

# Principles of Marketing - Part 12: Promotion Decisions



Those unfamiliar with marketing often assume it is the same thing as advertising. Certainly our coverage so far in this Principles of Marketing tutorial has suggested this is not the case. Marketing encompasses many tasks and decisions, of which advertising may only be a small portion.

Additionally, when non-marketers hear someone talk about “promotion” they frequently believe the person is talking about advertising. While advertising is the most visible and best understood method of promotion, it is only one of several approaches a marketer can choose to promote their products and services.

In Part 12 our highly detailed Principles of Marketing tutorial we begin our discussion of the third major area of the marketing mix – promotion. Many view promotional activities as the most glamorous part of marketing. This may have to do with the fact that promotion is often associated with creative activity undertaken to help distinguish a company’s products from competitors’ offerings. While creativity is an important element in promotion decisions, marketers must also have a deep understanding of how the marketing communication process works and how promotion helps the organization achieve its objectives.

This tutorial includes the following topics:

1. Promotion Decisions
2. What is promotion?
3. Targets of Marketing Promotions
4. Objectives of Marketing Promotions
5. Types of Promotion Objectives
6. The Communication Process
7. Communication Participants
8. Communication Delivery
9. Obstacles to Effective Communication
10. Keys to Effective Communication
11. Characteristics of Promotions
12. Intended Audience

13. Payment Model and Interaction Type
14. Message Flow and Demand Creation
15. Message Control and Credibility
16. Cost Effectiveness
17. Types of Promotion – Promotion Mix
18. Promotion Summary Table
19. Promotion Choice: Company Issues
20. Promotion Choice: Marketing Issues

## **What is promotion?**

Promotion is a form of corporate communication that uses various methods to reach a targeted audience with a certain message in order to achieve specific organizational objectives. Nearly all organizations, whether for-profit or not-for-profit, in all types of industries, must engage in some form of promotion. Such efforts may range from multinational firms spending large sums on securing high-profile celebrities to serve as corporate spokespersons to the owner of a one-person enterprise passing out business cards at a local businessperson's meeting.

Like most marketing decisions, an effective promotional strategy requires the marketer understand how promotion fits with other pieces of the marketing puzzle (e.g., product, distribution, pricing, target markets). Consequently, promotion decisions should be made with an appreciation for how it affects other areas of the company. For instance, running a major advertising campaign for a new product without first assuring there will be enough inventory to meet potential demand generated by the advertising would certainly not go over well with the company's production department (not to mention other key company executives). Thus, marketers should not work in a vacuum when making promotion decisions. Rather, the overall success of a promotional strategy requires input from others in impacted functional areas.

In addition to coordinating general promotion decisions with other business areas, individual promotions must also work together. Under the concept of Integrated Marketing Communication marketers attempt to develop a unified promotional strategy involving the coordination of many different types of promotional techniques. The key idea for the marketer who employs several promotional options (we'll discuss potential options later in this tutorial) to reach objectives for the product is to employ a consistent

message across all options. For instance, salespeople will discuss the same benefits of a product as mentioned in television advertisements. In this way no matter how customers are exposed to a marketer's promotional efforts they all receive the same information.

## **Targets of Marketing Promotions**

The audience for an organization's marketing communication efforts is not limited to just the marketer's target market. While the bulk of a marketer's promotional budget may be directed at the target market, there are many other groups that could also serve as useful target of a marketing message.

Targets of a marketing message generally fall into one of the following categories:

- **Members of the Organization's Target Market** – This category would include current customers, previous customers and potential customers, and as noted, may receive the most promotional attention.
- **Influencers of the Organization's Target Market** – There exists a large group of people and organizations that can affect how a company's target market is exposed to and perceives a company's products. These influencing groups have their own communication mechanisms that reach the target market and the marketer may be able utilize these influencers to its benefit. Influencers include the news media (e.g., offer company stories), special interest groups, opinion leaders (e.g., doctors directing patients), and industry trade associations.
- **Participants in the Distribution Process** – The distribution channel provides services to help gain access to final customers and are also target markets since they must recognize a product's benefits and agree to handle the product in the same way as final customers who must agree to purchase products. Aiming promotions at distribution partners (e.g., retailers, wholesalers, distributors) and other channel members is extremely important and, in some industries, represents a higher portion of a marketer's promotional budget than promotional spending directed at the final customer.
- **Other Companies** – The most likely scenario in which a company will communicate with another company occurs when the marketer is probing to see if the company would have an interest in a joint venture, such as a co-marketing arrangement where two firms share marketing costs. Reaching out to other companies, including companies who may be competitors for other products, could help create interest in discussing such a relationship.
- **Other Organizational Stakeholders** – Marketers may also be involved with communication activities directed at other stakeholders. This group consists of those who provide services, support or, in other ways, impact the company. For example, an industry group that sets industry standards can affect company products through the issuance of recommended compliance standards for product

