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Deals yielded quicker sales
but advertising broadened
the brand's "prime franchise."

Sales Response to Promotions and Advertising

Robert George Brown

The allocation of money between promotions and advertising is a decision which affects the success and profitability of every consumer products company. Yet most manufacturers give little, if any, attention to learning whether this decision is made in an optimal or even reasonable manner.

Understanding the causes of brand shifting when money is spent on promotions in place of advertising can provide a framework for evaluating the influence of price, advertising, distribution, shelf space, and different promotional strategies on sales.

Some consumers have nonconstant purchase probabilities, and research is needed to build more complex models that take into account relative price, promotion, and distribution. While much research has been directed at predicting future purchases based on past purchase habits, it has not explained why or how past purchase behavior should affect future purchases, excepting a few learning models such as the one developed by Bush and Mosteller (1955).

Kuehn (1962) recognized this when he concluded:

> "What has not been discussed is the way in which such merchandising factors as price, advertising, product characteristics, retail availability, and promotions (price off, coupons, merchandise pack, and so on) influence the parameters of the model."

Ehrenberg (1965) attacked the value of Markov Brand Switching Models after reviewing the available literature and concluded that there has not been one relevant case of observed stationary transition matrices. He later (1968) dissected a reply by Massy and Morrison (1968) that disagreed with his conclusion that "simple aggregate Markov models are inadequate and should be discarded."

Ehrenberg's point was that the concept of a steady state condition is of little practical value and that buyers are not homogeneous in terms of their purchasing rates. He also presented evidence that individual rates of purchasing tend to be reflected in the repeat buying habits. Ehrenberg recognized the lack of causality in Markov models and the foolishness of expecting a continual stationary transition matrix.

With continual variations in market forces (advertising, promotions, new products), a stationary Markov model cannot in general act as an approximation to a real situation which is not systematically stationary.

Brand switching analysis should not center on predicting future behavior or market share based on statistical averages of past purchases or purchase frequency. Even if studies could substantiate that in mature, stable markets future purchases and market share could be predicted, they will not tell a manager how to change his marketing mix. Rather, Markov analysis should be used as only one tool to help develop causal relationships that are reasonable and useful.

Present Study

This study is based on a questionnaire answered by 2,500 people who had purchased instant coffee within the previous 60 days. The sample was selected from a telephone survey of a national probability sample of 6,000 households (3,500 households who answered that they had not bought instant coffee in the previous 60 days were discarded). The study was conducted shortly after some significant changes in advertising and promotional strategies were made by two of the major manufacturers.

By integrating data on market share, price, distribution, internal sales, published market data from the Pan American Coffee Bureau, advertising and promotion expenditures, and customer attitudes based on interviews, it was possible to use brand switching matrices to help generate causal relationships between advertising expenditures, promotion expenditures, and market share. Switching rates were collected for ten brands. The following tables are for the two major brands.

People who buy on deals generally are influenced by promotions and are price or deal conscious. Conversely, those who are not likely to react to a promotion tend to be brand loyal. This was confirmed by Webster (1965), who found an inverse relationship between a family's deal proneness index and brand loyalty. Massy and Frank (1965) found that brand-loyal consumers were somewhat less responsive to dealing than were nonloyal consumers, and Montgomery (1970) found that brand loyalty is by far the most important factor in determining dealing activity.

Since advertising tends to be an additive cost as compared to consumer promotions, which tend to be price reductive, promotions generally should be directed at deal-prone consumers and advertising toward potential brand-loyal consumers. Naturally, advertising serves many functions besides building brand-loyal consumers, but advertising and promotion are two different approaches to the goal of increased sales and profits.

A company advertising its product cannot usually compete on a price basis against unadvertised products and must try to develop a unique image for itself in order to create loyal brand-buyers or weaken brand loyalty to competitive products. Conversely, products that rely on continual promotions try to convince a buyer to use their product because of what is essentially a lower price or better bargain. Thus, in order to measure the relative effects of changes in promotions and advertising strategy, consumers were grouped as brand and price buyers for the study.

