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Impact and role of sales promotion on FMCG

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Abstract

To start with we will give brief information regarding FMCG sector then moving to the main topic we will explain what is topic is all about. Promotion is one of the pillars of marketing mix and same way sales promotion is also one of the elements of promotion. With respect to consumer oriented sales promotion there are certain theories narrated as operant conditioning and projective theory. Based on secondary source certain theoretical aspects are also included as a part of research. Then after concentration is given to the research. It includes the analysis and results of research which was focuses on consumer's behavior towards sales promotion campaign.

Keywords: FMCG, consumer's behavior, fast moving consumer goods, channel of distribution, sales promotions, coupons, freebies, scratch cards, lucky draws, bundling offer, target market, product life cycle, push strategy, pull strategy

Introduction

The term FMCG (Fast Moving Consumer Goods), although popular and frequently used does not have a standard definition and is generally used in India to refer to products of everyday use. Conceptually, however, the term refers to relatively fast moving items that are used directly by the consumer. Thus, a significant gap exists between the general use and the conceptual meaning of the term FMCG.

Further, difficulties crop up when attempts to devise a definition for FMCG. The problem arises because the concept has a retail orientation and distinguishes between consumer products on the basis of how quickly they move at the retailer's shelves. The moot question therefore, is what industry turnaround threshold should be for the item to qualify as an FMCG. Should the turnaround happen daily, weekly, or monthly?

One of the factors on which the turnaround depends is the purchase cycle. However, the purchase cycle for the same product tend to vary across population segments. Many low-income households are forced to buy certain products more frequently because of lack of liquidity and storage space while relatively high-income households buy the same products more infrequently. Similarly, the purchase cycle also tends to vary because of cultural factors. Most Indians, typically, prefer fresh food articles and therefore to buy relatively small quantities more frequently. This is in sharp contrast with what happens in most western countries, where the practice of buying and socking foods for relatively longer period is more prevalent. Thus, should the inventory turnaround threshold be universal, or should it allow for income, cultural and behavioral nuances?

The importance of consumer sales promotion in the marketing mix of the fast moving consumer goods (FMCG) category throughout the world has increased. Companies spend considerable time in planning such activities. However, in order to enhance the effectiveness of these activities, manufacturers should understand consumer and retailer interpretations of their promotional activities. The study here pertains to consumer's perceptions regarding sales promotion. Some past researches have suggested that promotion itself has an effect on the perceived value of the brand. This is because promotions provide utilitarian benefits such as monetary savings, added value, increased quality and convenience as well as hedonic benefits such as entertainment, exploration and self-expression.

Broadly speaking most of the companies using Marketing Mix which includes

- Price
- Place (Channel of Distribution)

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- Product
- Promotion

Promotion

These are the four basic pillar of marketing mix. Most of the marketing strategies are built on the basis of these criteria. Promotion is one of the important elements of marketing mix. There are so many elements of promotion such as:-

- Advertising
- Direct Marketing
- Public Relations

Sales Promotion

Traditionally, sales Promotions have been used by marketer to increase sales in the short term. However, in the last few decades this communication tool has evolved and now is considered from a strategic point of view. For this reason, it is necessary to realize new studies in this area and study how consumers evaluate sales promotions.

Sales promotions have grown in both importance and frequency over the past few decades. Although an accurate estimate for total sales promotions expenditures does not exist, we can be sure that the trend is up.

Sales promotion serves three essential roles: It informs, persuades and reminds prospective customers about a company and its products. Even the most useful product or brand will be a failure if no one knows that it is available. As we know, channels of distribution take more time in creating awareness because a product has to pass through many hands between a producer and consumers.

Therefore, a producer has to inform channel members as well as ultimate consumers about the attributes and availability of his products. The second purpose of promotion is persuasion. The cut throat competition among different products puts tremendous pressure on their manufacturers and they are compelled to undertake sales promotion activities. The third purpose of promotion is reminding consumers about products availability and its potential to satisfy their needs. Further Sales Promotion is quite broad term it includes ...

