

includes research articles that focus on the analysis and resolution of managerial and academic issues based on analytical and empirical or case research

# *Incentive Outlay Ratios in Fast Moving Consumer Goods Sector in India*

**Preeta Hemang Vyas**

## *Executive Summary*

Inflationary trends in the economy have led to increased media costs forcing many companies to increase their expenditure on sales promotion activities. It has been recognized that well-planned sales promotion activities have a strategic role to play in brand building and enhancing customer loyalty.

This study examines the nature of schemes offered in the fast moving consumer goods (FMCG) category, finds out the ratio of incentive and outlay (which the consumer is expected to make/pay to avail sales promotion offers), explores the relationships, finds out the rationale behind these offers, and provides guidelines to managers designing sales promotion activities. Eight different product categories were selected for the study. Information on actual offers made in these categories in a quarter was compiled and tabulated through content analysis in terms of brand, maximum retail price (MRP), offer (size of the incentive offered), nature of the scheme, pack being promoted, and outlay.

The following findings emerged from the data gathered and analysed:

- Variations in incentive outlay (I/O) ratios across product categories revealed that non-food category exhibits more variations (range) than food category.
- The level of incentive offered in non-food category was higher than that of food category.
- Bonus pack followed by free gift and price-offs were the popular tools used across product categories indicating use of similar type of schemes without much innovation.
- More often, medium to large pack-size was promoted in all categories except the toilet soap category indicating 'load the consumer' as the main objective and thereby warding off competition temporarily.

The findings suggest that managers need to be creative to create an impact; otherwise, consumers would tend to be less loyal to any brand in a category and drift from one promoted brand to another. They need to give careful thought as to what objectives need to be achieved from whom (loyal, competitive loyal, switchers or non-users). They also need to do a proper analysis by linking sales during promoted period to overall sales, baseline sales, competing brand sales, and impact on trade and consumer behaviour and evolve guidelines with respect to terms and conditions of the offer in terms of size of the incentive, terms, whether immediate or delayed incentive, what efforts are required on the part of the consumer, etc. Before determining the size of incentive to be offered to the consumers, managers need to consider several factors such as level of competition, available budget for the brand, reputation of the company introducing a brand, consumer behaviour, competitive promotional offers, and level of price of a brand *vis-à-vis* competition.

A study of I/O ratios across product categories reveals interesting practices followed by companies. Exploring reasons behind such practices would give insights to managers as to why practices differ from theory and provide guidelines in managing these activities. ❖

### KEY WORDS

**Incentive Outlay Ratio**  
**Sales Promotion**  
**Fast Moving Consumer Goods**  
**Brand Building**

In the liberalized economic scenario, Indian markets have witnessed an enormous proliferation of products/brands leading to severe competition. Inflationary trends in the economy have led to increased media costs forcing many companies to increase their expenditure on sales promotion activities. This trend is likely to continue. Also, it has been recognized that well-planned sales promotion activities have a strategic role to play in brand building and enhancing customer loyalty. In the new millennium, earning the trust of customers and retaining them for the long term are likely to be the critical elements of a company's strategy. Therefore, there is a need for the managers to understand the issues involved in managing sales promotion activities so that the money spent could be better utilized. Sales promotion consists of a wide variety of promotional tools designed to stimulate earlier or stronger market response (Kotler, 2003). These tools include consumer promotion such as samples, coupons, money refund offers, premiums, contests, trading stamps, demonstration, etc. Trade promotion includes buying allowances, free goods, merchandise allowances, cooperative ads, push money dealers sales contests, etc. Salesforce promotion tools consist of bonus, contests, and sales rallies.

The American Marketing Association defines sales promotion as the media and the non-media marketing pressure applied for a pre-determined, limited period of time at the level of the consumer, the retailer or the wholesaler in order to stimulate trial, increase consumer demand or improve product availability. This implies those activities other than personal selling, advertising, and publicity that stimulate consumer purchasing and dealer effectiveness such as displays, shows and exhibitions, demonstrations, and various non-recurrent selling efforts.

