

The Debating Group



A Parliamentary forum for Media and Marketing Debate

Does sales promotion add more value than advertising?

“Sales promotion is the only way left to add value to a brand”. These were the words of Simon Mahoney, Joint Managing Director of SMP. He was speaking for the motion ‘Sales promotion adds more value than advertising’ at the Debating Group debate on 5th July 2004 at the House of Commons. The debate was chaired by John Greenway MP and sponsored by The Institute of Sales Promotion.

Simon Mahoney argued that sales promotion adds more value than advertising because it is a prompt call to action in exchange for a reward, adding value to a proposition simply and effectively.

He went on to suggest that if price continues to be the only focus of retailers few manufacturers or brands will ever make enough money. Every day low prices has been the alleged policy of every grocery retailer in the UK since they started trading. However, Wal-Mart Asda is the only retailer to have truly adopted EDLP as its core-selling proposition and whilst Tesco and Safeway tried to adopt it they could not. UK retailers cannot compete in an EDLP marketplace because price is elastic and always moveable. In effect EDLP actually ended the price war because a price war will always be won by the biggest business. Wal-Mart Asda won the battle almost before it started. When Wal-Mart effectively launched EDLP the sales promotion industry braced itself for a recession. However within three months Tesco EDLP policy was abandoned and it returned to manufacturers saying ‘BOGOFs are back due to consumer demand and the Clubcard is the best thing since Tesco's own label sliced bread’.

This highlighted the fact that sales promotion was and is now virtually the only route left to add value. If Wal-Mart owns EDLP within the UK grocery market what else can the retailer do other than use sales promotion to add value?

Retailers do not need to build awareness and they cannot compete on price. Sales promotion is therefore tasked to add a point of difference.

Simon Mahoney believes that as retailers consolidate, they will use advertising more to carry promotions to set themselves apart from their competitors. But sales promotion adds value with or without advertising support.

Sales promotion is a form of communication designed to change consumers' buying behaviour by influencing them to favour one product or service over another by adding value. According to Simon Mahoney advertising informs consumers of products or services: it doesn't add value to the product other than by establishing a brand proposition or image.

Advertising is expensive and not able to be evaluated as effectively as sales promotion, particularly on an established product or service. Every brand can afford to utilise a sales promotion; not every brand can afford to advertise. With sales promotion you know the medium you choose is affordable and quantifiable. And that is the true definition of value.

70% of all purchases are made at the point of purchase. "The shelf is our channel and the pack or the POS our programme".

The value of advertising

Opposing the motion Dr Kerris Bright, Marketing Director, ICI Paints, argued that brands have the power to deliver massive value to a business. Understanding the drivers of brand equity is key to marketers, who are, after all, the architects of profitable brand building. "Advertising is probably the most powerful tool marketers have in the construction of brands and in delivering sustainable value". Continuing a building metaphor, she suggested that, in contrast, most sales promotions undermine the foundations of brands – cracks soon appear and the market price for the brand falls. Interest in competitors rise and you soon find yourself in a position of negative equity.

Advertising works because it has an unsurpassed ability to drive awareness and is the most potent mechanism we know for creating strong, favourable and unique brand associations, for example, the Dulux dog; 'you find the colour, we'll match it' campaign.

Brands are not about reality but perception and Kerris Bright is in no doubt that 30 years of Dulux advertising has been the biggest driver of relative perceived value for the brand. The perceived customer value translates into Dulux's ability to command a significant price premium over the competition and this drives long-term value for the business.

The IPA has built up a vast library of case studies rigorously analysing the specific contribution of advertising to brand profitability. Andrex demonstrated that 20 years of advertising improved brand image and relative perceived quality, TV advertising alone was found to be responsible for £300m extra sales for the brand. Advertising for PG Tips using the Chimps was estimated to be responsible for £2bn additional sales on spend of just £100m. For every £1 Tesco spent on the 'Every little helps' campaign they achieved £38 additional revenue, translating into £130m profit. The 'Future's

bright' campaign for Orange was responsible for increasing market capitalisation by £3bn. "Yes", Kerris Bright admitted, "The cost of advertising can be huge, but when you get it right the returns can be colossal".

There is also plenty of evidence to show that advertising can boost immediate sales in the short-term, particularly for new products.

Advertising has the power to stir people's emotions (for both good and ill) in a way that sales promotions never can.

However, the objective of sale promotions is not generally to stir consumer emotions. It is usually about delivering short-term volume through driving penetration, loyalty, increased usage etc. And the mechanic of choice is usually price – over 90% of sales promotions are price-related.

The real financial evaluation of the impact of promotional activity is complex – sales uplift of individual products in individual retailers for a short-defined period may increase, but what about the cannibalisation of other parts of the brand portfolio and the impact on the broader category? Promotional activity needs to be understood from a volume, revenue and profitability perspective. Sales promotions are good at shifting volume but not at creating profitability.