Robert George Brown is a principal in Pan-Eval Data, Inc., a consulting company specializing in the evaluation and planning of trade and consumer promotions. After receiving a B.S. in mathematics at Stevens Institute of Technology and an M.B.A. from Columbia University, he received a DuPont Fellowship for additional postgraduate work. Mr. Brown then spent five years alternating between postgraduate studies and full-time research on the implementation of computerized marketing systems. Brown has been a guest speaker on evaluating trade promotions, and has published in the *Journal of Marketing.*

Results

For this research, a "price buyer" was defined as any person who: (1) took advantage of a price reduction when any brand was on sale; (2) bought a brand (other than the normal brand) on promotion within the past three months; (3) bought more than one brand on promotion in the last three months; or is any person who (4) answered "Yes" to the question: "Do you have what you consider a usual brand of instant coffee for use in your household?" and also who had not been classified as a price buyer based on actual purchase behavior.

When the respondents were classified as either price or brand buyers, the repurchase rate for brand buyers was .85 and for price buyers it was .41 as shown in Table 1.

Table 2 shows the repurchase pattern for brand buyers, and Table 3 shows the repurchase pattern for price buyers. Among price buyers, Brand H dropped while Brand G showed an increase.

Purchase patterns for brand buyers remained fairly stable with the increase in Brand G buyers probably due to a number of factors inherent in the assumptions. The most likely one seems to be that a continually low price and heavy dealing by Brand G resulted in apparent "brand-loyal" behavior from price buyers who were steadily buying Brand G because of the low price.

Tables 4 and 5 show the repurchase matrix for price and brand buyers with a favorable attitude toward Brand G (thought Brand G was best or thought it was one of several equally good brands). No change was noted among brand buyers, but a shift was noticed

Table 1

Repurchase Rates for Buyers Who Think One Brand "Best" and Think Several or All Brands Are Equally Good

	Brand	*Price*	*Total*
One brand is best	.95	.45	.79
Several or all brands are equally good	.80	.40	.48
Total	.85	.41	.72

among price buyers who were purchasing Brand G.

What appeared to happen was a switch in purchases from other products (particularly from Brand H) to a product that consumers had a new favorable attitude toward.

Tables 6 and 7 show that brand buyers who had a new favorable attitude toward Brand H and people who bought Brand H last were almost one and the same. If a more favorable attitude resulted in increased purchases because the attitudes of consumers were changed and if more people were favorably disposed toward Brand H, the question is: What caused this change in attitude which is leading to an increased propensity to buy Brand H? If the purchase of Brand H occurred before the attitude change and is in fact causing the attitude change, then the question is: What caused the purchase? In either case, some marketing force was probably modified which eventually led to increased purchases. Just prior to the period of the consumer study, Brand H's advertising increased (as a share of six major brands) from 36 per cent in the prior year to 42 per cent during this period. A change in advertising emphasis also took place as shown in Table 8.

The question is: Can the changes in market sales volume be traced back to expenditure levels in promotion and advertising? Have Brands G and H used different strategies, or have they followed consistent patterns with each other and the industry?

Brand G gained heavily among price buyers, and where it had been gaining among brand buyers was probably a spillover from the price buyers. Since this was the case, it would seem that Brand G had been spending increased amounts on promotional activity and attracting price buyers. Brand H was losing price buyers and therefore must have been at a higher price due to less emphasis on promotions or because of a higher base price.

Brand H gained among people who thought favorably of the brand and, therefore, increased emphasis on advertising was expected. Since the text of Brand H's advertising was from value to testimonials, it seems reasonable that brand buyers would be most affected.

Brand G showed a continual price advantage over Brand H, and sold about 75 per cent of its product on price deals. It continued to maintain and even increase its promotional advantage over Brand H during the period of this study (see Figures 1 and 2).

During the same period that Brand H's advertising share increased from 36 to 42 per cent, Brand G's advertising share declined from 18 to 14 per cent, but its promotional expenditures increased from $5.1 to $7.6 million. During the same period, there was a much smaller increase in Brand H's promotional expenditures (a 17 per cent increase vs. a 49 per cent increase for Brand G).