There is a growing need to understand what impact sales promotion has as its share in overall promotional budget is increasing exponentially (Kotler, 2003). Shultz,

Robinson, and Petrison (1998) have conceptualized how different types of consumers view different sales promotion activities and what objectives can be served. The set of consumers can be grouped as follows:

**Loyal users:** These are the people who buy a particular brand on a more consistent basis. (The term loyal user has become a relative term in recent years as fewer consumers like to stick to a single brand.)

**Competitive loyal users:** These are the people who use the product category and who buy a competitor's brand.

**Switchers:** These people buy a variety of brands in a product category. This may be due to the variety seeking behaviour or to satisfy varying needs of different family members.

**Price buyers:** These buyers always buy the cheapest brand in a category.

**Non-users:** These are the people who do not currently use any product in a particular category. Their failure to buy is attributed either to a perception of lack of affordability, or lack of need.

Table 1 gives different objectives for different types of consumers for a few consumer sales promotion schemes.

In recent years, the fast moving consumer goods sector (FMCG) is witnessing increased use of sales promotion activities all over the world. This sector is characterized by products having low unit value and requiring frequent purchases and consumer behaviour reflecting less loyalty, impulse buying, and low involvement on the part of a consumer (Kotler, 2003). As the risk of purchase is relatively less compared to the high involvement buying situation, consumers do not mind experimenting with different brands while availing sales promotion. A consumer's decision of which brand to buy and how much quantity of that brand to buy depends on brand-specific factors (e.g., price and promotion of various brands) and consumer-specific factors (e.g., consumer's brand loyalty, consumption rate, product

**Table 1: Promotion Types/Consumer Types/Objectives**

Promotions/ Type of Consumer	Sampling	Coupons	Reusable Container	Contests	Clubs/ Continuity Programmes	Price-offs	Bonus Packs	Premiums
Loyal	Reward	Stay loyal	Reminder	Excitement	Stay loyal/ Reward	Stay loyal/ Reward	Load	Stay loyal/ Reminder
Competitive loyal Switchers	Trial Trial	Trial Encourage switching	- Encourage switching	Excitement Encourage switching	- Reward	Trial Encourage switching	- Load	Reminder Encourage switching
Price buyers	Trial	Stock pile	-	-	-	Stock pile	Stock pile	-
Non-users	Trial	Trial	Trial	-	-	Trial	-	-

inventory, and his/her sensitivity to price and promotion). Further, long-term marketing activities of brands may alter the consumers' sensitivity to short-term marketing actions. For example, extensive advertising over the years may make the consumers less sensitive to short-term price discounts. Also, frequent promotions of brands make it unnecessary for loyal consumers to switch brands (as it becomes increasingly likely that a deal on the favoured brand will be forthcoming) but makes them more likely to stockpile when their favourite brand is on promotion (because they fulfill a greater portion of their demand in promoted periods). But, if there are several brands in a consideration set of a buyer, s(he) does not mind switching among these brands. The findings from a study by Blattberg and Neslin (1990) indicate that more than 60 per cent increase in sales due to sales promotion comes from brand switching when incremental sales are decomposed into brand switching, stockpiling, and purchase acceleration.

The FMCG product category in India is also witnessing severe competition like the US markets. A plethora of sales promotion offers are made ranging from simple price-offs to innovative contests and gift offers trying to lure the deal-prone consumers (Dang and Koshy, 2004). All kinds of brands in a given category — international, national, regional, and local — design innovative sales promotion offers to attract consumers. For example, in the toilet soap category, Lux International, Hamam (national), Tulsi Neem (regional), and local brands (unbranded) fight for market share by offering different schemes. It would be of interest to both practitioners as well as academicians to find out what incentives are offered to consumers, how much outlay is expected from the consumers depending on the terms and conditions of the offer, the kind of relationships that exist between the size of the incentive and the brand, and its market share, and whether a brand is newly introduced in the category or not. For example, if brand A, originally priced at Rs. 30, is offering an incentive (price-off offer) worth Rs. 10, then the incentive outlay (I/O) ratio would be 10/20 (0.50). A study of various brands in a product category would indicate the range of this ratio and would provide an explanation as to why in a given product category such a variation exists. Also, looking at the outlay and not the MRP gives us a real picture because when a consumer responds to any offer s(he) looks at how much s(he) needs to spend to avail the promotion because many offers specify terms and

conditions (e.g., buy three soaps and get one free).