development or other marketing activities. Communicating with this group is important to insure the marketer's views of any changes in standards are known.

## **Objectives of Marketing Promotions**

The most obvious objective marketers have for promotional activities is to convince customers to make a decision that benefits the marketer (of course the marketer believes the decision will also benefit the customer). For most for-profit marketers this means getting customers to buy an organization's product and, in most cases, to remain a loyal long-term customer. For other marketers, such as not-for-profits, it means getting customers to increase donations, utilize more services, change attitudes, or change behavior (e.g., stop smoking campaigns).

However, marketers must understand that getting customers to commit to a decision, such as a purchase decision, is only achievable when a customer is ready to make the decision. As we saw in our discussion of consumer and business buying behavior in Parts 3 and 4, customers often move through several stages before a purchase decision is made. Additionally before turning into a repeat customer, purchasers analyze their initial purchase to see whether they received a good value, and then often repeat the purchase process again before deciding to make the same choice.

The type of customer the marketer is attempting to attract and which stage of the purchase process a customer is in will affect the objectives of a particular marketing communication effort. And since a marketer often has multiple simultaneous promotional campaigns, the objective of each could be different.

## **Types of Promotion Objectives**

The possible objectives for marketing promotions may include the following:

- **Build Awareness** – New products and new companies are often unknown to a market, which means initial promotional efforts must focus on establishing an identity. In this situation the marketer must focus promotion to: 1) effectively reach customers, and 2) tell the market who they are and what they have to offer.
- **Create Interest** – Moving a customer from awareness of a product to making a purchase can present a significant challenge. As we saw with our discussion of consumer and business buying behavior, customers must first recognize they have a need before they actively start to consider a purchase. The focus on creating messages that convince customers that a need exists has been the hallmark of

- marketing for a long time with promotional appeals targeted at basic human characteristics such as emotions, fears, sex, and humor.
- **Provide Information** – Some promotion is designed to assist customers in the search stage of the purchasing process. In some cases, such as when a product is so novel it creates a new category of product and has few competitors, the information is simply intended to explain what the product is and may not mention any competitors. In other situations, where the product competes in an existing market, informational promotion may be used to help with a product positioning strategy. As we discuss in Part 5: Target Markets, marketers may use promotional means, including direct comparisons with competitor's products, in an effort to get customers to mentally distinguish the marketer's product from those of competitors.
  - **Stimulate Demand** – The right promotion can drive customers to make a purchase. In the case of products that a customer has not previously purchased or has not purchased in a long time, the promotional efforts may be directed at getting the customer to try the product. This is often seen on the Internet where software companies allow for free demonstrations or even free downloadable trials of their products. For products with an established customer-base, promotion can encourage customers to increase their purchasing by providing a reason to purchase products sooner or purchase in greater quantities than they normally do. For example, a pre-holiday newspaper advertisement may remind customers to stock up for the holiday by purchasing more than they typically purchase during non-holiday periods.
  - **Reinforce the Brand** – Once a purchase is made, a marketer can use promotion to help build a strong relationship that can lead to the purchaser becoming a loyal customer. For instance, many retail stores now ask for a customer's email address so that follow-up emails containing additional product information or even an incentive to purchase other products from the retailer can be sent in order to strengthen the customer-marketer relationship.

## **The Communication Process**

The act of communicating has been evaluated extensively for many, many years. One of the classic analyses of communication took place in the 1940s and 1950s when researchers, including Claude Shannon, Warren Weaver, Wilbur Schramm and others, offered models describing how communication takes place. In general, communication is how people exchange meaningful information. Models that reflect how communication occurs often include the elements shown below:



On the next few pages we further discuss the elements of the communication process.

