

Short Term and Long Term Impact of Sales Promotion on Organizations' Profitability: A Comparative Study between Convenience and Shopping Goods

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Abstract

The research paper explores the short term and long term impact of sales promotion, through the use of financial analysis and consumer survey respectively, offered by Pakistani companies from two diverse industries, i.e. Beverage Industry (Shezan International Ltd) and Foam Manufacturing Industry (Diamond Supreme Foam). Survey research was conducted on a sample of 200 consumers to analyze the long term impact of consumer's perception of sales promotion by measuring its relationship with brand loyalty. The questionnaire used to measure the consumer perception of sales promotion and brand loyalty were based on the scale developed by Astous and Jacob in 2002 and Quester and Lim in 2003 respectively. The financial indicators were used for measuring the financial performance of companies and Pearson Correlation, Cross tabulation and Regression Analysis were used for inferential analysis through the use of SPSS. Results reveal the presence of various extraneous factors impacting the effectiveness of promotions.

Keywords: Sales promotion, Financial profitability, Brand loyalty, Price perception, Consumer promotion

1. Introduction

The purpose of sales promotion is to motivate the customers to immediately purchase a particular product thus enhancing its sales. Our research analyzes, through the use of financial analysis and consumer survey, the short term and long term impact of sales promotion respectively. In a study (Koen Pauwels et al. 2002) observes that when a consumer is exposed to a sales promotion offer majority of the time the consumer has already purchased and practiced a particular brand so the impact of learning from the that purchase is minimal and is easily balanced by a simultaneous and similar competitive offering. Therefore the immediate effects of sales promotion are small. In addition the research revealed that because of price promotion consumers are forced to make purchases and but this impact on sales cannot only be explained by accelerated rate of purchase due to price reductions.

Our research focuses on the analyzing the impact of sales promotion offered by diverse industries. We selected

one company randomly from both industries, i.e. beverage and foam manufacturing industry. The purpose was to study whether sales promotions offered by the two companies had any short term and long term impact on profitability and if the impact varies between industries. The short term impact of sales promotion has been proven by numerous researches. It is the increase in sales of the product during the promotional period. Our research connects this with the analysis of the long term impact of sales promotion as well, i.e. the increase in the brand loyalty of the customer which will ultimately increase the customer lifetime value of the company and thus the company's profitability. After this the research also focuses on observing the impact of any extraneous factors that may be increasing the brand loyalty of the respective brands.

2. Literature Review

The properties of sales promotion can be defined as (Boddewyn & Leardi, 1989, p. 365): "Techniques and devices commonly used on a temporary basis, to make goods and services more attractive to distributors or final customers by providing them with some additional benefit or inducement (incentive) or the expectations of such a benefit, whether in cash, in kind (nature) and/or services, whether immediately or at a later time, whether freely or conditionally."

Boddewyn & Leardi, (1989, p. 365), states the following sales promotional types: reduced prices and free offers, premium offers of all kind, vouchers and samples, the supply of trading tramples, promotions which are linked with charity, and furthermore promotions related to prize of different kinds, including some other incentive programmes. All these are employed by companies to increase the profitability through motivating consumer's to make an immediate purchase. Another form of sales promotion is a group promotion. A group promotion would be to offer two complementary but different products (for example/- soap and toothpaste) being sold together maybe at a reduced price for a limited time.

Some researches prove that sales promotions do not have a constant or continued effect on volume of sales of a firm which tend to diminish and come at the initial level at which it was before the sales promotion is being offered (Dekimpe, Hanssens and Silva-Risso 1999; Pauwels et al. 2002; Srinivasan et al. 2000). However the usefulness of sales promotion, that whether it promotes, the long term growth and profitability among brands for which it is projected is not compulsory. (Kopalle, Mela and Marsh, 1999). Research conducted by Ailawadi and Neslin (1998) revealed that sales promotions motivate the consumers to make immediate purchases and also positively impacts the consumption volume. .

A research conducted by Dekimpe et al. on four different product categories to find out the permanent and temporary effects of sales promotions on sales volume. Their research has proved that there are rarely any permanent affect of sales promotions on the volume of sales. Thus showing that sales promotion does not change the structure of sales over the long run, this implication is analyzed through our research also. However the long run profitability of sales promotion is largely linked with the cost parameters and magnitude of response, but we have made brand loyalty the benchmark of long term impact, because it is consumer's brand loyalty that ultimately increases the customer lifetime value, i.e. an important indicator of future profitability. Dekimpe et al. also revealed in the research that the diminishing impact of sales promotion may also be because of choice of brand, quantity which is purchased and category incidence. This dimension is also covered in our research through the analysis of extraneous variables.