It is against this background that this study attempts to:

- examine the nature of schemes offered in a cross-section of product categories in the FMCG category and find out whether there is a difference in food and non-food product categories
- find out the ratio of incentive and outlay (which the consumer is expected to make to avail sales promotion offer) and see variations in these ratios across different product categories in food and non-food product categories
- explore the relationships between various brands and incentive outlay ratios in a cross-section of product categories in the FMCG sector and explain the nature of these relationships
- find out the rationale behind these offers and provide guidelines to managers designing sales promotion activities.

## METHODOLOGY

The study was exploratory in nature as the purpose was to explore the rationale for I/O ratios. In order to explore the nature of the schemes and the level of incentives, it was decided to study a cross-section of food and non-food product categories. Specifically, the following eight product categories were selected for the study keeping in mind the widespread use of the products, and availability of data (Table 2).

For collecting data on these product categories, the actual offers made between January and April, 2003 were collected from print announcements of the offers, market study (field visits to retail outlets), and announcements at the retail counter (point of purchase offers). Information was compiled and tabulated through content analysis in terms of brand, its maximum retail price MRP, offer (size of the incentive offered), nature of the scheme, the pack size being promoted (wherever the data were available), and outlay (depending on the conditions of the offer, the total outlay expected from the consumer, e.g., buy three soaps of Rs. 10 each and

**Table 2: Product Categories Selected**

Food	Non-food
Health drink	Toothpaste
Chocolates	Hair care
Aerated drinks	Sanitary napkins
Biscuits	Toilet soaps

get one soap free which means that the consumer is expected to pay Rs. 30 to avail promotion and get incentive worth Rs.10 on the offer and hence the I/O ratio is 0.33). Data on the market share of product categories were obtained from secondary sources. Whenever the actual value of the incentive was not specified, the market price of the same (free gift) was considered to calculate the ratio.

Several studies using panel data as well as scanner data have thrown light on the level of incentive offered and its impact on sales. Tellis (1988) reports a major study that had reviewed data on 367 brands that appeared in the academic literature from 1961 to 1985. The most important feature of this survey was the high level of average price elasticity — -1.76 — which means that 10 per cent price reduction would boost sales by 17.6 per cent. In a study by Kopalle and Mela (1999), the dynamic effect of discounting on sales has been studied and normative pricing implications discussed. The results suggest that managers can increase profits by as much as 7 per cent to 31 per cent over the current practices by innovative sales promotion offers. These findings indicate that it is important to balance the trade-off between i) increasing sales arising in the current period from a given discount, and ii) the corresponding effect of reducing (baseline) sales in future periods in a market. A recent study by Nowlis and Simonson (2000) identifies moderators of switching between brands in different price-quality tiers. The authors propose that the likelihood of switching between particular brand tiers due to price promotions could be predicted based on the choice set compositions. Also, they propose that consumers tend to trade up in a higher price quality tier if promotion is offered by a premium brand but would not trade down if a lower price/quality tier brand offers promotion. A study by Raghuram and Coffman (1999) finds out the role price promotions play in affecting pre-trial brand evaluations in the service context. A price promotion is theorized to be informative about brand quality when it stands out because it deviates from either its own past behaviour or industry norms. With the past promotional behaviour, distinctiveness in terms of how common it is to promote in an industry and consumer expertise are important variables that moderate when price promotions have an unfavorable effect on brand evaluations. Product category experts who have alternative sources of information to make quality judgments are expected to make less use of price promotions as a

quality cue than the novices. Soman (1998) studies the likely consumer response to promotions where incentives are not immediate but delayed and the level of effort which varies depending on the nature of the offer required to avail incentives. The promotional planning process and its impact on consumer franchise building in New Zealand in the FMCG category has been studied by Stewart and Gallen (1998).