### **Communication Participants:**

For communication to occur there must be at least two participants:

- **Message Source** – The source of communication is the party intending to convey information to another party. The message source can be an individual (e.g., salesperson) or an organization (e.g., through advertising). In order to convey a message, the source must engage in message encoding, which involves mental and physical processes necessary to construct a message in order to reach a desired goal (i.e., convey meaningful information). This undertaking consists of using sensory stimuli, such as visuals (e.g., words, symbols, images), sounds (e.g., spoken word), and scents (e.g., perform sprayed magazine inserts) to convey a message.
- **Message Receiver** – The receiver of communication is the intended target of a message source's efforts. For a message to be understood the receiver must decode the message by undertaking mental and physical processes necessary to give meaning to the message. Clearly, a message can only be decoded if the receiver is actually exposed to the message.

### **Communication Delivery:**

Communication takes place in the form of a message that is exchanged between a source and receiver. A message can be shaped using one or a combination of sensory stimuli that work together to convey meaning that meets the objectives of the sender. The sender uses a transmission medium to send the message. In marketing the medium may include the use of different media outlets (e.g., Internet, television, radio, print), promotion-only outlets (e.g., postal mail, billboards), and person-to-person contact (e.g., salespeople).

Additionally, communication can be improved if there is a two-way flow of information in the form of a feedback channel. This occurs if the message receiver is able to respond, often quickly, to the message source. In this way, the original message receiver now becomes the message source and the communication process begins again.

## **Obstacles to Effective Communication**

While a message source may be able to deliver a message through a transmission medium, there are many potential obstacles to the message successfully reaching the receiver the way the sender intends. The potential obstacles that may affect good communication include:

- **Poor Encoding** – This occurs when the message source fails to create the right sensory stimuli to meet the objectives of the message. For instance, in person-to-person communication, verbally phrasing words poorly so the intended communication is not what is actually said, is the result of poor encoding. Poor encoding is also seen in advertisements that are difficult for the intended audience to understand, such as words or symbols that lack meaning or, worse, have totally different meanings within a certain cultural groups. This often occurs when marketers use the same advertising message across many different countries. Differences due to translation or cultural understanding can result in the message receiver having a different frame of reference for how to interpret words, symbols, sounds, etc. This may lead the message receiver to decode the meaning of the message in a different way than was intended by the message sender.
- **Poor Decoding** – This refers to a message receiver's error in processing the message so that the meaning given to the received message is not what the source intended. This differs from poor encoding when it is clear, through comparative analysis with other receivers, that a particular receiver perceived a message differently from others and from what the message source intended. Clearly, as we noted above, if the receiver's frame of reference is different (e.g., meaning of words are different) then decoding problems can occur. More likely, when it comes to marketing promotions, decoding errors occur due to personal or psychological factors, such as not paying attention to a full television advertisement, driving too quickly past a billboard, or allowing one's mind to wander while talking to a salesperson.
- **Medium Failure** – Sometimes communication channels break down and end up sending out weak or faltering signals. Other times the wrong medium is used to communicate the message. For instance, trying to educate doctors about a new treatment for heart disease using television commercials that quickly flash highly detailed information is not going to be as effective as presenting this information in a print ad where doctors can take their time evaluating the information.
- **Communication Noise** – Noise in communication occurs when an outside force in some way affects delivery of the message. The most obvious example is when

loud sounds block the receiver's ability to hear a message. Nearly any distraction to the sender or the receiver can lead to communication noise. In advertising, many customers are overwhelmed (i.e., distracted) by the large number of advertisements they encountered each day. Such advertising clutter (i.e., noise) makes it difficult for advertisers to get their message through to desired customers.