Consumer Oriented Sales Promotion

Trade Oriented Sales Promotion

Consumer Oriented Sales Promotion

Consumer Oriented Sales Promotion is the main topic of this research. Here emphasize is given to motivate consumer to increase sales. Consumer Oriented Sales Promotion includes Sampling, Couponing, Premiums, Contest, Refunds, Rebates, Bonus Pack's, Price-off, Event marketing etc.

Kotler defines sales promotion as: "Sales promotion consists of a diverse collection of incentive tools, mostly short-term designed to stimulate quicker and/or greater purchase of particular products/services by consumers or the trade."

Roger Strang has given a more simplistic definition i.e. "sales promotions are short-term incentives to encourage purchase or sales of a product or service."

Hence, any forms of incentives (price cut or value added nature) offered for short period either to trade or consumers are considered as sales promotion activities.

Marketer's uses consumer oriented sales promotion tools for the following reasons

- To increase short term sales

- To induce trial
- To reduce inventory
- To establish a brand name
- To make cross selling
- To cope up with competition
- To avoid advertising clutter

Tools of Consumer Oriented Sales Promotion

There are so many tools or technique available to the marketers for achieving objective of sales promotion. These tools should be used considering all other factors affecting such as cost, time, competitors, availability of goods etc.

These tools are as under

1. Coupons
2. Price-Off
3. Freebies
4. Scratch Cards
5. Lucky Draws
6. Bundling Offer

Coupons

Coupon is the oldest and most widely used way of sales promotion. Coupons have been used since 1895. It is mostly used by packaged goods. It is worthwhile to use coupon as a promotion tool because data shows that market for packaged goods increased from 16 billion in 1968 to 310 billion in 1994. To boost up the sales not only manufacturer but retailers personally can also used. A coupon leads to price reductions so as to encourage price sensitive customers. Non users can try a product which may leads to regular sales.

Price-off

A price-off is simply a reduction in the price of the product to increase sales and is very often used when introduction a new product. A reduction in price always increases sales but the use of this technique should be carefully considered in the current market situation.

Price-off is the most preferred sales promotion technique because consumers response very positively to this scheme. Not only that but it also cause large increase in sales volume. Price-off reductions are typically offered tight on the package through specially marked price packs. E.g. Krack Jack offers 30% Price-off.

Freebies

Freebies are a popular form of modern marketing and are some of the best things about the internet. The definition of freebies is products or services given away for free at no cost to the consumer. Well that's the definition we came up with. I am a bargain freebie shopper, pretty much going for any free product and informing everyone about it.

At different times, big and small companies often give away prizes and money which is too good to be true. Often it's in the pursuit of more customers or a larger fan base and it often works.

Scratch Cards

A scratch card (also called a scratch off, scratch ticket, scratcher, scratchie, scratch-it, scratch game, scratch-and-win or instant game) is a small token, usually made of cardboard, where one or more areas contain concealed information: they are covered by a substance that cannot be seen through, but can be scratched off.

Bundling Offers

Product bundling is a marketing strategy that involves offering several products for sale as one combined product. This strategy is very common in the software business (for example: bundle a word processor, a spreadsheet, and a database into a single office suite), in the cable television industry (for example, basic cable in the United States generally offers many channels at one price), and in the fast food industry in which multiple items are combined into a complete meal. A bundle of products is sometimes referred to as a package deal or a compilation or an anthology.

Factors Influencing Consumer Oriented sales promotion

Mainly four factors should be taken into account while determining the sales promotion program.

- Target market
- Nature of product
- Stage of product life cycle
- Budget available for promotion

1. Target Market

While doing sales promotion, marketer must know who their target market is; otherwise there is no use of all effort because it leads to no where. A target market can be in any of the stages of buying hierarchy i.e. awareness, knowledge, liking, preferences, conviction and purchase. Each stage defines a possible goal of promotion.