In another research conducted by Koen Pauwels (2002) he has examined the permanent impact of sales promotion on accumulative annual sales for the two product categories which include storable and perishable products. It was found that perishable and storable product categories lack permanent effects of sales promotion. Furthermore it is revealed that affects of sales promotion are short lived and persist only on average 2 weeks and at most eight weeks for both product categories. The research's results prove the common concept that sales promotion makes only benefits which are temporary for the established brands.

2.1 Brand Loyalty

It is a basic fact of marketing that acquiring a new customer is much harder for the company as compared to retaining an old consumer. Because of this major emphasis is placed on the area of brand loyalty, which ensures that a consumer repeatedly purchase your brand even in the presence of equally attractive competitive offerings. Brand loyalty is measured through various dimensions and scales developed by different researchers. Quester and Lim (2003) have developed two major types of brand loyalty:

- ✓ Behavioral loyalty
- ✓ Attitudinal loyalty

In any form the presence of brand loyalty ensures repeat purchase of the product by a single customer, thus

increasing the life time value of that customer and finally having a positive impact on the company's financial profitability. But in contrast to the immediate impact of incremental sales caused by sales promotion the above discussed route to profitability is more long run and more long lasting.

2.2 Relationship between consumer promotion and brand loyalty

The long run impact of sales promotion is studied by us through measuring the relationship between consumer's perceptions of sale promotion and consumer's brand loyalty. Sales Promotion of any product leaves an impact on the acquiring behaviors of the consumers for a particular product or brand that the consumer will not buy otherwise (Alvarez and Casielles, 2005). The research also revealed that for the product categories which have more percentage of loyal consumers, any activity of sales promotion is likely to give an additional benefit, therefore it is likely to have major impact on the loyalty of that brand.

3. Methodology

The research examines the relationship among sales promotion strategies and the profitability of the firms along with the perception about sales promotion of the consumers and its relationship with the brand loyalty of that particular brand or company.

In the consumer survey the selection of customers as unit of analysis was done by the "Stratified sampling". Sample size for the consumers is 100 consumers of each company, i.e. Shezan and Diamond Foam. Customer's perception about sales promotion and Brand Loyalty was measured through a questionnaire consisting of Likert Scale. In the questionnaire the questions numbered from 1-6 measured the consumer's perception about sales promotions. The scale being selected was developed by Astous and Jacob (2002) and has reliability of 0.95. In addition the questions numbered from 7-16 measured the Brand loyalty of Consumers. This scale was developed by the Quester and Lim (2003). It has reliability of <0.55

Pearson Correlation was applied to find out the strength and significance of the relationship between consumer perception about sales promotion and brand loyalty of consumers. Regression analysis was run to analyze whether consumers' perception about sales promotion predicts a significant amount of variance in brand loyalty or not. Overall, descriptive and inferential statistics were applied to find out effects of consumer perception about sales promotion on the brand loyalty and increase in sales. In addition cross tabulation was applied to investigate the presence of any extraneous factors impacting brand loyalty. SPSS was used for the statistical analysis. Sales figures and other figures i.e. gross profit, operating profit etc were taken from the respective company's annual report. Annual and monthly percentage increase in sales was calculated to measure the short term impact of sales promotion.

4. Results

For Shezan International Limited and Diamond Foam Industries financial analysis for measuring the short term impact of sales promotion, i.e. increase in sales, and thus the increase in company's profitability was conducted on annual and monthly sales data. The measurement of long term impact was done through a consumer survey statistically measuring the consumer's perceptions about sales promotions and brand loyalty.

4.1 Shezan International Limited

4.1.1 Financial Results of Shezan International Limited

If we observe the change in the annual sales shown in Table 1, it is seen that the figure has increased by 28.08% during the year 2009-2010. But this increase can be due to multiple factors therefore the sales data analysis was broken down into monthly sales figure, so that the impact of sales promotion can be observed on the respective month.

