The Moderating Effect of Loyalty on the Relationship of Sales Promotions and Brand Equity

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Sales promotions are used very widely in the market, despite the conflicting research findings that they erode brand equity. This paper explains reasons for this increased spend by investigating the role of brand loyalty in the relationship of promotions and brand equity. Findings indicate that brand equity is different for customer segments with differing levels of loyalty, and that even non-CBF promotions support brand equity in certain market segments (like those dominated by spurious loyal customers). The paper ends by highlighting the need of loyalty-based segmentation of markets.

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ABSTRACT
Sales promotions are used very widely in the market, despite the conflicting research findings that they erode brand equity. This paper explains reasons for this increased spend by investigating the role of brand loyalty in the relationship of promotions and brand equity. Findings indicate that brand equity is different for customer segments with differing levels of loyalty, and that even non-CFB promotions support brand equity in certain market segments (like those dominated by spurious loyal customers). The paper ends by highlighting the need of loyalty-based segmentation of markets.

EXTENDED ABSTRACT
Introduction
There is a general agreement among researchers that sales promotions erode equity of the promoted brand (Winer, 1986; Mela, Gupta and Lehmann, 1997). However, marketing practitioners use promotions heavily; moreover, the share of promotions in their advertisement budget is increasing (Ong, 1999; Spethman, 1998). Joseph and Sivakumaran (2008) found that under conditions like high levels of deal proneness and involvement, brand equity would be higher when promotions are offered. Another important factor in this context is brand loyalty, which seems to have been overlooked, even though some researchers like Ghosh (1997) proposed that sales promotions have to be targeted at customers with differing levels of loyalty to prevent the decrease of brand valuation.

Conceptual Framework
Sales promotions can be classified into consumer franchise building (CFB) and consumer non-franchise building (Non-CFB) promotions (Belch and Belch 2004). CFB promotions communicate distinctive brand attributes and contribute to the development and reinforcement of brand identity while non-CFB promotions try to generate immediate sales or shorten the buying decision. CFB promotions would thus contribute to the development of brand equity, while non-CFB promotions could reduce it as the focus is providing incentive for buying now, without considering brand development. However, this need not be true always, as different customer groups have different purchase behaviors and thus may not be always influenced by the above logic.

Researchers have found that loyalty acts as an antecedent to brand equity (Atilgan, Aksoy and Akinci, 2005; Yoo and Donthu, 2001). Therefore differences in brand loyalty of the customers would affect customer based brand equity. This would be highlighted during promotions, as the effects of promotions on brand equity at different loyalty levels could be different. For the present study, we classified customers into four groups - true loyals (with high attitudinal and behavioral loyalty), latent loyals (high attitudinal but low behavioral loyalty), spurious loyals (low attitudinal but high behavioral loyalty) and non-loyals (both low attitudinal and behavioral loyalty), according the framework proposed by Dick and Basu (1994) and examined the influence of loyalty in the relationship of promotions and brand equity.

True loyals being high on brand attitude, would have stronger and well structured organization of brand knowledge (Keller, 1993) in their minds. Also, as they buy the product more often, this knowledge structure would become stronger. This strong memory structure would prevent brand equity erosion during promotions, despite the forms in which they are offered. Hence, brand equity for true loyal customers would not be affected by the nature of promotions. At the same time, since spurious loyals do not have a high attitude towards the brand, they would find value in promotional activities that pose as value enhancers in the purchase transaction. Value of a promotional offer would more evident in non-CFB promotions than in CFB promotions and therefore spurious loyals would have higher brand equity when non-CFB promotions are offered. Promotional offers are generally irrelevant to latent loyals and non-loyals, as they do not buy the brands as the other customer categories. Hence brand equity would not be affected by promotions in both these categories.

Also, we looked into the effect of promotions on brand equity in market segments consisting of customers belonging to more than one loyalty stage. Based on the main effects hypothesized above, we proposed that interaction effects of type of loyalty would be seen in market segments dominated by spurious loyals and customers with any other loyalty state and that no interaction effect would be seen in other loyalty combinations.

Methodology
We performed the study through an experiment and followed it up by a customer survey. We used a 2 x 4 between subjects design with two levels of promotions (CFB and Non-CFB) and the four levels of brand loyalty (true, spurious, latent and non-loyals) for the experiment. We then did a customer survey with real products and customers, which helped to fortify the experimental results and also to capture the long-term effects of promotions on brand equity.

Results and Discussion
We found that brand equity during promotions is different for customers in different stages of loyalty. Also, we found that brand loyalty moderates the relationship of sales promotions and brand equity. Our study highlights the need for loyalty based segmentation of the market for effective brand equity management. The results would help managers in deciding which type of promotion is to be used in markets dominated by customers with a particular level of brand loyalty.

Future Research
Future research in this area can incorporate the effect of competition and the idea of split loyalty, where customers are being loyal to more than one brand. Also, the effect of the trait loyalty and variety seeking behavior can be studied.

REFERENCES