2. Nature of the product

There are various product attributes which influence sales promotional strategy. When the unit price is low the manufacturer as well as the customer has low risk but he can get the benefit of mass marketing. Therefore, mass marketing requires mass sales promotion schemes. Sales promotion scheme differ for products like its durability, perishable goods etc.

3. Stage of product Life Cycle

Sales promotion strategies are influenced by the life cycle of a product. When a new product introduced, prospective buyers must be informed about its existence and its benefits and middlemen must be convinced to stock it. Later, if a product becomes successful, competition intensifies and more emphasis is placed on sales promotion to increase its sales.

4. Budget Available for Promotion

The funds available for promotion are the ultimate determinant of the promotional programme. A business with ample funds can make more effective use of sales promotion programme than a firm with limited financial resources. The budget for sales promotion can be prepared by the following methods...

Percentage of Sales

Fixed funds available for sales promotion

Following the competition, and

Budgeting by objective.

Sales Promotion from the Consumers point of view

Sixty per cent of the sample did not show willingness to buy a brand due to promotion while 30% showed willingness and 10% were not sure. This indicates that when 30% showed willingness and 10% consumers who were not sure,

these groups might be lured through innovative and lucrative sales promotion offer.

Forty per cent of the respondents had said that sales promotion had the ability to induce trial which reinforces the above inference.

In order to understand ability of the promotions to increase long-term sales, respondents were asked about continuity of purchase of a brand after the withdrawal of promotion. Eighty per cent of the respondents indicated that they would not continue. But 20% said they would. Thus, it could be inferred that promotions in this category (low involvement products) might encourage trial and brand switching but not long term loyalty.

Price off was the most preferred type of scheme. Maximum customers' ranked price-offs as number one or two.

Majority of respondents had a perception that the quality of the promoted brands remained the same during promotion, while some of them felt that it was inferior to before. It can be inferred that promotions were not leading to negative brand quality perceptions. It is found that some customer strongly preferred to buy their regular brand and said that sales promotion would not weaken their loyalty towards the brand.

On tapping perceptions' regarding underlying company motivations for sales promotion, "to increase sales" was ranked highest followed by "to attract switchers" and "to sell excess stocks". While providing value to customers" and "To reinforce company image" were ranked lowest. This indicates that consumers believed that companies were undertaking such activities only for their own benefit and not for the benefit of consumers.

Findings from retailer and consumer perception studies, it is evident that there was a matching of perceptions regarding nature of scheme (price offs as most preferred type of scheme mentioned by consumers and retailers' perceptions about consumer preferences). Since retailers observe consumers in store behavior were frequently and directly, their perceptions regarding providing consumer behavior are likely to be accurate. Such inputs from the retailers would be useful to companies.

The retailers had the perception that those schemes which were announced through mass media had better response. This was reinforced by the consumer survey which showed that recall in case of heavily promoted schemes on TV was found to be very high.

Retailers' prediction of companies' motivation for offering sales promotion were matching with the consumer perception regarding the same. Thus both viewed that companies were using sales promotion activities mainly to increase short term sales or encourage switching or selling excess stock and not really to give value benefit or enhance/reinforce brand/company image.

Trade Oriented Sales Promotion

Trade Oriented Sales Promotion aimed to motivate channel member of the company and to encourage them to push company's product. Trade Oriented Sales Promotion includes dealer contest and incentives, trade allowances. Point-of-purchase displays, sales training programs, trade shows, cooperative advertising, and other programs designed to motivate distributors and retailers to carry a product and make an extra effort to push it to their customers.

Sales promotion from the retailer's point of view

It was found that retailer perceived price offs as a better form of sales promotion activity. Price offs in their opinion had relatively a greater impact compared to any other form of sales promotion activity like Bonus packs, Premium, Contests etc. Retailers preferred price offs the most, then bonus pack, premium, contests, in order of importance.

