USAGE PATTERN OF SALES PROMOTION IN THE KOREAN MARKET

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ABSTRACT

Purpose - An increasing number of retailers and manufacturers are relying on sales promotions to boost sales, extend market share, and clear excess inventory. Previous research on sales promotions primarily focuses on the effect of this approach on two main perspectives: firm level, which includes sales, market share, and firm performance; and customer level, which involves perceived quality of product/service, change in reference price, and purchase/repurchase intention. To help subsequent and new research on these issues, this research note focuses on finding patterns of sales promotions conducted in various sectors of industry in the Korean market.

Methodology - A survey on the sales promotion usage pattern of a company was conducted with 74 decision makers in various companies followed by a small group interview.

Findings - Results indicated that price off and bonus pack sales promotions were the main types of sales promotions conducted and considered in most sectors of industry in Korea. Decision makers were also found to have knowledge on the long-term disadvantage of sales promotions. Despite this advantage, two main reasons were pointed out for the continuing conduct of sales promotions: reaction to the sales promotions of competitors and expectation of other members of the organizations.

Conclusion - This research on the usage pattern of sales promotions in Korea can contribute to the choice of the next sales promotion research topic in Korea and in other nations.

Keywords: Sales promotion, price off, bonus pack, long-term effect, survey.

JEL Codes: M31, D91, C83

1. INTRODUCTION

The main purpose of this research note is to provide researchers some ideas of the sales promotion usage pattern of firms operating in Korea. Knowing the usage pattern of sales promotions used in the actual market will help researchers in deciding their research topic concerning sales promotion and its related area. This research note tackles two main issues. First, it identifies sales promotion types that are used the most, and vice versa, in the actual market. This issue includes sales promotions that are most widely used by companies and their competitors and that decision makers had trouble choosing in the past. Second, this research note attempts to determine the reason for this usage pattern in Korea. It attempts to ascertain if the marketers who decide on whether or not to conduct sales promotion have knowledge about the down side of the sales promotion. If they know the downside and are still willing to conduct the sales promotion, then there must be a great advantage offsetting the downside. The present research will try to identify those advantages or, if there are none, the other reasons for conducting the sales promotion.

This article is organized as follows: First, relevant literatures are reviewed. Second, we describe the data and methodology we used in this study. Finally, we discuss the implications of our findings and explore directions for future research.
2. LITERATURE REVIEW

Research on sales promotions has played an important role in marketing research since the 1960s. Many researchers have identified the short-term and long-term advantages of sales promotions to firms, such as increasing store traffic, boosting sales, clearing excess inventory, and extending market share (Guadagni and Little 1983; Kuehn and Rohloff 1967; Neslin and Shoemaker 1983; Neslin et al. 1985). These advantages can be attributed mainly to the nature of sales promotions, which act as a strong purchase incentive for customers (Blattberg and Neslin 1990; Blattberg et al. 1981; Blattberg and Wisniewski 1989; Doob et al. 1969; Guadagni and Little 1983; Kuehn and Rohloff 1967; Moriarty 1985; Neslin and Shoemaker 1983; Neslin et al. 1985; Woodside and Waddle 1975). For this reason, an increasing number of retailers and manufacturers are relying on sales promotions, and even supposedly recession-proof retailers are starting to offer customers sales promotions, such as deep discount coupons to drive traffic to stores (Pacheco and Rahman 2015).

Several researchers, however, argue that sales promotions can decrease sales and market share in the long term by affecting the internal reference price and repurchase intention of consumers in a negative way (Alba et al. 1994, 1999; DelVecchio et al. 2007; Diamond and Campbell 1989; Dodsen et al. 1978; Kalwani et al. 1990; Kalwani and Yim 1992; Lattin and Bucklin 1989; Mayhew and Winer 1992; Scott 1976). Sales promotion results in negative effects because it reduces the consumer’s cognitive value of the product and decreases brand equity by lowering the reference price of the products; thus, the sales decline in the long run even though sales promotion increases the short-term sales (Diamond and Campbell 1989; Liefeld and Heslop 1985; Prentice 1975; Sawyer and Dickson 1984; Strang 1976).

In the 1990s, advertisement was the most frequently used marketing communication tool and was known as the most effective method to prop up firm sales. However, in the 21st century, the usage of advertisement declined and was replaced by sales promotions as the most frequently used marketing communication tool. The most recent reason for this increase is the emergence of smart phones. Since the launch of the iPhone in 2007, consumers have started to use their smart phones for shopping and for searching information on the product they want. Through their smart phones, consumers can easily compare the features, prices, and sales promotions of products. Thus, sales promotions have become the most effective way to dazzle consumers, whose price sensitiveness increased significantly because of the emergence of smart phones. This shift is one of the reasons firms started to develop new and unique sales promotion types, such as co-sales promotions between retailers and distributors, regular sales promotion weeks provided by credit card firms or distributors, gambled price discount, and so on. Regular sales promotion weeks include fashion weeks and gourmet weeks, among various others. A gambled price discount is a new sales promotion type whereby the customer receives a discount contingent on the outcome of a probabilistic gamble (Alavi et al. 2015).