In Table 2 the increase or decrease is observed by keeping the first month as base month. In the first three months of the year the sales are less than the base months. If we observe the increase or decrease in the monthly sales of Shezan there is no consistent pattern of increase or decrease being followed. So there is no differential impact of sales promotion on the monthly sales. The greatest increase in sales is during the month of Sep-Oct. but that was primarily due to the months of Ramzan and than Eid, causing an increase in the demand of the product. This increase does not reflect the impact of any sales promotion strategy.

If we analyze the financial indicators in Table 3 it is clear that company showed slightly downward performance as compared to last year. But the sales to price ratio is analyzed it show good trend. Because lesser value of sales to price ratio means that this year company has higher sales per share value as compared to last year. But because of the inconclusive movement of monthly sales as compared to the sales promotions being offered by the company this financial performance cannot be linked with the phenomenon of sales promotion.

4.1.2 Consumer Analysis of Shezan International Limited

A sample of 100 consumers of Shezan International Limited was taken to analyze whether the consumer's perceptions about the sales promotion activities performed by the company had any long term impact, by creating a brand loyalty among the consumers of the respective brand.

In table 4 the relationship between Mean perception about promotion and mean of brand loyalty was investigated by using Pearson product moment correlation coefficient. Preliminary analysis was performed to ensure no violation of the assumption of normality, linearity and homoscedasticity. There is significant positive relationship between the two variables [$r = .477^{**}$, $n = 50$, $p < .01$], with high mean of perception of promotion is associated with the positive mean of brand loyalty so correlation is very significant at the 0.01 level (2-tailed). Therefore H_0 is rejected and H_1 is accepted.

H1= A positive relationship exists between the consumer's perception of sales promotion and brand loyalty.

After correlation revealed a significant relationship between the two variables regression analysis was also conducted to develop a regression equation for predicting the brand loyalty of a consumer if his/her perceptions about sales promotion are measured through the questionnaire.

The regression model obtained from the above table 5 is:

$$\text{Brand loyalty} = 1.511 + .529 * X1$$

where $X1$ is the value of mean perception about promotion.

The correlation analysis reveals a positive and significant correlation between the two variables, but this relationship is not depicted through the financial analysis performed on the monthly sales data of the company. Therefore we analyzed that what could be the other factors that could be causing a high level of brand loyalty for the company, i.e. the extraneous factors, and what could be the reason for non conversion of this positive perception about sales promotion into financial profitability of the company.

The reasons of consumers' preference of this brand were analyzed through table 6, according to quality, price, variety and other reason of the brand. The table gives us the answer to the question regarding the presence of extraneous factors. The responses clearly reveal that in the beverage industry the main reason for consumer's to prefer a brand is quality of the product, price and thus the sales promotion being offered by the company comes as a much later choice impacting factor in the consumer's perception.

Consumers' remembrance about offerings of sales promotion being offered by Shezan is investigated. Results in Table 7 show that 8.0% of the total respondents were those who remember any sales promotion offered by Shezan. Large amount of respondents 76.0% were those who did not remember any sales promotion offered by Shezan, thereby explaining why the company was unable to convert its sales promotion activities into accelerated sales figures.

4.2 Diamond Supreme Foam

4.2.1 Financial Results of Diamond Supreme Foam

If we observe the change in the annual sales of Diamond Industries Limited it is seen in Table 8 that annual sales of Diamond Supreme Limited has a severe decline of about 656.51% during the year 2009-2010. It showed a downward trend in the performance of company. According to company sources the reason for it was the energy crisis being faced by Pakistan. In order to analyze whether the sales promotions that were offered by the company had any positive impact on temporarily boosting the sales figure, the monthly sales analysis is carried out.

Table 9 shows the monthly sales analysis of Diamond Supreme Foam. When the sales of Diamond Industries Limited were analyzed it was clear that sales were persistently decreasing in each period as compared to first month. Various sales promotions were being offered by the Diamond Industries Limited, like the offer of free pillows with the mattress if you are purchasing it for the wedding during the wedding season. But no substantial impact through increased sales is depicted in the figures.

If we analyze the financial indicators of Diamond Industries Ltd. there is severe downfall in the performance of the all the financial indicators calculated as above. All the indicators showed poor performance, as seen in Table 10, when compared with the last year. Company is making some profit as operating profit margin and net profit margin are positive but they are showing bad results when compared with last year. Company's various promotional activities could not positively impact the sales figure, even in the short run, because of much greater extraneous factor negatively impacting the profitability.

4.2.2 Consumer Analysis of Diamond Supreme Foam

100 consumers of diamond Supreme Foam were surveyed through a questionnaire to observe the consumer's perception about sales promotion and its relationship with brand loyalty of the consumer.

