussed, even at the aggregate market level. Considering the vast amount of money spent on promotions, a discussion of their effectiveness and justification is necessary.

Data collection

In-depth interviews were the primary method of data collection. The respondent was the brand manager of one of the biggest brands of the company, which accounts for a large share of this manufacturer’s business. The brand under his management parents products in nine categories, seven of which are market leaders. Two in-depth interviews were conducted with the respondent, who had 9 years of experience at this company. The main objective of the case study was to establish the main motives behind price promotion decisions. The data from the first interview were transcribed, and based on the analysis of the transcript, several themes were identified. The themes were elaborated on during the second interview. Data on the percentage changes in sales as a result of price promotions in nine categories were used as complementary empirical material, which was assumed to be relevant, as it is connected to behaviors and events the case study is trying to explain (Yin, 2018). The quantitative data illustrated the outcomes of price promotion decision-making and the combined effects of advertising and promotion. The respondent was asked to comment on observable patterns. The analysis aimed to understand whether the managerial practices of this large Bulgarian manufacturer are in line with the findings from academic research on price promotion decision-making (e.g., Bogomolova et al., 2017).

Case findings and analysis

Motivation for offering price promotions

The main goal behind offering price promotions is unsurprisingly to “move volume.” The respondent defined price promotions as the most effective tool for instantly increasing sales. The ability to rapidly affect sales is the most common characteristic of price promotions, which have been proven to generate significant short-term sales spikes (Neslin, 2002; Heerde, Leefleng &Wittink, 2004). According to the respondent, reaching volume targets is very important for the brand, as it is the market leader in sales volume in most of its relevant categories.

> “It is important for us to reach certain sales volume...Sometimes we are willing to sell even at a loss, in order to come out first (in volume market share).”

The company uses price promotions to maintain the status quo by ensuring that sales reach at least the same level as the previous year. Other reasons for using price promotions are to retain loyalty levels and attract new customers. Previous research does not support the widely shared belief that price promotions can attract new customers. Various studies have found that price promotions are most appealing to existing customers (Ehrenberg et al., 1994; Daws, 2018), and the proportion of new buyers they attract is similar to that of normal price purchases (Daws, 2018). The notion of maintaining loyalty and market share through promotions has been supported by a recent study by Daws, Graham, and Trinh (2020) on the long-term erosion of repeat-purchase loyalty, which found that promotions might be useful in reinforcing buyers’ purchase propensities. The brand manager honestly admitted that price promotions are offered mostly because customers like and expect them. Another reason for using them is to load the company’s production facilities optimally and to clear stock when needed. Promotions are also employed when a particular product is not selling well, but the respondent cannot recall an occasion where discounting was effective in resolving this issue. This is no surprise, as promotions are found to be most efficient in segments where performance is high, and vice versa (Nielsen, 2015).

Evaluation of the effectiveness of price promotions

The company plans its promotional calendar, specifically, how many features, displays, discounts, etc., on a yearly basis. Fulfilling retailers' expectations has been identified as one of the main factors affecting price promotion decisions (Bogomolova, 2017), but in this case, the respondent had not felt any pressure from the retailer. The brand manager was convinced that price promotions were necessary for the brand and was not aware of any tension along this line. The lack of pressure on brand managers might be due to the way promotions are negotiated in the company—the marketing department decides which specific promotional activities should take place and when, but the concrete terms of the agreement are negotiated between the company's trade department and the retailer.

The respondent admitted that in-depth evaluations of promotions' effectiveness are virtually impossible most of the time; the retailer does not provide point-of-sale data but only sell-out numbers. The assessment of a brand's performance is based on data from commissioned reports made by large market research agencies. The manufacturer receives data on brand performance measures such as market share, loyalty, and other essential metrics but not on promotions. More refined insights have only recently become available due to the efforts of a new trade panel that collects data from the biggest retailers. The respondent noted that although businesses can obtain SKU-level sales data, this level of detailed information is very expensive, and they hardly ever benefit from this service. The manager also noted that one of the big retailers refused to provide point-of-sale data for the purposes of the trade panel.

> "They do not provide point-of-sale data to...They are completely 'locked' for information."