Even with the increased usage of these new types of sales promotions increases, the traditional sales promotion types are still being frequently used in the market. The most frequently used sales promotion type is price cut. The term “sales” frequently used by retailers means price cut, which refers to a temporary decrease in the price of the product compared with the original price. These days, almost every distributor, such as supermarkets, category killers, and department stores, tempt consumers with loss-leader sales promotion, a pricing strategy where a product is sold at a price below its market cost to stimulate the sales of other more profitable goods or services. Loss leader is currently one of the most frequently used price-off sales promotions in distributing firms. Besides the price offs, bonus pack sales promotion is also a frequently used sales promotion in the market. Some examples of bonus pack sales promotions are the 1+1 or 2+1 promotion and a bigger package to provide more value to the customers compared with the regular price. Other classic sales promotions are coupon, sampling, premium, contest, sweepstake, and rebate.

3. DATA AND METHODOLOGY

In this study, a survey was conducted to identify the sales promotion usage pattern in a real market. Prior to the survey, a small group interview was conducted from October 1–2, 2014 to obtain a guide for the examples in Section 6 of the survey. The group consisted of five participants (i.e., 2 CEOs, 1 CMO, and 2 product managers).

Current domestic decision makers who conduct sales promotions were surveyed by questioning them from October 20–21, 2014 at Yonsei University, where a total of 111 marketers were taking a night-class MBA program. A seven-point Likert Scale was used to determine 19 questionnaires about within-company sales promotion decision making. The respondents’ position in their companies was asked using only 1 question. A total of 29 respondents scored 4 points or below in the decision-making questionnaire, and 8 copies were excluded because these were incomplete. Thus, a total of 74 copies of samples were used as data. The survey consists of six sections, as shown in Table 1. The second, third, fourth, and fifth sections were measured using a seven-point Likert scale, while in the first and sixth sections, the respondents were asked to choose from examples.
Table 1: Construct of Survey

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<thead>
<tr>
<th>Section</th>
<th>Topic</th>
<th>Question</th>
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<td>1. Position in the company</td>
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<td>Strategic marketing decision making</td>
<td>1. For engaging in the strategic decision-making process</td>
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<td>2. Involvement in strategic decision making</td>
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<td>The extent to which strategic decision</td>
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<td>making is informed</td>
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<td>5. The extent to which sales promotion decision making is informed</td>
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<td>sales promotion</td>
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<td>6</td>
<td>The reason for conducting sales promotion</td>
<td>1. The reason for conducting sales promotion when the downside is known</td>
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4. FINDINGS AND DISCUSSIONS

The industries the respondents were affiliated to were banking/insurance/stock (2 people, 2.7%), IT (4 people, 5.4%), semiconductor (1 person, 1.4%), automotive (3 people, 4.1%), machinery (2 people, 2.7%), electrical/electronic (9 people, 12.2%), pharmaceutical (4 people, 5.4%), chemical (2 people, 2.7%), paper (1 person, 1.4%), cosmetics (6 people, 8.1%), household goods (14 people, 18.9%), food (11 people, 14.9%), retail (5 people, 6.8%), entertainment (5 people, 6.8%), other manufacturing (1 person, 1.4%), and other services (4 people, 5.4%). More than half of the respondents (54.1%) were working in the electrical/electronics, cosmetics, household goods, and food industries. The respondents held the following positions in their company: CEO (13 people, 17.6%), executives (6 people, 8.1%), department head (8 people, 10.8%), deputy department head (30 people, 40.5%), and section chief (17 people, 23.0%).

The average seven-point Likert scale for six responses about strategic marketing decision making was M=4.75, which means sample extraction was rather successful. The other averages were as follows: M=4.85 for engaging in the strategic decision-making process, M=4.57 for involvement in strategic decision making, M=4.78 for acknowledgement of current strategic decision making, M=4.54 for acknowledgement of previous strategic decision making, M=4.71 for acknowledgement of future strategic decision making, and M=5.07 for the extent to which the strategic decision-making is informed. The decision making for the sales promotion of their products also came out to be M=5.14, which was successful. Results indicate that engaging in sales promotion decision making was M=5.15, acknowledgement of current sales promotion decision making was M=4.69, acknowledgement of previous sales promotion decision making was M=5.16, acknowledgement of future sales promotion decision making was M=5.12, and the extent to which sales promotion decision making is informed was M=5.53. The average point for 12 questions about the company’s strategic marketing decision making and product sales promotion decision making was 4.95.