The relationship between Mean perception about promotion and mean of brand loyalty was investigated by using Pearson correlation coefficient. Table 11 reveals a significant positive relationship between the two variables [$r = .422^{**}$, $n = 50$, $p < .01$], which shows that in consumer's perceptions the presence of sales promotions have a significant and positive impact on the brand loyalty of the consumer, Thus accepting H1.

H1= A positive relationship exists between the consumer's perception of sales promotion and brand loyalty.

For the development of the regression equation the regression analysis was conducted. The results are depicted in Table 12.

The regression model obtained from the above table 12 is:

$$\text{Brand loyalty} = 2.001 + .400 * X1$$

where X1 is the value of mean perception about promotion.

The same steps were followed for Diamond Supreme Foam; we asked the consumer's the reasons for preference of the brand in order to explore the presence of variables other than the independent variable causing the change in the dependent variable.

Again quality emerged as the dominant variable in Table 13, and in case of our research the main extraneous variable impacting consumer's preference and thus choice of a brand. After quality in case of shopping goods sector variety of the products being offered by the company is seen as the deciding factor while selecting a brand and price comes as a last choice criterion. Therefore we can see that the consumer's although wanting a sales promotion does not perceive it as the deciding factor while purchasing the product.

Another major reason of the absence of any substantial impact of sales promotion on company's long or short run profitability is the lack of recall among consumers. 80% of the consumer's, as seen in Table 14, do not remember any sales promotion offered by Diamond Supreme Foam. Thus no repeat purchase, brand loyalty, and CLTV because of the impact of sales promotion.

5. Conclusion

Sales promotions is one of the major communication mix tools being used by almost all of the companies to positively impact either its short run or long run profitability. Many researches prove the positive impacts of this tool on a company's short run profitability, while some also discuss its possible potential or the lack of it as a long run weapon for the company. Our research analyzed both the aspects for two different industry sectors. The analysis revealed that even though sales promotion can have a positive impact on a company's short run profitability through increasing the sales for the respective period there are several other factors that can hinder or increase its impact. Like in the case of Shezan International Limited sales showed a substantial increase in the month of Ramzan regardless of the presence of one or other sales promotions throughout the year, thereby increasing the impact of our studied tool. Similarly the impact of sales promotion was severely hindered by the country's energy crisis in the shopping goods sector.

Consumer's survey reinforces the conclusions drawn by us through our consumer survey. Although the consumers showed a positive perception regarding sales promotion and brand loyalty of the company, they stated quality as the number one deciding factor while making a purchase. Therefore it can be concluded that various extraneous factors are present in the cause and effect relationship of sales promotion and organization's profitability, which cannot be ignored.

Another major conclusion for marketers is that sales promotions being offered by the company will only have a longer lasting impact if they are successful in gaining a place in the consumer's top of the mind recall. Sales promotion activities that cannot be recalled by the consumer cannot cause repeat purchase and thus loyalty among the consumers.

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Appendix

APPENDIX A: Shezan International Limited

Table 1. Annual Sales Shezan International Limited

Company	2009	2010	Increase in Sales (%)
Shezan(2010)	299,770,000	416,802,000	28.08

Table 2. Monthly sales Shezan International Limited

Month	Sales	Increase/Decrease in Sales (%)
Jan	29,736,000	0.00
Feb	32,003,000	7.08
Mar	35,847,000	17.05
Apr	34,733,000	14.39
May	35,487,000	16.21
Jun	35,904,000	17.18
Jul	35,454,000	16.13
Aug	28,003,000	-6.19
Sep	39,782,000	25.25
Oct	37,839,000	21.41
Nov	36,030,000	17.47
Dec	35,984,000	17.36

Table 3. Financial Indicators of Shezan International Limited

Company	Gross Profit Margin (%)	Operating Profit Margin (%)	Net Profit Margin (%)	Price to Sales Ratio
Shezan(2010)	26.54	5.19	3.01	0.17
Shezan(2009)	27.64	6.12	3.76	0.22

Table 4. Correlation between Mean Perception about Sales Promotion and Brand Loyalty of Shezan

		Mean Promotion Perception	Mean Brand Loyalty
Mean Promotion Perception	Pearson Correlation	1	.477(**)
	Sig. (2-tailed)		.000
	N	50	50
Mean Brand Loyalty	Pearson Correlation	.477(**)	1
	Sig. (2-tailed)	.000	
	N	50	50