Brand H failed to increase purchases among price buyers, but increased purchases among brand buyers during a period of increased advertising expenditures. Brand G increased sales to price buyers during a period of increasing promotional expenditures and decreasing advertising expenditures. From these brand switching matrices, it is clear that Brand G increased its share of price buyers and that Brand H lost price buyers. While the brand-loyal market "seemed" to be in equilibrium, Brand H gained consumers

Table 2

Repurchases of Brand Buyers

Purchase Before Last

Brand Last Purchased	*G*	*H*	*All Others*	*Total*
G	95	11	23	129
H	12	494	56	562
All Others	13	50	554	617
Total	120	555	633	1,308

Table 3

Repurchases of Price Buyers

Purchase Before Last

Brand Last Purchased	*G*	*H*	*All Others*	*Total*
G	47	36	53	136
H	33	144	151	328
All Others	33	185	210	428
Total	113	365	414	892

Table 4

Repurchases by Price Buyers Who Now Have a Favorable Attitude Toward G

Purchase Before Last

Brand Last Purchased	*G*	*H*	*All Others*	*Total*
G	25	17	25	67
H	7	10	13	30
All Others	12	4	20	36
Total	44	31	58	133

Table 5

Repurchases by Brand Buyers Who Now Have a Favorable Attitude Toward G

Brand Last Purchased	Purchase Before Last *G*	*H*	*All Others*	*Total*
G	81	8	8	97
H	10	6	1	17
All Others	7	3	5	15
Total	98	17	14	129

Table 6

Last Purchase by Brand Buyers Who Now Have a Favorable Attitude Toward Brand H

Brand	*No. of Respondents Last Purchasing*
G	14
H	474
All Others	69
Total	557

Table 7

Purchases of Brand Buyers Who Now Have a Favorable Attitude Toward Brand H

Brand Last Purchased	Purchase Before Last *G*	*H*	*All Others*	*Total*
G	7	7	0	14
H	5	428	41	474
All Others	0	29	40	69
Total	12	464	81	557

who considered it favorably.

To this point, all the conclusions have been drawn from a consumer study, and no verification has been made using independent sources. A key question is: Does brand switching relate to volume? If price buyers were low volume purchasers or represented a small segment of the market, then the activities of the price buyer would be of less concern.

While the study offers measures of product usage, the final one is volume. Table 9 shows brand volume in millions of pounds for a six-month period vs. the same six months in the previous year.

Brand G sales increased and sales for Brand H decreased. Not only did an independent audit support the conclusion of the repurchase pattern, but the contribution of price buyers to the brand's volume is evident. This is also shown by the regional market-share data shown in Figure 3.

The results of Brand G's policies can be seen in the steady increase in market share in all regions.

The effect on sales of the changes in Brand G's and Brand H's relative expenditures on promotions and advertising seems fairly clear, but profitability has not been considered, and Brand H's strategy may have resulted in increased profitability, while Brand G's gain in market share may have been paid for by a decrease in profits.

While faults can be found in all studies and theories, particularly those not based on experimental research, a logical study of available data can yield good insights into what is happening in the marketplace. The broader and more generalized a study and its conclusions are, the more likely that exceptions will be found. Yet, because of the dearth of studies that are pragmatic enough to help top management develop a procedure to generate tradeoffs between advertising and promotional expenditures, a broad scope study and theory is necessary to establish some general relationships that can be used as guides for top management, and as challenges to the academic community to prove or disprove.

Conclusions

Promotions Yield Faster Responses in Sales Than Advertising. Promotions appeal to the deal-prone consumer who often sees all products as being equal, or who is willing to sacrifice quality for price.