The responses to the first question regarding the types of sales promotions mostly used for their company products were 25 price cut (33.8%), 14 bonus pack (18.9%), 7 coupon (9.5%), 12 sampling (16.2%), 3 premium (4.1%), 2 sweepstake (2.7%), and 11 others (14.9%). For the question regarding the second most used sales promotion, the results were 30 bonus pack (40.5%), 12 price cut (16.2%), 6 coupon (8.1%), 14 sampling (18.9%), 2 premium (2.7%), and 8 others (10.8%). The question regarding the most agonized sales promotion when planning obtained the following results: major types were 26 price cut (35.1%) and 22 bonus pack (29.7%), while the minor ones were 8 coupon (10.8%), 9 sampling (23.0%), 2 premium (2.7%), 1 sweepstake (1.4%), and 6 others (8.1%).

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The question regarding what rival companies use for their sales promotion showed the following results: 23 price cut (31.1%), 19 bonus pack (25.6%), 7 coupon (9.5%), 14 sampling (18.9%), 1 premium (1.4%), 2 sweepstake (2.7%), and 8 others (10.8%). The responses for the question regarding what sales promotion to use in the future were 17 price cut (23.0%), 25 bonus pack (33.8%), 12 coupon (16.2%), 13 sampling (17.6%), 1 premium (1.4%), 1 sweepstake (1.4%), and 5 others (6.8%). Details are shown in <Figure 1>. When all the survey results are combined, we find that current field marketers mostly use and encounter trouble choosing between price cut and bonus pack sales promotion.

Regarding the question in Section 5, respondents were asked to choose “Yes” or “No” for all three questions about the acknowledgment of the long-term downside of sales promotion. If any question was marked “Yes,” then the respondents were asked to move to Section 6 and reply to the question about the reason for conducting the sales promotion even though they already knew its long-term downside. If none of the three questions was marked “Yes,” then the respondents were asked to quit the survey. The responses to the first question regarding the experience of a fall in the sales after the sales promotion were Yes=67.6% and No=32.4%. The responses to the second question regarding the experience of a fall in the market share after sales promotion were Yes=54% and No=45.9%. The responses to the third question regarding the experience of a fall in brand equity after the sales promotion were Yes=43.2% and No= 56.7%.

Figure 1: Result of Pre-test 1

In Section 6, one question was asked about the reason for conducting sales promotion even when the downside of conducting it was known. Seven examples were shown in this question, and respondents were asked to choose one. The examples were chosen in reference to the small group interview conducted before the survey. The results were as follows: (1) Although the downside is huge, the amount of prop up of the sales during the sales promotion is too significant compared to the long-term downside: 2.7% (N=2). (2) The downside is small compared to the advantage of the sales promotion: 1.4% (N=1). (3) The members of the company expect the company to conduct the sales promotion and take the advantage of it: 10.8% (N=8). (4) The short-term advantage is more important than the long-term downside for firm performance: 29.7% (N=22). (5) We have no choice because our competitors conduct sales promotion: 32.4% (N=24). (6) We can conduct a sales promotion again when the downside is big: 17.6% (N=13). (7) The long-term downside is none of my business: 5.4% (N=4). Examples 4 and 5 accounted for more than half of the respondents (62.6%). Thus, those two reasons were considered the biggest reasons for conducting sales promotions even when the managers knew the long-term downside of the sales promotion.
5. CONCLUSION

The main purpose of this research is to provide researchers some ideas of sales promotion usage pattern of firms operating in Korea. It also aims to identify the reason why firms continue to conduct sales promotion despite the fact that the managers acknowledge in advance the downside of the sales promotion, such as declining sales and market share and falling brand equity. The contributions of this research can be summarized into two aspects. First, in identifying the sales promotion usage pattern in Korea, the present work can provide researchers a practical hint in deciding on their follow-up research topic concerning the sales promotion and its related area. Various research argue the short-term and long-term advantages of sales promotion, as well as its short-term and long-term disadvantages, and they all identify the advantages and disadvantages of various types of sales promotion in different contexts (Alba et al. 1994, 1999; Blattberg and Neslin 1990; Blattberg and Wisniewski 1989; Blattberg et al. 1981; DelVecchio et al. 2007; Diamond and Campbell 1989; Dosden et al. 1978; Doob et al. 1968; Guadagni and Little 1983; Kalwani et al. 1990; Kalwani and Yim 1992; Kuehn and Rohloff 1967; Lattin and Bucklin 1989; Liefeld and Heslop 1985; Mayhew and Winer 1992; Moriarty 1985; Neslin and Shoemaker 1983; Neslin et al. 1985; Prentice 1975; Sawyer and Dickson 1984; Scott 1976; Strang 1976; Woodside and Waddell 1975). The present research indicated that managers have and will conduct two main sales promotion types, namely, price cut and bonus pack, regardless of the various kinds of sales promotion that can be implemented. Previous research from other researchers noted that price cut is the most powerful sales promotion type to prop up sales and extend the market share while conducting the sales promotion (e.g., Nusair et al. 2010). Numerous experimental studies have also compared the negative effects of price cut sales promotions and bonus pack sales promotion (Campo and Yague 2006; Ogilvy 1983, Kahneman and Tversky 1979; Hardesty and Bearden 2003; Diamond and Campbell 1989). Issues in sales promotion research are endless because we live in a world that is flooded with sales promotions. The effect of various types of sales promotion on sales, brand equity, perceived quality of product, customer’s reference price, repurchase intention, and firm performance can be investigated in various marketing contexts. In the current context, this research note will have a meaningful contribution for researchers who study the sales promotion topic and aim to identify their research question and topic.