Retailers viewed that the person who came to the shop (who may be a maid, son, daughter, daughter-in-law and child) was the decider of a toilet soap brand and not the Income provider (e.g. head of the family). It could be inferred that visibility of information about the sales promotion activity at the point of purchase could result into the purchase of a promoted brand.

Retailer had relatively very low influence in affecting choice. It could be inferred that visibility and awareness about the scheme were the critical success factors so that pull could be created.

They believed that younger age-groups were more experimental in nature, amenable to trying new brands, and sought/looked for or asked whether there were any sales promotion schemes running on any toilet soap at the time of purchase.

Retailers perceived that role of word of mouth and television advertising played an important part in providing information inputs to consumers regarding sales promotion activities.

Smaller (non-supermarket, small format store) retailers received relatively less support compared to supermarkets in terms of servicing, margins, information about sales promotion activities from the dealers. Many a times small retailers were only informed verbally about sales promotion schemes by the dealer salesmen during the scheduled weekly visits.

It was found that in sales promotion schemes margins varied from 6 to 15% depending of the size of the retail outlet, bargaining power of a retailer, quantity ordered by him etc. Mostly margins were linked to size of the volumes that were ordered.

Sales Promotion Strategy

Sales are the lifeblood of a business, without sales there would be no business in the first place; therefore it is very important that if a business wants to succeed, it should have a sales promotion strategy in mind. The primary objective of a sales promotion is to improve a company's sales by predicting and modifying your target customer's purchasing behavior and patterns.

Sales promotion is very important as it not only helps to boost sales but it also helps a business to draw new customers while at the same time retaining older ones. There are a variety of sales promotional strategies that a business can use to increase their sales, however it is important that we first understand what a sales promotion strategy actually is and why it is so important.

A sales promotion strategy is an activity that is designed to help boost the sales of a product or service. This can be done through an advertising campaign, public relation activities, a free sampling campaign, a free gift campaign, a trading stamps campaign, through demonstrations and exhibitions, through prize giving competitions, through temporary price cuts, and through door-to-door sales, telemarketing, personal sales letters, and emails.

The importance of a sales promotion strategy cannot be underestimated. This is because a sales promotion strategy is important to a business boosting its sales.

When developing a sales promotion strategy for your business, it is important that you keep the following points in mind.

- Consumer attitudes and buying patterns
- Your brand strategy
- Your competitive strategy
- Your advertising strategy
- Other external factors that can influence products availability and pricing.

There are three types of sales promotion strategies

- A push strategy
- A pull strategy or
- A combination of the two

A Push Strategy

A 'push' sales promotion strategy involves 'pushing' distributors and retailers to sell your products and services to the consumer by offering various kinds of promotions and personal selling efforts. What happens here is that a company promotes their product/services to a reseller who in turn promotes it to another reseller or to the consumer. The basic objective of this strategy is to persuade retailers, wholesalers and distributors to carry your brand, give it shelf space, promote it by advertising, and ultimately 'push' it forward to the consumer. Typical push sales promotion strategies include; buy-back guarantees, free trials, contests, discounts, and specialty advertising items.

A Pull Strategy

A 'pull' sales promotion strategy focuses more on the consumer instead of the reseller or distributor. This strategy involves getting the consumer to 'pull' or purchase the product/services directly from the company itself. This strategy targets its marketing efforts directly on the consumers with the hope that it will stimulate interest and demand for the product. This pull strategy is often used when distributors are reluctant to carry or distribute a product. Typical pull sales promotion strategies include; samples, coupons, cash refunds or rebates, loyalty programs and rewards, contests, sweepstakes, games, and point-of-purchase displays.

A Combination of Two Strategies

A 'combination' sales promotion strategy is just that; it is a combination of a push and a pull strategy. It focuses both on the distributor as well as the consumers, targeting both parties directly. It offers consumer incentives side by side with dealer discounts.