## **Keys to Effective Communication**

For marketers understanding how communication works can improve the delivery of their message. From the information just discussed, marketers should focus on the following to improve communication with their targeted audience:

- **Carefully Encode** – Marketers should make sure the message they send is crafted in a way that will be interpreted by message receivers as intended. This means having a good understanding of how their audience interprets words, symbols, sounds and other stimuli used by marketers.
- **Allow Feedback** – Encouraging the message receiver to provide feedback can greatly improve communication and help determine if a marketer's message was decoded and interpreted properly. Feedback can be improved by providing easy-to-use options for responding, such as phone numbers, Internet chat, and email.
- **Reduce Noise** – In many promotional situations the marketer has little control over interference with their message. However, there are a few instances where the marketer can proactively lower the noise level. For instance, salespeople can be trained to reduce noise by employing techniques that limit customer distractions, such as scheduling meetings during non-busy times or by inviting potential customers to an environment that offers fewer distractions, such as a conference facility. Additionally, advertising can be developed in ways that separates the marketer's ad from others, including the use of whitespace in magazine ads.
- **Choose Right Audience** – Targeting the right message receiver will go a long way to improving a marketer's ability to promote their products. Messages are much more likely to be received and appropriately decoded by those who have an interest in the content of the message.

## **Characteristics of Different Promotions**

Before we discuss the different types of promotion options available to a marketer, it is useful to gain an understanding of the features that set different options apart. For our discussion we isolate seven characteristics on which each promotional option can be judged. While these characteristics are widely understood as being important in evaluating the effectiveness of each type of promotion, they are by no means the only



criteria used for evaluation. In fact, as new promotional methods emerge the criteria for evaluating promotional methods will likely change.

For our discussion we will look at the following characteristics of a promotional method:

1. Intended Audience: Mass vs. Targeted
2. Payment Model: Paid vs. Non-Paid
3. Interaction Type: Personal vs. Non-Personal
4. Message Flow: One-Way vs. Two-Way
5. Demand Creation: Quick vs. Lagging
6. Message Control
7. Message Credibility
8. Effective Cost of Promotion

### **1. Intended Audience: Mass Promotion vs. Targeted Promotion**

Promotions can be categorized based on the intended coverage of a single promotional message. For instance, a single television advertisement for a major sporting event, such as the Super Bowl, World Cup or Olympics, could be seen by millions of viewers at the same time. Such mass promotion, intended to reach as many people as possible, has been a mainstay of marketers' promotional efforts for a long time.

Unfortunately, while mass promotions are delivered to a large number of people, the actual number that fall within the marketer's target market may be small. Because of this, many who use mass promotion techniques find it to be an inefficient way to reach desired customers. Instead, today's marketers are turning to newer techniques designed to focus promotional delivery to only those with a high probability of being in the marketer's target market. For example, Google, Yahoo and other Internet search engines employ methods for delivering highly targeted ads to customers as they enter search terms. The assumption made by advertisers is that customers who enter search terms are interested in the information they have entered, especially if they are searching by entering detailed search strings (e.g., phrases rather than a single word). Following this logic, advertisers are much more likely to have their ads displayed to customers within their target market and, thus, receive a higher return on their promotional investment. The movement to highly targeted promotions has gained tremendous traction in recent years and, as new and improved targeting methods are introduced, its importance will continue to grow.

## **2. Payment Model: Paid Promotion vs. Non-Paid Promotion**

Most efforts to promote products require marketers to make direct payment to the medium that delivers the message. For instance, a company must pay a magazine publisher to advertise in the magazine. However, there are several forms of promotion that do not involve direct payment in order to distribute a promotional message. While not necessarily “free” since there may be indirect costs involved, the ability to have a product promoted without making direct payment to the medium can be a viable alternative to expensive promotion options.

## **3. Interaction Type: Personal vs. Non-Personal**

Promotions involving real people communicating with other people is considered personal promotion. While salespeople are a common and well understood type of personal promotion, another type of promotion, called controlled word-of-mouth promotion (a.k.a., buzz marketing), is emerging as a form of personal promotion. Unlike salespeople who attempt to obtain an order from customers, controlled word-of-mouth promotion uses real people to help spread information about a product but is not designed to directly elicit orders.

One key advantage personal promotions have is the ability for the message sender to adjust the message as they gain feedback from message receivers (i.e., two-way communication). So if a customer does not understand something in the initial message (e.g., doesn't fully understand how the product works) the person delivering the message can adjust the promotion to address questions or concerns. Many non-personal forms of promotion, such as a radio advertisement, are inflexible, at least in the short-term, and cannot be easily adjusted to address questions that arise by the audience experiencing the ad.