The second contribution is by conducting a small group interview and using the information to construct the survey that will ask the reason for conducting the sales promotion. Therefore, the research could identify the reason for conducting sales promotion despite the fact that many of the managers have experienced the long-term disadvantage of the sales promotion. The result of Section 5 in the survey indicated that 67.6% of the managers acknowledge the future possibility of a fall in the sales, 54% acknowledge the future possibility of a fall in market share, and 43.2% have experienced a fall in brand equity. We may not be able to say that managers fully understand the disadvantage of the sales promotion, but at least they acknowledge it. This finding may mean that the large numbers (M=54.9%) of managers may already recognize the future possibility of the disadvantage in sales, market share, and brand equity. However, they still expect to use sales promotion to prop up the sales of their products or services, especially price cut, which is known to be the most powerful but also the most harmful way that leads brands into the endless loop of sales promotion. In fact, the main reason for conducting the sales promotion despite the acknowledged disadvantage was the reality that they should do it because the competitors do it (32.4%). This finding means that the companies choose the dark side of sales promotion rather than lose market share in the competitive market, in which their competitors conduct aggressive sales promotion and win the market share. This strategy is in line with the second main result that 29.7% of the respondents replied to; they conduct the sales promotion because the short-term advantage is more important than the long-term disadvantage for firm performance. Although the respondents acknowledge that a big fall may occur in the brand equity or reference price after the sales promotion ends, managers are forced to win the market share now and prop up the sales compared to the performance of their competitors. Worst of all, the percentage of respondents who answered that they can conduct sales promotion again when the long-term disadvantage is big was 17.6%, which means that many firms are playing prisoner’s dilemma in a highly competitive current market. In fact, many companies in Korea are conducting more than 50% price cut sales promotion, and even 90% discount, to increase store traffic in numerous social commerce sites. These methods can lead to the endless loop of sales promotion, that is, if there is no sales promotion, the customers will not come to the store or buy the products or services, or wait until the sales promotion starts again. Thus, the companies have no choice but to start the deep sales promotion again. Companies will not be able to survive on their own, and they have no choice but to rely on the deep sales promotion or on websites that offer 365 days high sales promotion. Thus, this reality will clearly lead to the decline of firm performance in the end.

The limitations of this study are as follows. First, this study mainly focuses on sales promotion conducted in the Korean market; thus, substitution to the worldwide case must be limited. The result of this study in the Korean market can be extended to worldwide research to identify the difference between countries and the reason for the difference in the context of the cultural aspect. The Korean market is known to be very competitive and unique compared to other Asian countries. Researchers can figure out the reason for this highly competitive market, such as the speculation that Korean consumers are highly price sensitive compared to other countries’ consumers. This kind of research can provide advice on
the implementation of sales promotion to companies operating in countries with consumers that are as highly sensitive to price as the Korean market or vice versa. Second, it was impossible to identify the different reasons for implementing the sales promotion, although different kinds of sales promotion have different sizes of long-term disadvantages after the sales promotion, as mentioned above. Why do firms conduct price cut sales promotion when it will clearly lead to a sharp downturn on the sales? What about other sales promotions? Researchers can deal with these issues in subsequent studies. Third, the respondents of the survey conducted in this study were affiliated to various kinds of sectors, such as IT, banking, automotive, machinery, and electronic, and the obtained results may be very different in the conduct patterns of sales promotion. Although the sample size was enough for the analysis, classifying the sales promotion usage pattern into individual sectors was impossible because the sample size was too small for each individual sector. Thus, a subsequent study is needed to complement these problems, identify the sales promotion usage pattern in individual sectors, and investigate the strategic implications for the marketers.

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REFERENCES