A recent UCI School of Management report concluded:

- Only one in 10 promotions contributed to the profitability of brand in the short-term;
- Promotions create lagged and lead effects with consumers stockpiling products regardless of brand because the goods are on offer;
- Sales promotions do not yield new or long-term buyers in mature markets because they attract mainly deal-prone consumers;
- Loyal brand users tend not to switch buying patterns as a result of a competitor promotion.

Frequent price promotions undermine brand loyalties, can actually devalue brands and encourage consumers to become price seekers. Most sales promotions as practiced today are little more than bribes by manufacturers to retailers or consumers to get them to buy their products.

Some brands do attempt to develop promotional mechanics that support the brand's overall objectives. However, they build on the creative ideas developed for advertising such as the Andrex puppy or Gary Lineaker for Walkers and they all use advertising to add value to the promotion spend. These brands chose advertising as a route to communicate their promotions, because sales promotion does not have the media to reach consumers and advertising does. Increasingly sales promotion agencies and clients are looking to advertising to add value to their promotional activity. Advertising reaches the right people at the right time, adding value to the brand through awareness.

Kerris Bright concluded, “Most sales promotions have no short-term or long-term value. They may deliver volume, but they come at a cost both in terms of profit and brand equity, so destroying the potential for future profit.... Advertising is the most powerful tool we have in building brands and the evidence that it drives both short term and long-term value is nothing short of compelling”.

Working in harmony

Seconding the motion, Peter Kerr, Managing Director of MRM and Chairman of the Institute of Sale Promotion, argued that sales promotion is not only a value-added proposition, but also value for money marketing expenditure.

For many years now below-the-line spend has outstripped that of advertising. Global expenditure in below-the-line activity has been quoted by WPP at an estimated £750 billion. This expansive growth is due to the increasing importance of sales promotion within successful marketing planning. Walker Crisps and PepsiCo, for instance, plan their main brand media schedule and content around their major promotional activity. When P & G launched its OTC anti-heartburn medicine Prilosec only 25% of the marketing budget was spent on TV – the rest was invested in in-store promotions and other sales promotion techniques.

Peter Kerr suggested that this evolution is picking up for the following reasons

- Consumers are buying less newspapers and watching less TV;
- They are being hit with more marketing messages than ever before and are ‘tuning-out’;
- At the same time they are becoming more switched on to promotional activity, particularly through retailer competitiveness;
- The advertising market is suffering from a recession that is showing reasonable signs of recovery but mostly due to events such as Euro 2004 and the Olympics. Enormous growth in TV channels and the consolidation of media owners is making TV more expensive;
- New media channels. The growth in Internet advertising is staggering. Email marketing is quick, efficient, timely and at least a 50th of the cost of conventional mail. It is also interactive, and can therefore open up further opportunities.

Peter Kerr believes that advertising and sales promotion will have to work in harmony to face the challenge of new technologies and a more media savvy audience as well as the introduction of digital broadcasting delivering household specific messages. Direct Response TV will work not just for conventional DRTV advertisers, but also at the fmcg brand level.

Sir Martin Sorrell is advising the market that it is not what it costs to reach 1000 people that matters but how effective is the cost per 1000. “We in the sales promotion fraternity have always worked to such levels of accountability. Sales promotion and advertising cover most of the options a brand can use to reach its target market. Make no mistake, however. You can lead a horse to water but if you want to encourage the horse to drink, you need an added value proposition”.

Sex, drugs and rock and roll

Seconding the opposition Hugh Burkitt, Director General of The Marketing Society, pointed out that just because sales promotion is increasing doesn't mean that it is good.

In defining what is meant by sales promotion he pointed out that it does indeed come in new forms. A recent survey by the ASA showed that the consumer sees all forms of promotions as advertising.

For the purposes of the debate sales promotion is an immediate incentive to sales through a whole variety of mechanisms. "We want these sales *now* – an instant win". Sales promotion is about bribes or short-term incentives sales whereas advertising puts the consumer in the right frame of mind for long-term brand building. Advertising is often not designed to sell directly itself, but to create a situation where, faced with a salesman or a shelf groaning with different products, the customer is ready and willing to buy.

When the proposers talk about 'added value promotions', they are frequently talking about adding value to an 'adstock' of consumer goodwill that has been created by years of consistent brand advertising.

According to Hugh Burkitt, sales promotion is the sex, drugs and rock and roll of marketing – highly enjoyable, often effective in the short term, but dangerous to the user and very difficult to control once the habit has started.

Sales promotion is addictive – to the consumer, the retailer and the brand manager.

Consumers become addicted to price cuts, free offers and deals. Frequently they are merely stockpiling products or switching short-term with no long-term increase in loyalty.

Retailers are addicted to brand owners' promotions because they have no interest in the image or success of individual brands and they often depend on suppliers' promotions for much of their profit margin.