Promotions Do Not Yield New, Long-term Buyers. Except for new products, where trial is important or where it is believed that a single trial can turn a price buyer into a loyal con-

Table 8

Ability of Respondents Claiming Awareness of Advertising to Recall Specific Ideas

	Previous Period %	*Current Period* %
Flavor	15	6
Value	34	3
Quality	5	5
Preparation	0	21
Testimonial	0	17
Total Recalling Specific Ideas	54	52

Table 9

Change in Retail Sales Volume for Brand G and Brand H (in Millions of Pounds)

	Brand G *Previous Year*	*Current Year*	*% Change*	Brand H *Previous Year*	*Current Year*	*% Change*
June/July	2.09	2.35	12	9.82	9.81	0
Aug./Sept.	2.04	2.50	23	9.56	9.60	0
Oct./Nov.	2.45	3.23	32	11.39	10.16	−11
Total	6.58	8.08	+23	30.77	29.57	−4

Figure 1
Per Cent Sold on Promotion

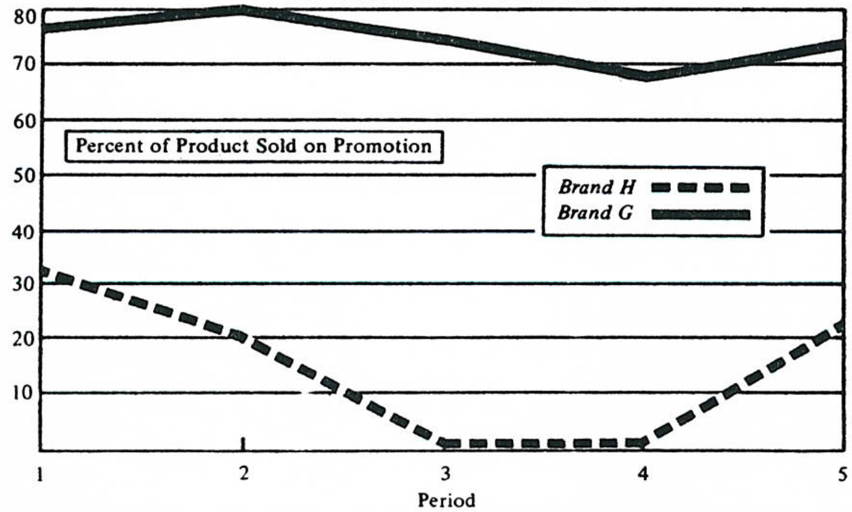


Figure 2
Average Selling Price by Period

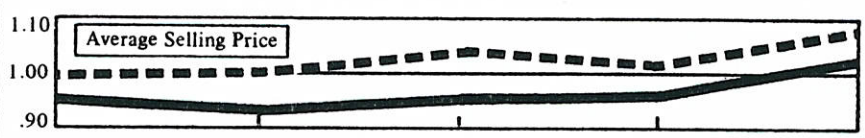
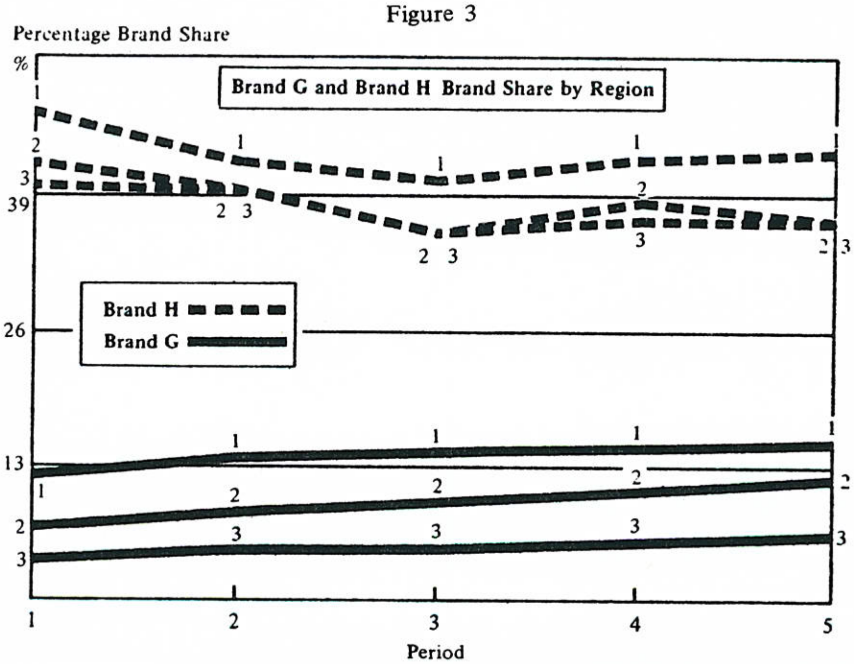


Figure 3



sumer, market share gained by appealing to price buyers will usually be lost as soon as the price advantage disappears. Price buyers are, by definition, people who have sampled a number of brands, but continue to buy based on price. Any attempt to convert these consumers into loyal buyers is quite difficult, and a marketing strategy based on the assumption that a permanent gain in market share can be maintained among price buyers without a continual price advantage will probably fall.