While many studies have shown the impact of sales promotion activities on sales and consumer behaviour (Vyas and Mehta, 2004), so far, no attempt has been made to study the level of incentive offered by different brands in a category relating incentive to an outlay a consumer is expected to make and explore the reasons behind it and also how much a consumer has to actually pay to avail the promotion offer depending on the conditions of the offer. Rather than looking at the absolute level of incentive per offer, looking at the I/O ratio would enable quick comparison across brands and across different product categories.

Therefore, this study attempts to address the following issues:

- Do high market share brands have low I/O ratios compared to low market share brands?
- Does a new brand in a category offer high level of incentive reflecting high I/O ratio?
- What is the range of these ratios across various offers in a given category?
- What is the level of incentive most often used in the FMCG category?
- Are variations in I/O ratios across product categories significantly different?

## DATA ANALYSIS

For each product category selected for the study, data on sales promotion offers collected from a variety of sources such as bonus packs, discount offers, free gift offers etc., were compiled and organized in terms of the brand, pack-size on which the offer was made, the nature of the offer, MRP, outlay (depending on the conditions of the offer, the amount of money a consumer has to pay to avail the promotion), incentive (quantified depending on the offer, e.g., 10 per cent discount on a soap costing Rs. 10 would mean an incentive of Re. 1), and incentive outlay ratio (calculated by dividing incentive and outlay). Contests were not considered as there was no way of calculating I/O ratio for them. In all, 192 observations of incentive outlay ratio were obtained. For each var-

able, measures of central tendency, frequency and percentages were calculated. To find the associations between the variables as well as observed versus estimated frequency, Chi-square test was applied and to check the significance of difference of means across various product categories, ANOVA was carried out.

## FINDINGS

### Mean I/O Ratio

For all product categories put together, the mean I/O ratio was 0.296 with minimum I/O ratio being 0.04 and maximum being 1.11 (Table 3). The mean I/O ratio gives a summary measure of the magnitude/level of incentive offered by a product category as a whole.

It is evident from Table 3 that the biscuit category had the lowest mean I/O ratio of 0.194 whereas the highest mean of 0.421 was observed in the toothpaste category. Compared to non-food categories, the mean of food category was low. In the toothpaste category, the range (difference between the maximum and the minimum I/O ratio) was the highest (0.98) whereas in the aerated drink category, the range was the lowest (0.27). The range indicates the difference in the highest and the lowest level/magnitude of incentive offered across brands in a given category. Regarding the standard deviation of I/O ratios, the shampoo category had the lowest standard deviation whereas the toothpaste had the highest.

### Nature of Schemes

An analysis of the product category-wise nature of the schemes indicates that the bonus pack scheme (extra quantity for same or reduced prices) was found to be

the most frequently used followed by the free gift offers (Table 4).

A comparison of food and non-food category reveals that the bonus pack was found to be used more often in non-food category. This is contrary to the normal practice of offering bonus packs for food products thereby loading the consumers hoping that either frequency of use or quantum of use per use or both would lead to the stock lasting the same period as without the offer. Several studies have, however, cautioned about the overuse of sales promotion by showing that sales have a tendency to dip after the promotion resulting in zero-sum benefit (Johnson, 2003). In food products, it is expected that when consumers are offered a variety of promotion offers like bonus packs, discount offers, etc., they would tend to finish the additional stock by consuming more, thereby not affecting the purchase cycle and baseline sales. Contrary to expectations, in the food category, free gift offers were found to be more frequently used than bonus packs. Particularly in the health drink category, free gifts appealing to children like free tatoos, compass box, lunch box, funskool toys, etc., were given as free gifts as the influencers were mainly children.

In order to find out whether there was an association between the scheme type and the product category, Chi-square test was applied both to food and non-food categories separately (Table 4). The results indicated an association between product category and scheme type (Box).