## **4. Message Flow: One-Way vs. Two-Way Communication**

Promotions can be classified based on whether the message source enables the message receiver to respond with immediate feedback. Such feedback can then be followed with further information exchange between both parties. Most efforts at mass promotion, such as television advertising, offer only a one-way information flow that does not allow for easy response by the message receiver. However, many targeted promotions, such as

using a sales force to promote products, allow message recipients to respond immediately to information from the message sender.

## **5. Demand Creation: Quick vs. Lagging**

As we discussed earlier, the success of promotional activity may not always be measured by comparing spending to an increase in product sales since marketers may use promotion to achieve other objectives. However, when a marketer is looking to increase demand, certain promotional activities offer advantages in turning exposure to promotion into a quick increase in demand. In general, these activities are most effective when customers are offered an incentive to make the purchase either in a monetary way (e.g., save money) or in psychological way (e.g., improves customer's perceived group role or status level).

## **6. Message Control**

Most promotions are controlled by the marketer who encodes the message (or hires specialists such as advertising agencies to create the promotion) and then pays to have the message delivered. However, no marketer can totally control how the news media, customers or others talk about a company or its products. Reporters for magazines, newspaper and websites, as well as posters to Internet forums may discuss a company's products in ways that can benefit or hinder a company's marketing efforts. This is particularly true with non-paid promotions where a marketer is looking to obtain a free "mention" by an influential message medium (e.g., newspaper article).

## **7. Message Credibility**

The perceived control of the message can influence the target market's perception of message credibility. For example, many customers viewing a comparative advertisement in which a product is shown to be superior to a competitor's product may be skeptical about the claims since the company with the superior product is paying for the advertisement. Yet, if the same comparison is mentioned in a newspaper article it may be more favorably viewed since readers may perceive the author of the story has possessing an unbiased point-of-view.

## **8. Cost Effectiveness**

Promotional cost is measured in several different ways though the most useful are measured in terms of cost-per-impression (CPI), cost-per-targeted impression (CPTI), and cost-per-action (CPA). The CPI metric relates to how many people are exposed to a promotion in relation to the cost of the promotion. A national or international television advertisement, while expensive to create and broadcast, actually produces a very low CPI given how many people are exposed to the ad. Yet, a low CPI can be misleading if a large percentage of the promotion's audience is not within the marketer's target market, in which case the CPTI may be a better metric for gauging promotion effectiveness. The CPTI approach looks at what percentage of an audience is within the marketer's customer group and, thus, legitimate targets for the promotion. Clearly, CPTI is higher than CPI, but it offers a better indication of how much promotion is reaching targeted customers.

An even more effective way to evaluate promotional costs is through the cost-per-action metric. With CPA the marketer evaluates how many people actually respond to a promotion. Response may be measured by examining purchase activity, number of phone inquiries, website traffic, clicks on advertisements, and other means within a short time after the promotional message was delivered. Unfortunately, measuring CPA is not always easy and tying it directly to a specific promotion can also be difficult. For example, a customer who purchases a snack product may have first learned about the snack product several weeks before from a television advertisement. The fact that it took the customer several weeks to make the purchase does not mean the advertisement was not effective in generating sales, though if the CPA was measured within a day or two after the ad was broadcast this person's action would not have been counted..

With the growing trend to more targeted promotions, especially those delivered through the Internet, combined with the development of sophisticated customer tracking techniques, the ability to compare promotion to actual customer activity is bound to one day be the dominant method for measuring promotional effectiveness.

## **Types of Promotion – Promotion Mix**

Marketers have at their disposal four major methods of promotion. Taken together these comprise the promotion mix. In this section a basic definition of each method is offered while in the next section a comparison of each method based on the characteristics of promotion is presented.