Emerging Trends

So far as FMCG market is concern there is new trend is emerging known as Joint sales promotion. Actually it is old concept but it was more prevailing in durable products now it is coming into non-durable goods also. When any sales promotion scheme either for trade or consumer is announced by more than one company and /or more than one brand of the same company, it is referred as joint sales promotion or horizontal co-operative sales promotion or cross promotion or umbrella sales promotion.

Classification of Joint Sales Promotion

- Use complementarily due to natural use
- New use catering complementary relationships
- Commonality of need due to use time
- Tie-up of a new /slow moving brand with an established brand
- Target market commonality
- Seasonal demand
- Distribution commonality
- Targeting new segment
- Derived demand
- Countering competitive joint sales promotions

Impact on Sales Promotion

Promotion is the component of the marketing mix strategy that emphasizes the use of various communication tools to promote the value of your company, products or services. While much of promotion is focused on long-term communication objectives, sales promotions have a specific motive of creating immediate sales.

Attract Customers: Sales promotions are typically used as a price inducement to attract price-conscious buyers not interested in products at regular prices. This is common when companies want to build a customer base, such as at a grand opening, when a competitor goes out of business, or in a highly competitive industry. In some cases, sales promotions on one product, known as a "price leader" or "loss leader," are used to get customers into the store so you can sell them other, more profitable items.

Increased Revenue: Increasing revenue is a common goal for sales promotions. Often, sales promotions restrict your profit potential, but they allow you to generate more revenue in the short run due to increased sales volume. This also means more cash flow, which is why companies struggling to meet near-term financial obligations often turn to discounts. To realize greater revenue, you need more customers to buy more product at the reduced price.

Price Orientation: One of the more risky or negative effects of sales promotions is that they can lead to a price orientation amongst customers. This is especially true if you overuse them or maintain discounts for an extended period. Customers psychologically connect the promotion price with the value of the product, and a price hike down the road may not work.

Inventory Reduction: Effective sales promotions lead to inventory reductions because customers buy more product. In fact, this is why companies hold them regularly at the end of a buying season. For example, when Halloween is over, you often see retailers discount decor and candy to make room on the shelves for other products. While this often results in a gross loss on the excess inventory, you at least get some revenue rather than throwing out expired or obsolete products.

Findings

Sales Promotion, a short-term inducement, offered to a consumer or trade has gained momentum as a promotional tool world over. It represents nearly three fourth of the marketing budget at most consumer product companies. Sales promotions can enhance consumers' self-perception of

being "smart" or a "good" shopper.

- FMCG are such a market where the level of loyalty remains low and this is because of many reasons.
- Quality as the most influencing factors in the purchase decision while price is also an important for purchase decision.
- Schemes always attract more and more consumers towards particular brand. Simultaneously it gives idea about the factors which consumers look most in the product before they make final decision.
- Price off and extra quantity is the two main offers/schemes which consumers have come across at the time of purchase.
- TV as the best media to market the product which will cover majority of the viewer ship. On the second place it shows news papers as the media to promote the product in the market.
- People are not much aware of the schemes which continue in the market it may be because of the present stock of the product at their place.
- 1+1 or 2+1 or other free schemes are more demanded and more aware schemes in the market.
- Extra quantity with less or same price, more satisfaction, quality and other factors influence consumers to switch over to other brands.
- Retailer stocks all types of soap and detergent because of competition.
- People are more quality and price oriented.
- Consumer remember that name of the product by the company name and also from the past performance of that company.
- Consumer remembers that name of the product by the company name and also from the past performance of that company.
- Retailers are not suggest to purchase particular brand because of personal relation or that customer are brand loyal.
- Margin and of better relations with consumers and too provide quality product to consumers they suggest consumers too by particular brand.
- Customers are looking for any type of the promotions on the product before them going to purchase.
- Price off, product bundling and extra quantity are more demanded by the consumers over others schemes.
- NIRMA is mainly offering credit facility which is offered by all major players it may differ in the time limit of the credit.
- HUL attracts more consumers through such promotions, such as display of the product, banners etc.