These findings correspond with those of Bogomolova, Szabo, and Kennedy (2017), who found that resources such as syndicated panel data are rarely used due to their prohibitive costs. With these limitations in place, the volume of goods sold remains the only measure of effectiveness, and no further analysis of the other effects of promotions has been made by the marketing department (e.g., on profitability). The respondent suggested that if such an evaluation were to be carried out, it would most probably be handled by the accounting or financial departments. These observations are also in line with previous research: the increase in sales is often used as the main performance indicator of promotions (Shankar et al., 2011; Bogomolova, Szabo & Kennedy, 2017), managers usually lack a solid empirical basis to guide their decisions regarding promotions, and promotions are not evaluated by the ability to fulfil their objectives (Bogomolova, Szabo & Kennedy, 2017).

The role of advertising

The company provided data on the percentage changes in sales within one week due to price promotions for nine products at one of the biggest retail chains in Bulgaria. All variants of the products were included. Table 1 shows 1) the percentage change in sales in the post-promotion week compared to the promotion week, 2) the percentage change in sales in the post-promotion week compared to the pre-promotion week, and 3) the percentage change in sales one month after the promotion compared to the pre-promotional period. The company also provided information on the advertising campaigns that were run during the promotion of the nine products. From the table, all nine categories experienced post-promotion dips (ranging between -29% and -83%) after the prices returned to normal. Three of the brands experienced a significant decrease (ranging between -10% and -56%) in baseline sales compared to the pre-promotion week. These figures are in line with previous research, which has shown that promotions are often followed by a post-promotion dip (Dekimpe, Steenkamp & Hanssens, 2001), and the dip can be detected in the weekly store-level data (Hendel & Nevo, 2003).

Table 1. Percentage changes in sales

Products	Period after promotion/ period during promotion	Period after promotion/ period before promotion	TV Advertising
Product 1 (-15%)	-68%	-56%	
Product 2 (-16%)	-29%	32%	PRODUCT FOCUSED
Product 3 (-25%)	-83%	59%	PRODUCT FOCUSED
Product 4 (-12%)	-83%	-10%	
Product 5 (-27%)	-74%	3%	
Product 6 (-30%)	-72%	1%	
Product 7 (-21%)	-83%	-4%	
Product 8 (-30%)	-43%	65%	BRAND FOCUSED
Product 9 (-25%)	-72%	-28%	

The brands that were actively advertised during this period enjoyed significant increases in sales compared to the pre-promotion week (ranging between 32% and 65%). One month after the promotion, 5 of the 9 products continued to experience a decrease in sales (ranging between -4% to -26%) and the three advertised brands sustained increased sales (ranging between 4% and 24%).

Table 2. Effects on sales one month after the promotion

Product	One month after the promotion/ period before the promotion	Advertising during and after the promotion period
Product 1	-45%	
Product 2	10%	YES
Product 3	24%	YES
Product 4	-7%	
Product 5	-4%	
Product 6	-8%	
Product 7	3%	
Product 8	4%	YES
Product 9	-26%	

Kaul and Wittink (1995) found that brand-oriented advertising decreases price sensitivity. Direct causal inferences about the effects of advertising could not be made here; however, a simple eye-balling of the data (Bass & Wind, 1995) showed an observable pattern that is complemented by additional comparisons. For example, Products 3 and 9 were very similar to each other—they are both perishable meat products with similar formulations. There was an active product-focused advertising campaign for Product 3 during and after the promotion, but no such campaign was run for Product 9. The difference in the percentage sales changes in the after-promotion period was quite pronounced—the post-promotion dip for Product 9 was more than twice that for Product 3, and this trend continued one month after the promotion.

The respondent attributed the sustained increase in sales to the combined effects of advertising and promotion. According to him, the promotion increased the sales of the advertised products in the retail chain, and the advertising campaign reached a larger group of category buyers, thus fostering an increased interest in the product during the campaign period. His reasoning was not ungrounded. Mela, Gupta, and Lehmann (1997) established that national brand television advertising can increase base sales and command higher levels of demand. They also found that national television advertising is predominantly brand oriented (Mela, Gupta & Lehmann, 1997).

> "That`s what advertising does...We are running big-budget national TV campaigns that usually continue for 5 weeks. Most of our advertising is focused on the image of the brand – its quality, its heritage..."

Practitioners have long debated the supposedly high advertising and promotional elasticities in Bulgaria and the region, as they believe consumers react more strongly to both advertising and promotions compared to consumers in mature Western markets. The respondent defined advertising as essential for maintaining the company's market dominance—the brand is the market leader in eight of the nine product categories in which it sells and believes that promotions and advertising act in synergy.