### Product Category-wise Promoted Pack-size

An analysis of the pack-size would show which one is

**Table 3: Product Category-wise Mean, Minimum, and Maximum I/O Ratios and Standard Deviation**

Product Category	Number of Observations	Mean I/O	Minimum I/O	Maximum I/O	Standard Deviation
Toothpaste	22	0.421	0.13	1.11	0.321
Toilet soap	59	0.348	0.04	1.00	0.195
Sanitary napkins	18	0.222	0.07	0.45	0.232
Shampoo	18	0.352	0.06	1.00	0.081
Biscuits	18	0.194	0.05	0.39	0.093
Health drink	29	0.202	0.04	0.42	0.092
Aerated drink	13	0.257	0.13	0.40	0.134
Chocolates	15	0.264	0.07	0.50	0.088
<b>All non-food</b>	<b>117</b>	<b>0.340</b>	<b>0.13</b>	<b>1.11</b>	<b>0.224</b>
<b>All food</b>	<b>75</b>	<b>0.222</b>	<b>0.04</b>	<b>0.50</b>	<b>0.104</b>
<b>All product categories</b>	<b>192</b>	<b>0.296</b>	<b>0.04</b>	<b>1.11</b>	<b>0.195</b>

**Table 4: Product Category-wise Nature of Schemes**

(January-April 2003)

Product Category/ Scheme Type	Bonus Pack	Free Gift	Price-off	Special Offer	Total
Toothpaste	8	9	5	0	22
Toilet soap	36	5	18	0	59
Sanitary napkins	11	3	4	0	18
Shampoo	10	6	0	2	18
<b>All non-food</b>	<b>65</b>	<b>23</b>	<b>27</b>	<b>2</b>	<b>117</b>
	<b>(56%)</b>	<b>(20%)</b>	<b>(23%)</b>	<b>(1%)</b>	<b>(100%)</b>
Biscuits	9	4	5	0	18
Health drink	1	20	8	0	29
Aerated drink	3	6	4	0	13
Chocolates	2	13	0	0	15
<b>All food</b>	<b>15</b>	<b>43</b>	<b>17</b>	<b>0</b>	<b>75</b>
	<b>(20%)</b>	<b>(57%)</b>	<b>(23%)</b>		<b>(100%)</b>
<b>All product categories</b>	<b>80</b>	<b>66</b>	<b>44</b>	<b>2</b>	<b>192</b>
	<b>(42%)</b>	<b>(34%)</b>	<b>(23%)</b>	<b>(1%)</b>	<b>(100%)</b>



## Box: Chi-square Analysis

### Scheme Type and Non-food Category

Degrees of freedom: 9

Chi-square = 29.0501815005868, Chi-square table value=16.919 at alpha 0.05

$p$  is less than or equal to 0.001.

The distribution is significant.

### Scheme Type and Food Category

Degrees of freedom: 6

Chi-square = 23.8502517656251

$p$  is less than or equal to 0.001. The distribution is significant.

The table value of chi-square at alpha 0.05 with 6 degrees of freedom is 12.592.

As the calculated value of chi-square is greater than the table value in both the cases, the null hypothesis that there is no association between product category and type of scheme is rejected.

promoted most often in a given category. Also, relating this data to slow-moving and fast-moving stock-keeping unit (SKU) would yield interesting insights into the objectives of a given promotion, e.g., the toothpaste category, if a 200gm pack-size is a fast-moving SKU and if it is what is promoted the most, then it could be concluded that the objective is to move a fast-moving item. If a larger pack-size is promoted most often, then the objective would be to load the consumer. Table 5 shows product category-wise frequency of promoted pack-size.

It is evident from Table 5 that in the case of the toothpaste, 200gm pack-size had the highest frequency indicating that the family pack-size was promoted the most to encourage its use by the entire family. In the case of toilet soap, 75gm pack-size was promoted the most to encourage trial and brand switching as well as to attract deal-prone consumers.

In the case of shampoo, 250ml pack-size was promoted most often. In the health drink category, 500gm pack-size was promoted the most to encourage variety, trial, and brand switching. In the case of aerated drink, even though the 1.5 litre pack-size was promoted most often, both 500ml and 2 litre pack-sizes were also frequently promoted.