Recommendation

The findings of the empirical study indicate that unless the brand to be promoted is in the consideration set of the consumer, sales promotion by itself is unlikely to have any major impact. Clearly this shows that managers need to invest into brand building exercise so that his/her brand appears in the consideration set of the target consumers. Only after this should he spend time, money and energy on sales promotion activities.

Sales promotion should not be used in isolation but need to be integrated with other tools and in line with the overall positioning of the brand. Also the importance of the role of mass media came out clearly in the study.

Companies need to create sufficient awareness about sales

promotion schemes through mass media in order to create awareness. FMCG products are low involvement products characterized by switching behavior. Also the person going to the shop for the purchase of soap is the final decision maker of the brand. Hence it is essential that companies need to design attractive, striking, visible POPs for scheme announcements.

With respect to nature of scheme, the finding suggested that premium (free gift) was popular with companies. While both retailers and consumers preferred price offs. So it is necessary that the perceived value of a free gift has to be appealing and high for the target consumers.

Repetitive use of the same premium for a prolonged period may have negative effect on the loyal customers. When the company is giving its own product free as premium, it needs to ensure the quality of the product from it as it is likely to jeopardize the image of both its products.

The findings exhibited that both the retailers and consumers perceived that sales promotion activities carried out by the companies for increasing sales in short term and clearing excess stocks. What it implies is that companies need to use sales promotion synergistically and communicate so that they provide value to the target audience and enhance brand quality/image perceptions.

Companies need to systematize information flow regarding sales promotion activities particularly at dealer and retailer level. Ensuring proper information flow and devising checks and measures to reduce misappropriations and implementation flows should be considered critical aspects for the success of sales promotion activities by the companies. As retailing is fragmented, direct reach by companies is next to impossible. Through dealers and proper feedback mechanism, companies keep in touch with the market.

From the study it was found that smaller retailers felt neglected and not enthused to implement the schemes, particularly when additional handling, stocking, accounting was required on the part of a retailer without compensatory margins. It can be seen that the retailer and consumer perceptions matched with respect to preferences of schemes, underlying motivations and role of mass media. This implies that the retailer would be a rich source of information about the consumer and the likely response to sales promotion activities.

Developing a system to tap such responses from time to time both at retailer and consumer level would be helpful for planning future sales promotion activities. In order to build trust and commitment companies should tap preferences, perceptions of retailers as well as consumers.

Conclusion

The study reflects that the use of sales promotion undeniably has increased over the years in India. Future holds lot of promise for such schemes across wider range of product-markets.

Sales Promotion has ceased to be major differentiator at least in the metros, with almost all companies offering similar freebies and gifts. As a result now marketers have to find out some innovative ways of sales promotion to differentiate from competitors. Currently Price off and Buy one get one free offers are very effective to attract the consumers towards the products.

We have noted that these kind of promotional tools are useful for short term increase in sales and to induce first

trial. These types of promotional schemes should be consistent and changed from time to time depending upon season and competitor's schemes.

With the Increasing number of supermarket, the branded packaged goods work as silent sales person. So in such stores, sales promotion plays a more effective role in stimulating consumers' demands.

One of the very important facts we came to know from this research is that sale of goods which contain large quantity and having big packaging e.g. detergent are stagnating because consumer prefer to buy small pack goods, the reasons are: small pack goods reduce risk of bad quality, It had low cost or say price, and last but important factor i.e. mentality to purchase just to try first. Sales of small pack goods are quite high, but from the company's point of view small pack goods is less profitable compare to large pack goods.

So here marketer tries to increase sales of large pack goods by using sales promotion tactics like price off and percentage extra.

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