- Advertising – Involves non-personal, mostly paid promotions often using mass media outlets to deliver the marketer’s message. While historically advertising has involved one-way communication with little feedback opportunity for the customer experiencing the advertisement, the advent of computer technology and, in particular, the Internet has increased the options that allow customers to provide quick feedback.
- Sales Promotion – Involves the use of special short-term techniques, often in the form of incentives, to encourage customers to respond or undertake some activity. For instance, the use of retail coupons with expiration dates requires customers to act while the incentive is still valid.
- Public Relations – Also referred to as publicity, this type of promotion uses third-party sources, and particularly the news media, to offer a favorable mention of the marketer’s company or product without direct payment to the publisher of the information.
- Personal Selling – As the name implies, this form of promotion involves personal contact between company representatives and those who have a role in purchase decisions (e.g., make the decision, such as consumers, or have an influence on a decision, such as members of a company buying center). Often this occurs face-to-face or via telephone, though newer technologies allow this to occur online via video conferencing or text chat.

## Promotion Summary Table

The table below compares each of the promotion mix options on the eight key promotional characteristics. The summary should be viewed only as a general guide since promotion techniques are continually evolving and how each technique is compared on a characteristics is subject to change.

Characteristics	Advertising	Sales Promotion	Public Relations	Personal Selling
Directed Coverage	mass & targeted	mass & targeted	mass	targeted
Message Flow	one & two-way	one & two-way	one-way	two-way
Payment Model	paid limited non-paid	paid	non-paid	paid
Interaction Type	non-personal	personal & non-personal	non-personal	personal
Demand Stimulation	lagging	quick	lagging	quick
Message Control	good	good	poor	very good
Message Credibility	low-medium	low-medium	high	medium-high
Cost of Promotion	CPI - Low CPTI - Varies CPA - Varies	CPI - Medium CPTI - Varies CPA - Varies	CPI - None CPTI - None CPA - None	CPI - High CPTI - High CPA - High

## Factors Affecting Promotions Choice

With four promotional methods to choose from how does the marketer determine which ones to use? The selection can be complicated by company and marketing decision issues.

### **Company Issues:**

- Promotional Objective – As we discussed, there are several different objectives a marketer may pursue with their promotional strategy. Each type of promotion offers different advantages in terms of helping the marketer reach their objectives. For instance, if the objective of a software manufacturer is to get customers to try a product, the use of sales promotion, such as offering the software in a free downloadable form, may yield better results than promoting through Internet advertising.
- Availability of Resources – The amount of money and other resources that can be directed to promotion affects the marketer's choice of promotional methods. Marketers with large promotional budgets may be able to spread spending among all promotion options while marketers with limited funds must be more selective on the promotion techniques they use.
- Company Philosophy – Some companies follow a philosophy that dictates where most promotional spending occurs. For instance, some companies follow the approach that all promotion should be done through salespeople while other companies prefer to focus attention on product development and hope word-of-mouth communication by satisfied customers helps to create interest in their product.

### **Marketing Decision Issues:**

- Target Market – As one might expect, customer characteristics dictate how promotion is determined. Characteristics such as size, location and type of target markets affect how the marketer communicates with customers. For instance, for a small marketer serving business markets with customers widely dispersed, it may be very expensive to utilize a sales force versus using advertising.
- Product – Different products require different promotional approaches. For the consumer market, products falling into the convenience and shopping goods categories are likely to use mass market promotional approaches while higher-end specialty goods are likely to use personalized selling. Thus, products that are complex and take customers extended time to make a purchase decision may require personal selling rather than advertising. This is often the case with products targeted to the business market. Additionally, as we briefly discussed in Part 7: Managing Products and will later see when we discuss marketing strategy, products pass through different stages in the Product Life Cycle. As a product moves through these stages the product itself may evolve and also promotional objectives will change. This leads to different promotional mix decisions from one stage to the next.

- Distribution –Marketing organizations selling through channel partners can reach the final customer either directly using a pull promotion strategy or indirectly using a push promotional strategy. The pull strategy is so named since it creates demand for a product by promoting directly to the final customer in the hopes that their interest in the product will help “pull” more product through the distribution channel. This approach can be used when channel partners are hesitant about stocking a product unless they are assured of sufficient customer interest. The push strategy uses promotion to encourage channel partners to stock and promote the product to their customers. The idea is that by offering incentives to channel members the marketer is encouraging their partners (e.g., wholesalers, retailers) to “push” the product down the channel and into customer’s hands. Most large consumer products companies will use both approaches while smaller firm may find one approach works better.
- Price – The higher the price of a product the more likely a marketer will need to engage in personalized promotion compared to lower priced products that can be marketed using mass promotion.