## Mode (Level) of Incentive Outlay Ratio

The size (level) of incentive offered most often by different product categories is given in Table 6. As can be seen from the table, the level of incentive most commonly offered to consumers across product categories was 0.33 (33% I/O ratio).

In order to see whether the mean I/O ratio obtained for each product category was the same or there was a significant difference among them, ANOVA test was performed. The results are presented in Table 7. The probability of this result, assuming the null hypothesis, is 0.000. The result indicates that the means are not similar across eight categories thereby implying that the means are significantly different.

## Brands, Market Share, and I/O Ratios

In order to see the linkage between the brand, its market share, and I/O ratio, a sample analysis of one food (biscuit) and one non-food (toothpaste) product category was carried out in the following manner. First, based on the market share (information collected from secondary sources), brands of both biscuit and toothpaste were categorized into high market share and low market share brands (e.g., in case of toothpaste, Colgate was a high

**Table 5: Product category-wise Frequency of Promoted Pack-size**

(January-April 2003)

Product Category	Promoted Pack-size and Frequency								
Toothpaste (gm)	50	80	90	130	150	175	200	250	
Frequency	1	1	1	1	3	1	9	1	
Toilet soap (gm)	75	100	125						
Frequency	31	18	10						
Sanitary napkins (pads)	5	7	8	10	13	15	20		
Frequency	1	1	7	4	1	2	2		
Shampoo (ml)	10	125	200	225	250	400	1,000		
Frequency	1	4	2	1	6	1	3		
Biscuits (gm)	75	100	150	175	200	250	300	400	1,000
Frequency	4	5	1	1	2	2	1	1	1
Health drink (ml)	100	200	1,000	100	200	500	1,000		
Frequency	2	1	2	1	2	18	3		
Aerated drink (ml)	300	500	1,500	2,000					
Frequency	2	3	4	3					

**Table 6: Product Category-wise Mode of I/O Ratio**

Product Category	I/O Ratio	Frequency
Toothpaste	0.20	3
Toilet soap	0.33	22
Sanitary napkins	0.20	4
Shampoo	0.25	4
Biscuits	0.17	3
Health drink	0.14	4
Aerated drink	0.33	4
Chocolates	0.30, 0.33	3, 3

**Table 7: ANOVA Results**

Source of Variation	Sum of Squares	Degree of Freedom	Mean Squares	F
Between	1.068	7	0.1526	4.415
Error	6.361	184	3.4569E-02	
<b>Total</b>	<b>7.429</b>	<b>191</b>		

market share brand whereas Ajanta was a low market share brand). For these brands, a mean I/O was computed based on the data available (Table 8).

As the high market share brand enjoys a strong loyal customer base (hence any competitive promotional offers will not have significant impact on loyal users and encourage them to switch) as well as good franchise strength (trade will be forced to stock the high market share brand because of its pull), a small level of incentive will reward loyal users to continue to buy the brand, attract competitive brand buyers from similar price range as well as from low price brand categories, and encourage them to switch (Quelch, 1998).

It is evident from Table 8 that the spread of ratios is larger in the case of non-food category compared to food category. Also, in the case of food category, the assumption that high market share brand can offer low level of incentive does not hold. In fact, in practice, it appears that high market share brands are offering higher level of incentive compared to low market share brands. In non-food category, the data confirm that the high market share brands offer lower level of incentive (0.26) compared to low market share brands (0.65).

A *t*-test was conducted to test the significant difference in means of high market share and low market

**Table 8: Mean I/O Ratios for High-Low Market Share Brands in Food and Non-food Category**

Product Category	Mean I/O Ratio for High Market Share Brands	Mean I/O Ratio for Low Market Share Brands
Food (Biscuits)	0.20	0.17
Non-food (Toothpaste)	0.26	0.65

share brands in food and non-food category as reported in Table 8. The results are given in Table 9.

The results indicate that the means obtained are not significantly different in both the categories, even though in the non-food category, there is a difference of 0.39 in means, compared to the food category where the difference is merely 0.03.