Discussion

This analysis tried to shed light on price promotion decision-making at a large Bulgarian CPG company. The findings from the case study demonstrate that decisions on price promotions are largely inertial and based on limited information. The goals of using price promotions are broadly defined and it is impossible to assess through the data available, whether those goals are being met. These findings are in line with previous research, which identified the lack of clear objectives as one of the main factors compromising the effectiveness of sales promotion (Ogden-Barnes and Minahan, 2015; p. 123; Bogomolova, Szabo, and Kennedy, 2017). The analysis also showed a pronounced lack of alignment between financial and marketing goals—the marketing department is primarily occupied with maintaining market share, brand awareness and image. Brand managers are not directly engaged in the negotiation of the financial terms of promotions, as well as in their subsequent financial evaluation. The findings also hint at big Bulgarian retailer's alarming lack of transparency and unwillingness to share point-of-sales data, which might be a sign of distrust and insufficient communication. A recent survey by Coresight and Precima, a NielsenIQ company, of 210 CPG manufacturers and retailers showed that 63% of retailers and 52% of suppliers participating in the study saw the lack of trust and communication as a major challenge to retailer–supplier collaboration (Coresight & Precima, 2020). It seems that even large manufacturers, such as the object of this case study, might not be fully aware of their brands' in-store situations and are forced to manage the brands 'by the data they have and not by the data they need' (Lodish & Mela, 2006, p. 7). The dominating position of the company seemed to pose high demands on the brand manager, who felt pressure to retain the number one place in the volume market share, sometimes at the cost of selling at a loss. The results suggest that advertising plays an important role in this company's leading positions. The management appeared fully cognizant of the need to invest in advertising to build brand equity.

This escalation in price promotions reflects two problematic tendencies in marketing—short-term orientation (Lodish & Mela, 2007) and overemphasis on customer satisfaction as the primary goal of market orientation (Koli & Javorski, 1990). The bias toward customer wants and needs (Sharp, 1991) shifts more weight to customer satisfaction than to companies' strategic objectives. Furthermore, it shifts marketers' focus toward instruments that provide instant gratification to consumers and command impressive sales figures.

Limitations of the study

A clear limitation of the study is that it is based on a single case and it is implemented in a specific industry context. The empirical study focused on the perspective of one brand manager. Future studies should extend to different industries and cases, and should explore the perspectives of both manufacturers and retailers.

Acknowledgement

The author is deeply grateful to the respondent of this study for his time, attention and willingness to share valuable information for the purposes of this research.

References

Ailawadi, K. L. (2001). The retail power-performance conundrum: What have we learned? *Journal of Retailing*, 77(3), 299–318.

Ataman, M., Van Heerde, H., & Mela, C. (2010). The Long-Term Effect of Marketing Strategy on Brand Sales. *Journal Of Marketing Research*, *47*(5), 866-882.

Bass, F., & Wind, J. (1995). Introduction to the Special Issue: Empirical Generalizations in Marketing. Marketing Science, 14(3_ supplement), G1-G5

Bogomolova, S., Szabo, M., & Kennedy, R. (2017). Retailers' and manufacturers' price promotion decisions: Intuitive or evidence-based?. *Journal Of Business Research*, *76*, 189-200.

Bolton, R., Shankar, V., & Montoya, D. Recent Trends and Emerging Practices in Retailer Pricing. *Retailing In The 21St Century*, 255-269.

Kopalle, P., Mela, C. & Marsh, L., 1999. The Dynamic Effect of Discounting on Sales: Empirical Analysis and Normative Pricing Implications. *Marketing Science*, 18(3), pp.317-332.

Coresight and Precima, a NielsenIQ company (2020). Winning with Retailer-Supplier Collaboration in Grocery and Drug Retail. Online: Precima, a NielsenIQ company

Dawes, J., Graham, C., & Trinh, G. (2020). The long-term erosion of repeat-purchase loyalty. *European Journal Of Marketing*, *55*(3), 763-789.

Dawes, J., (2018). Price promotions: examining the buyer mix and subsequent changes in purchase loyalty. *Journal of Consumer Marketing*, 35(4), pp.366-376.

Nijs, V. R., Dekimpe, M. G., Steenkamp, J. -B. E. M., & Hanssens, D.M. (2001). Th category demand effects of price promotions. *Marketing Science*, 20(1), 1–22.

Dubois, A., & Gadde, L. (2002). Systematic combining: an abductive approach to case research. *Journal Of Business Research*, *55*(7), 553-560.

Ehrenberg, A. S. C., Hammond, K., & Goodhart, G. J. (1994, July-August). The after-effects of price-related consumer promotions. *Journal of Advertising Research*, *34*(4)

Flick, U., Kardorff, E., & Steinke, I. (2004). A companion to qualitative research. London, England: Sage.