Brand Buyers Are Not Likely to Respond to Promotions. Since a brand buyer is loyal to one or more brands and has a history of not purchasing brands on promotion, there is no reason to think the next promotion will be successful in changing his buying patterns.

Advertising Appears to Be Capable of Increasing the "Prime Franchise" of a Brand. If the "prime franchise" of a brand is defined as those who think one brand is best, advertising can increase this group of consumers. While the exact working of the black box between advertising, promotions, purchases and favorable attitudes toward a brand is not clear, the effect of advertising in building a prime franchise can occur even when total sales do not increase. This can occur if promotions are reduced to pay for advertising, and a loss in price buyers is experienced.

Since brand buyers will continue to purchase after the stimulus has disappeared, the use of advertising can be justified on other than short-run sales increases. In this study, total sales to Brand H decreased during a period of increased advertising. Yet, advertising was successful in increasing the prime franchise. The weakness in Brand H's sales was due to a loss in price buyers. The relative expenditures in advertising and promotions should be in proportion to the relative opportunities among price and brand buyers. Failure to measure the effect of advertising and promotions on the consumers to which it is aimed can easily yield incorrect conclusions.

Since promotions seem to appeal to deal prone consumers, a heavy promotional policy to brand loyal consumers will probably fail. In the cigarette industry, for example, promotional expenditures would be of less value than advertising because of heavy brand loyalty. School supplies, paper products, etc., seem to be industries which are heavily populated by deal prone consumers, and hence respond very well to a strong promotional program. Naturally, consumer perception of the product tends to cause some markets to be price markets, and others to be brand markets.

Unfortunately, most industries fall in between these two extremes and seem to have a fairly high number of price and brand buyers. Yet, except for some vague generalities about why people purchase a product, very little research has been done to determine if the manufacturer's customers are price or brand oriented, and which group offers the most likely return for the money spent.

This study shows the manufacturer how to plan the correct mix of advertising and promotional expenditures to generate the desired mix of short- and long-run sales increments. In conjunction with a study of the buying characteristics of the market, the manufacturer has the ability to use promotions as a tool for generating increased market share and sales among price buyers in a relatively short time. At the same time, advertising can be directed against the brand-loyal segment of the market with the hope of increasing the core of loyal brand-buyers. While this conclusion seems logical and perhaps obvious, this study offers a new and definite rationale not currently employed for a marketing mix of both forces and prepares the basic theory for the development of numerous hypotheses and research studies to confirm or deny related theories.

Since this study shows that advertising and promotions can reach different types of buyers (or at least different motivations within any consumer), management must realize that the value of each tool depends upon the individual market and the state of mind of the consumer at the present time, and that neither expenditure is by itself justified or expendable.

Summary

Consumer products companies that try to integrate promotional expenditures and advertising expenditures without understanding what segment of their markets they are affecting will continue to inefficiently allocate and spend their budgets. Advertising and promotions appeal to different types of consumers (or different buying motives within the same consumer), and are likely to differ in both their expected short- and long-run effects on sales and profits. Top management needs to know the type of market that their products are competing in and the type of customers and segment of the market that the company should be developing.

Advertising budgets spent in a price market will not yield the same returns as promotions and only can be effective when the prime franchise that is being built can yield new, long-term buyers that continue to purchase when the advertising expenditures are reduced. Conversely, money spent on promotions almost always yields higher immediate sales but it is not likely to yield long-term results for a period extending beyond the length of the promotion. Companies failing to quantify and effectively plan, based on these relationships, can squander millions of dollars with little hope of return.

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