Do Sales Promotions Necessarily Erode Brand Equity? Maybe Not
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The ratio of advertisements to sales promotion in the IMC budget, which was heavily skewed towards ads earlier, has now shifted towards promotions despite the research evidence that promotions erode brand equity. This widespread usage of sales promotions by the industry, despite the conflicting research findings forms the background for this paper. The study finds that under certain situations (high involvement/deal proneness and at high levels of advertising support), even non CFB promotions (e.g. discounts) help in improving brand equity. Thus the rise in promotional budgets could be attributed to these factors being present in several product markets.

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EXTENDED ABSTRACT

Introduction
Sales promotions are generally seen as detrimental to brand equity, even though they produce positive impact on sales and revenue (Winer 1986, Mela, Gupta and Lehmann 1997). Contrary to research evidence that sales promotions erode brand equity, the ratio of advertisements to sales promotion in the IMC budgets of companies, which was heavily skewed towards ads earlier, has now shifted towards promotions (Spethman 1998, Joyce 2006). This widespread usage of sales promotions by the industry, despite the conflicting research findings forms the background for this paper.

Conceptual Framework
One way of classification of promotions is 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 to provide incentives for buying now, without considering brand development. However, this need not be true always, as different customer groups have different individual characteristics and purchase intentions and thus may not always be influenced by the above logic. In addition to customer-related factors like personality traits and purchase motivations, there are other factors too that make the customers develop positive evaluations of the brand, leading to higher brand equity during non CFB promotions.

Individuals with high levels of deal proneness respond more to deals and they are seen more appreciative of promotions than low deal prone customers (d’Astous and Jacob 2002). Involvement is the subjective perception of the personal relevance of an object to an individual. Highly involved customers relate to a product as a part of their lifestyle and are likely to learn more about the product category and search more during their purchase processes. They pay more attention to the product’s ads and read and cognitively process the fine print (Lockshin and Spawton 2001). Advertising affects brand equity through brand associations and perceived quality. Perceived advertising spending contributes to brand equity (Villarejo-Ramos and Sanchez-Franco 2005). Advertising also increases product knowledge of customers. Therefore, we hypothesized that brand equity would be different in customer segments with high and low levels of deal proneness and involvement and when the product is supported with high and low levels of advertising.

Methodology
Two experiments were conducted to test these hypotheses in which students at graduate level participated. Brand equity, deal proneness and involvement were measured using standard scales. Experiment 1 was based on a 2 x 2 factorial design where respondents were exposed to two types of promotions (CFB and non CFB) and two levels (high and low) of involvement. The second study also had a 2 x 2 design with two levels of promotions and two levels of advertising (high and low).

Results and Discussion
We found that at high levels of deal proneness and involvement and at low levels of advertisement support, non CFB promotions lead to higher brand equity.

This study would be one of the pioneering efforts to investigate the positive impacts of sales promotions on brand equity. The reasons for increased promotional spending by companies, as mentioned earlier, could be due the presence of large numbers of high deal prone and high involvement customers and the high levels of ad spending by companies.

In sum, it is the characteristics of the market and the marketing actions taken by the company that decide whether CFB or non CFB promotions will contribute to building brand equity, and not just the promotion, as believed earlier.

Future Research
This research has studied sales promotions by classifying it into CFB and non CFB promotions. Future works can find out the effect of each type of promotion on brand equity, including at different levels of discounts offered.

Study on the differential impact of promotions on dominant and non dominant brands and customers with differing loyalty levels can also be taken up. Culture could significantly influence the results and hence the study may be replicated in different cultural settings to find the respective effects.

References