** Correlation is significant at the 0.01 level (2-tailed).

N= number of workers, r = correlation

Table 5. Regression Analysis between Mean Perception about Sales Promotion and Brand Loyalty of Shezan

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.511	.468		3.231	.002
	Mean Promotion Perception	.529	.140	.477	3.764	.000

a Dependent Variable: Mean Brand Loyalty

Table 6. The reasons of preference of Shezan among Male and Female

			what are the reasons of this preference				Total quality
			quality	Price	variety	any other	
male and female	male	Count	14	3	0	2	19
		% within male and female	73.7%	15.8%	.0%	10.5%	100.0%
	female	Count	21	3	2	5	31
		% within male and female	67.7%	9.7%	6.5%	16.1%	100.0%
Total		Count	35	6	2	7	50
		% within male and female	70.0%	12.0%	4.0%	14.0%	100.0%

Table 7. Remembrance of any sales promotion offered by Shezan among Male and Female

			Do you remember any sales promotion offered by Shezan			Total yes
			Yes	no	vaguely	
male and female	male	Count	0	15	4	19
		% within male and female	.0%	78.9%	21.1%	100.0%
	female	Count	4	23	4	31
		% within male and female	12.9%	74.2%	12.9%	100.0%
Total		Count	4	38	8	50
		% within male and female	8.0%	76.0%	16.0%	100.0%

APPENDIX B: Diamond Foam Industries

Table 8. Annual Sales Diamond Supreme Foam

Company	2009	2010	Decrease in Sales (%)
Diamond Industries Ltd(2010)	999,894,166	132,172,074	-656.51

Table 9. Monthly Sales

Month	Sales	Increase/Decrease in Sales (%)
Jan	11,576,000	0.00
Feb	14,267,000	18.86
Mar	12,300,600	5.89
Apr	11,014,340	-5.10
May	10,435,000	-10.93
Jun	11,345,000	-2.04
Jul	10,327,000	-12.09
Aug	10,005,000	-15.70
Sep	10,221,000	-13.26
Oct	10,810,000	-7.09
Nov	9,837,000	-17.68
Dec	10,034,000	-15.37

Table 10. Financial Ratios of Diamond Industries Limited

Company	Gross Profit Margin (%)	Operating Profit Margin (%)	Net Profit Margin (%)	Price to Sales Ratio
Diamond Industries Ltd(2010)	-0.04	4.00	4.57	0.91
Diamond Industries Ltd(2009)	4.13	19.35	20.29	0.12

Table 11. Correlation between Mean Perception about Sales Promotion and Brand Loyalty of Diamond Supreme Foam

		Mean Perception about Promotion	Mean Brand Loyalty
Mean Perception about Promotion	Pearson Correlation	1	.422(**)
	Sig. (2-tailed)		.002
	N	50	50
Mean Brand Loyalty	Pearson Correlation	.422(**)	1
	Sig. (2-tailed)	.002	
	N	50	50

** Correlation is significant at the 0.01 level (2-tailed).

N= number of workers, r = correlation

Table 12. Regression Analysis between Mean Perception about Sales Promotion and Brand Loyalty of Diamond Supreme Foam

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	2.001	.570		3.512	.001
	Mean Perception about Promotion	.480	.149	.422	3.227	.002

a Dependent Variable: Mean Brand Loyalty

Table 13. The reasons of preference of Diamond Supreme Foam among Male and Female

			what are the reasons of this preference			Total
			Quality	Price	variety	quality
male and female	male	Count	11	1	3	15
		% within male and female	73.3%	6.7%	20.0%	100.0%
	female	Count	21	3	11	35
		% within male and female	60.0%	8.6%	31.4%	100.0%
Total		Count	32	4	14	50
		% within male and female	64.0%	8.0%	28.0%	100.0%

Table 14. Remembrance of any sales promotion offered by Diamond Supreme Foam among Male and Female

			do you remember any sales promotion offered by Diamond Supreme Foam			Total
			Yes	No	vaguely	yes
male and female	male	Count	1	13	1	15
		% within male and female	6.7%	86.7%	6.7%	100.0%
	female	Count	4	27	4	35
		% within male and female	11.4%	77.1%	11.4%	100.0%
Total		Count	5	40	5	50
		% within male and female	10.0%	80.0%	10.0%	100.0%