The brand manager becomes addicted to sales promotions because he is under pressure to respond to his competitors and to meet quarterly or annual targets and under pressure to be seen to be doing something, and sales promotions are definitely activity.

There are a vast number of promotions. There were 95 winners and highly commended prizes in this year's ISP Awards.

The academics are unanimous in their findings that promotions damage your brand health. According to Professor John Philip Jones 84% are actually unprofitable in the short-term. Findings by Andrew Ehrenberg, (formerly at the

London Business School and now at the South Bank University) and Robert Buzzell at Harvard also show that advertising builds value in brands more effectively than sales promotion. The IPA has published 12 volumes of Advertising Effectiveness Case Histories representing over 20 years' experience.

Hugh Burkitt cited Safeway which increased its market share and raised its like-for-like store sales in the period 95/96. Shortly after this all the advertising was withdrawn in favour of promotional activity. A few years later the brand was dead. Safeway had many other problems, but withdrawing advertising made them terminal.

Promotions are a lot of fun and like rock and roll very noisy. But how many people are the promotional brands really reaching and what is the cost per contact?

Hugh Burkitt recalled that at Birds Eye, they used to talk of 'theme and scheme'. Most brands benefit from a bit of scheme – noise, fun and a sense of energy. But if a brand has no theme, it will be harder for consumers to understand it and see its role in their lives.

Sales promotion is best as an auxiliary to the vital role of advertising in creating true consumer value in the first place.

Sales promotion is the sex, drugs and rock and roll of marketing – exciting and enjoyable. Advertising offers by contrast a life of fidelity, sobriety and classical values. "It may be duller, but if you want your brand to survive in old age, 'know the score' and keep your promotions habit firmly under control".

Discussion from the floor

For the motion

- Expenditure in the UK is about £7billion on advertising, £11billion on direct mail and £21billion on sales promotion. The consumer makes the ultimate decision. The average young shopper is persuaded by sales promotions. He or she picks goods at random and is influenced by offers such as 2 for 1; buy one get one free.
- When a brand manager wants to do something about his brands he turns to sales promotion.
- We need both advertising and sales promotion. Increasingly consumers need sales promotions to attract them to brands. More brands are being built using sales promotion as a strategic tool. Many brands are using sales promotion to support their business models at the expense of advertising.

Against the motion

- It is a poor promotion that adds *no* value. But how can sales promotions add *more* value? They need a good ad campaign to go with them. EDLP was advertised. Otherwise if you don't go into ASDA, you don't know about them.

If you are doing direct sales promotions, you are trying to move goods quickly. Over the long period advertising adds more value

- Price is a small component of value. It's how you feel about something that gives it value. The person who saves 5p doesn't necessarily feel good about saving that 5p. Price is not the major factor. The Andrex promotion was very successful, but it had had decades of very successful advertising; without that the promotion would not have worked.
- One client decided to withdraw advertising and spend his entire budget on below-the-line. The long-term impact on the brand was catastrophic. Stephan Buck's book 'The success of longitudinal brands' shows that the major contribution to brands is advertising.
- Was it free glasses that turned Coke into the most famous brand in the world?
- When any presentation team uses 'value added' 29 times, the presenter is clutching at straws. Promotions can actually damage a company eg Hoover.
- Advertising pushes the product to the consumer; sales promotion pushes the consumer to the product. Advertising has an important role to play in enhancing a promotion. Advertising is a master of image. In the cosmetics market sales promotions would not be so successful if the promotions were not advertised. In the interplay of the two advertising has the more important role.
- Repeat sales only come from brand loyalty, which is the basis of good marketing. Sales promotion motivates the consumer on one occasion. Brand loyalty is not created by sales promotions, rather by the image behind the brand.

Summing up

Kerris Bright argued that sales promotion does not add short-term or long-term value to business. It does not create difference or emotional connection with consumers.

It can shift a lot of value in a short period of time, but often not at a profit. Promotions are often conducted because of short-term pressure from retailers. But long-term value for a brand comes through advertising.

Consumers like a good deal. But this drive for sales promotions mostly comes from shifts in budgets. Consumers are interested in good products and money spent on sales promotions is often taken from budgets for R & D and innovation.

Advertising provides an emotional engagement with consumers and it contributes to the profitability of the brand.

Simon Mahoney pointed out that most of the debate had been on price. Sales promotion is not all about price. "We are charged in sales promotion to give added value over price. No-one comes to a sales promotion agency to ask for help in cutting prices". Clients want a viable alternative to cutting price eg the Nectar card; air miles. Every single brand can add something with sales promotion as part of the marketing mix in a brand-building way.

The result

Following a count 23 were in favour of the motion and 23 against with many abstentions.

Next Debate

The next debate will take place on **Monday 25th October 2004**, sponsored by the IPA 44 Club. The motion is “*Consultation overload is the new red tape*”.

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