Goad, N., Robinson, J., Callersten, J.A., Malby, A., & Opstrup, J. (2015). How Retailers Can Improve Promotion Effectiveness. Online: The Boston Consulting Group

Hendel, I. & Nevo, A., 2003. The Post-Promotion Dip Puzzle: What do the Data Have to Say?. *Quantitative Marketing and Economics*, 1(4), pp.409-424.

Järvensivu, T., & Törnroos, J. (2010). Case study research with moderate constructionism: Conceptualization and practical illustration. *Industrial Marketing Management*, *39*(1), 100-108.

Chankova, Z. (2014). "Efektivnata promotzia tryabva da nosi dopalnitelni prodazhbi". Regal magazine. Retrieved: https://www.regal.bg/novini/analizi/2014/12/18/2441148_efektivnata_promociia_triabva_da_nosi_dopulnitelni/

IRI, (2015). Price and Promotion in Western Europe Encouraging signs of recovery. www.IRIworldwide.com

Jedidi, K., Mela, C. F., & Gupta, S. (1999). Managing advertising and promotion for longrun profitability. *Marketing Science*, 18(1), 1–22.

Gurumurthy, K & Winer, R.S. (1995). Empirical generalizations from reference price research. *Marketing Science*, 14(3) G151–G160.

Kalra, A., & Goodstein, R. (1998). The Impact of Advertising Positioning Strategies on Consumer Price Sensitivity. *Journal Of Marketing Research*, *35*(2), 210.

Kaul,Anil & Dick R.Wittink (1995), "Empirical Generalizations About the Impact of Advertising on Price Sensitivity and Price," *Marketing Science*, 14 (3, Part 2 of 2), G151–60

Kohli, A. & Jaworski, B., 1990. Market Orientation: The Construct, Research Propositions, and Managerial Implications. *Journal of Marketing*, 54(2), p.1.

Lodish, L. M., & Mela, C. F. (2007). If brands are built over years, why are they managed over quarters? *Harvard Business Review*, 85(7/8), 104–112.

Mela, C., Gupta, S. & Jedidi, K., 1998. Assessing long-term promotional influences on market structure. *International Journal of Research in Marketing*, 15(2), pp.89-107.

Nielsen (2015). The path to efficient trade promotions. Online: The Nielsen Company

Nielsen UK (2015). Most grocery trade promotions lose money for suppliers. Online: The Nielsen Company

Ogden-Barnes, S. and Minahan, S. (2015). Sales promotion decision making : concepts, principles, and practice. Business Expert Press, New York

Perkins, S., & Rao, R. C. (1990). The role of experience in information use and decision-making by marketing managers. *Journal of Marketing Research*, 27(1), 1–10.

Rashid, Y., Rashid, A., Warraich, M., Sabir, S., & Waseem, A. (2019). Case Study Method: A Step-by-Step Guide for Business Researchers. *International Journal Of Qualitative Methods*, *18*, 160940691986242.

Rothschild, M., & Gaidis, W. (1981). Behavioral Learning Theory: Its Relevance to Marketing and Promotions. *Journal Of Marketing*, *45*(2), 70-78. doi:

Santini, F., Vieira, V., Sampaio, C., & Perin, M. (2016). Meta-Analysis of the Long- and Short-Term Effects of Sales Promotions on Consumer Behavior. *Journal Of Promotion Management*, *22*(3), 425-442.

Scriven, J., Clemente, M., Dawes, J., Trinh, G., & Sharp, B. (2017). Buying Brands at Both Regular Price and on Promotion over Time. *Australasian Marketing Journal*, *25*(4), 252-260.

Shankar, V., Inman, J., Mantrala, M., Kelley, E., & Rizley, R. (2011). Innovations in Shopper Marketing: Current Insights and Future Research Issues. *Journal Of Retailing*, *87*, S29-S42.

Sharp, B. (1991). Marketing Orientation: More than Just Customer Focus. *International Marketing Review*, *8*(4).

Van Heerde, H., Leeflang, P., & Wittink, D. (2004). Decomposing the Sales Promotion Bump with Store Data. *Marketing Science*, *23*(3), 317-334.

Neslin, S. (2002). *Sales promotions*. Cambridge: Marketing Science Institute

Yin, R. K. (2018). *Case Study Research and Applications: Design and Methods* (6th ed.). Thousand Oaks, CA: Sage.