### New Brand and I/O Ratio

During the period of study, there were three instances of new product introduction in three different categories, namely, chocolate, toothpaste, and toilet soap. In the case of chocolate, a high I/O ratio of 0.50 (mean I/O ratio of chocolate=0.264) was observed whereas in the case of toothpaste, the I/O ratio was 0.30 (mean I/O ratio for toothpaste = 0.421) and for the toilet soap, the I/O ratio was 0.20 (mean I/O ratio for toilet soap=0.348). Thus, it is difficult to generalize that a new brand has to offer a high level of incentive for inducing trial in a given category. Surprisingly there was no free sample offered by any brand during the period of the study.

### FINDINGS

The major findings of the study can be summarized as follows:

- Variations in I/O ratios across product categories reveal that the non-food category exhibits more variations (range) than the food category.
- The level of incentive in the non-food category is higher than that of the food category. Also, 0.33 is the most frequently offered level of incentive in many product categories. This probably indicates the threshold level of incentive.
- Bonus pack followed by free gift and price-offs are the most popular tools used across product categories indicating the use of similar type of schemes.
- Medium to large pack-size is promoted more often in all other categories except the toilet soap category indicating a tendency to load the consumer and thereby warding off competition temporarily.
- Even high market share brands seem to offer a high level of incentive like their counterparts as significant difference was not found in the mean I/O ratio of high and low market share brands both in the food and the non-food category. Thus, high market share brands would be trying hard to reward loyal users and encouraging them to stockpile whereas

**Table 9: Results of t-test Analysis**

	Food Category (Biscuit)		Non-food Category (Toothpaste)	
	Variable 1	Variable 2	Variable 1	Variable 2
Mean	0.16675	0.2029063	0.2609212	0.6513382
Variance	0.0022223	0.0105522	0.0287339	0.124881
Observations	4	14	13	9
Hypothesized mean difference	0.03		0.39	
Degree of freedom	12		11	
t-statistics	-1.8283242		-6.1532304	
$P(T \leq t)$ one-tail	0.0462262		3.59E-05	
t critical one-tail	1.7822867		1.7958837	
$P(T \leq t)$ two-tail	0.0924523		7.17E-05	
t critical two-tail	2.1788128		2.2009863	
t cal. < t table, hence accept null hypothesis Ho: means are equal, no significant difference in means			t cal. < t table, hence accept Ho: i.e., means are equal or there is no significant difference in means of high market share and low market share brands	

low market share brands may be encouraging switching by offering sizeable incentive.

### MANAGERIAL IMPLICATIONS

An analysis of I/O ratios in a cross-section of FMCG product category indicates that even though variations are found in the level of incentive offered, they are not very high. The findings show that all players offer similar types of schemes as well as same level of incentive and mainly promote larger pack sizes. This suggests that managers need to be more creative to create an impact; otherwise consumers would tend to be more deal-prone and less loyal to any brand in a category and drift from one promoted brand to another. Careful analysis should be undertaken once promotions are over as linking them to overall sales, baseline sales, competing brand sales, and impact on trade and consumer behaviour would provide a deeper insight. Also, guidelines can be evolved with respect to terms and conditions of the offer in terms of size of the incentive, whether immediate or delayed incentive, what efforts are required on the part of the consumer, etc. If consumers tend to perceive various offers as similar for brands of their consideration set, either they may buy only the promoted brand or may not respond to promotion. In case of new brand introduction in any category, it is not necessary that the new brand has to offer a higher level of incentive as found in this study. Thus, several factors need to be considered before determining the size of incentive to be offered to consumers such as level of competition, available bud-

get for the brand, reputation of the company introducing a brand, consumer behaviour, competitive promotional offers, level of price of a brand *vis-à-vis* competition.

In today's scenario, a brand manager is in constant struggle to strike a balance between achieving short-term sales targets and building equity and profitability in the long run for the brand as well as building long-term relationships with the consumers. This study hopes to provide a deeper understanding of the practices and throw light on issues arising in managing sales promotion activities.

### LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This study assumed eight product categories to be a fair representation of FMCG category; the assumption may not be valid. A study covering more number of product categories would provide a better understanding of the practices. Also, comparing I/O ratios of FMCG with other categories like durables or services would give a better understanding of differences if any.

The time period of a quarter is another limitation as it only gives a snapshot of activities undertaken over the year. The schemes compiled are also not representative of the categories in practice. Hence, generalizations drawn would have to be viewed keeping in mind the above limitations. If such a study is done over a few years, trends can be analysed. Linking the incentive to the outcome-sales would provide a better understanding of the rationale for designing promotions. ♡



## REFERENCES

- American Marketing Association, <http://www.marketingpower.com/live/mg-dictionary.php>.
- Blattberg, Robert C and Neslin, Scott (1990). *Sales Promotions: Concepts, Methods and Strategies*, New Jersey, Englewood Cliffs: Prentice Hall.
- Dang, Priya Jha and Koshy, Abraham (2004). "An Empirical View of the Different Types of Consumer Promotions in India," Working Paper no. 2004-03-03, Indian Institute of Management, Ahmedabad.
- Johnson, Laurene Keller (2003). "Promotions and the Bottom Line," *MIT Sloan Management Review*, Summer, 44(4), 6-8.
- Kopalle, Praveen K and Mela, Carl F (1999). "The Dynamic Effect of Discounting on Sales: Empirical Analysis and Normative Pricing Implications," *Marketing Science*, 18(3), 317-333.
- Kotler, Phillip (2003). *Marketing Management*, 11th Edition, New Delhi: Prentice Hall India.
- Nowlis, Stephen M and Simonson, Itamar (2000). "Sales Promotions and the Choice Context as Competing Influences on Consumer Decision Making," *Journal of Consumer Psychology*, 9(1), 1-17.
- Quelch, John A (1998). *Sales Promotion Management*, New Jersey: Englewood Cliffs, Prentice Hall.
- Raghubir, Priya and Coffman, Kim (1999). "When Do Price Promotions Affect Pretrial Brand Evaluations?" *Journal of Marketing Research*, 36(2), 211-223.
- Shultz, Don E; Robinson, William A and Petrison, Lisa A (1998). *Sales Promotion Essentials*, Third Edition, Chicago:Crain Books.
- Soman, Dilip(1998). "The Illusion of Delayed Incentives: Evaluating Future Effort-Money Transactions," *Journal of Marketing Research*, 35(4), 427-438.
- Stewart, David and Gallen, Bridget (1998). "The Promotional Planning Process and its Impact on Consumer Franchise Building: The Case of Fast Moving Goods Companies in New Zealand," *Journal of Product and Brand Management*, 7(6), 557-568.
- Tellis, Gerard J (1988). "The Price Elasticity of Selective Demand: An Analysis of Econometric Models of Sales," *Journal of Marketing Research*, 25(4), 331-341.
- Vyas, Preeta and Mehta, Bijal (2004). "Classification of Empirical Work on Sales Promotion: A Synthesis for Managerial Decision Making," Working Paper no. 2004-06-07, Indian Institute of Management, Ahmedabad. ✓

---

**Preeta Vyas** is a Research Associate in the Marketing Area of Indian Institute of Management, Ahmedabad. A Ph.D. from Gujarat University, she teaches basic marketing course and advertising and sales promotion course at IIMA and other leading management institutes in India. She has done extensive research in the area of sales promotion and related fields and written cases and working papers. She presented a paper at

the International Conference on E-Commerce Research at Dallas, USA, in October 2003. She has been invited to present a paper at the International Conference on Economics and Business Research in December 2005 at Miami, USA. She has visited business schools in Paris, Scotland, and University of North Florida in 2002-2003.  
e-mail: preeta@iimahd.ernet.in

*Writing, I think, is not apart from living. Writing is a kind of double living. The writer experiences everything twice. Once in reality and once in that mirror which waits always before or behind.*

*Catherine Drinker Bowen*