

THE SCIENCE OF
*sales promotions
&
giveaways*

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Sales promotions and giveaways have become part of the American landscape. New products are frequently launched with a giveaway, either of a product sample or a premium (gift). Existing products often spur sales with coupons, delivering them to consumers in print, online or via mobile devices. Coupons and premiums are used to create awareness, induce trial and trigger sales of low cost, low involvement purchases.

Giveaways and other offers are also used in marketing high involvement, higher cost purchases from cars to college educations. These can help generate inquiries and get prospects involved with the brand, beginning a process that often leads to sales or enrollment.

Despite the popularity of sales promotions and giveaways, marketers and businesspeople may wonder what the evidence shows. How well do they work in stimulating interest and sales? Of course, most businesses keep their campaign results confidential to maintain an edge over competitors. But controlled studies by marketers and social psychologists, whose “approach has had a profound impact on marketing thought,”^a can tell us a great deal about what works and what doesn’t work when it comes to using promotions and giveaways in marketing campaigns.

SALES PROMOTIONS

Coupons and premiums have become a regular part of modern retailing. Marketing studies have revealed a number of widely accepted facts. According to Marketing Science and other respected publications, these include:

- Price reductions substantially increase sales.^b Study after study saw sales spike when price reductions were offered. This fundamental finding is the basis for the widespread use of sales promotions.
- Advertised promotions often result in increased store traffic.^c Despite its importance, relatively few studies have examined this phenomenon. However, the weight of evidence shows that, for several categories of goods, advertising a sales incentive or a money-off coupon causes many consumers to switch stores for a time.
- Sales increases from price promotions are usually temporary.^d Studies have found that fewer than 5% of the top-selling brands analyzed in numerous product categories have experienced a permanent impact from price promotions. Although smaller or highly valued brands may gain lasting benefits from a single price promotion, most consumer goods need regular marketing campaigns to sustain or improve market share.
- Demographics and product type influence response to price promotions.^e Research demonstrates that more affluent, better educated and older shoppers are more likely to participate in consumer promotions. Further, coupons can cause consumers to try new brands with items like shampoo, coffee, batteries, toothpaste and personal appliances. However, for goods like automobiles, alcoholic beverages, motor oil, and pet food consumers reported continued brand loyalty despite discounts on competing products.
- Price promotions can reduce consumer’s reference price for the items promoted.^f A number of studies have shown that regularly offering something at a reduced price changes the amount that consumers consider reasonable to pay for that particular good or service. This can result in actually eroding brand equity, a brand’s power to generate sales and maintain profit margins over competitors.
- Giving away a product as a premium can reduce its perceived value.^g Research found that offering an item as a giveaway to induce purchase of another product eroded its reference price. The amount consumers expected to pay for it declined by 35%. The researcher recommends that marketing materials promoting the offer shore up its value by reminding consumers of the regular price of the item presented for free.

Hence, while price promotions can increase sales, advertisers should avoid overusing them. This could result in cheapening the brand, eroding the very sales and profitability companies are striving to strengthen. Wise marketers will skillfully mix brand-building initiatives with programs to stimulate consumer engagement. Once prospects come to like and highly regard a brand, offering a price promotion can trigger a larger sales spike that can bring an extended increase in market share. Customers who buy a brand because they like and prefer it will often continue purchasing it after a price promotion has ended.

GENERATING LEADS WITH OFFERS

Companies with high involvement products or services requiring a longer buying cycle can effectively generate leads with offers, giveaways and sweepstakes. These are effective for several reasons:

- Small consumer commitment – Prospects in the early stages of purchasing investigations may hesitate to inquire about products and services, feeling they're not yet ready to buy. But responding to a free offer or entering a sweepstakes is a much smaller commitment for consumers. They may readily give their names and contact information, thus opting in for further communication and identifying themselves as sales prospects.
- Well-structured offers can increase product attraction – A large number of studies indicate and many campaigns demonstrate that under the right circumstances consumers who request a brand's offer or enter its sweepstakes will feel greater interest in purchasing that brand. The promotion must be structured correctly to generate this psychological effect.

Choosing the right item to be given away or offered in a sweepstakes is crucial. If this key fact is ignored, "the sweepstakes often becomes the dominant focus rather than the brand, and little is accomplished other than giving away substantial amounts of money and/or prizes."^h But if the offer and the required consumer actions are structured to utilize the findings of confirmed psychological research, consumers' tiny commitments can generate momentum leading to sales.

According to renowned communications psychology expert Robert Cialdini, PhD, "Once an individual takes a stand, goes on record, or establishes a position, there is a tendency to respond in ways that are stubbornly consistent with it."ⁱ If the offer is correctly designed, that consistent response can be a product trial, test drive or a college application. In fact, with well-designed offers, according to Dr. Cialdini, "There is increasing evidence that even the most preliminary of choices in favor of an alternative leads to attraction toward and the ultimate selection of that alternative."ⁱ

CONCLUSION

The research shows that organizations using price promotions, giveaways and sweepstakes wield a two-edged sword. Correctly designed, they can increase interest, consumer engagement and sales. At the same time, unrestrained use of these tools can cheapen brands and reduce perceived product value. Clearly, knowledgeable marketers with real creativity will get the best results.

Well-designed promotions take into account the product being marketed, the target audience's demographic/psychographic traits and the psychological requirements for gaining the desired effect. When companies successfully build their brands, sweepstakes and free offers can foster consumer engagement. The commitments prospects make to qualify can lead to greater involvement in the buying process or directly to sales. These are compelling reasons for good marketing strategists to give price promotions, giveaways and sweepstakes their proper place in an integrated, multi-channel marketing program.

- a Peter, J. and Olson, J. 2010. Consumer Behavior and Marketing Strategy
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- c ibid
- d Palazon, M and Delgado-Ballester, E. 2009. Effectiveness of Price Discounts and Premium Promotions Psychology & Marketing
- e Peter, J. and Olson, J. 2010. Consumer Behavior and Marketing Strategy
- f ibid
- g Goldstein, N., Martin, S. and Cialdini, R. 2008. Yes! 50 Scientifically Proven Ways to be Persuasive
- h George Belch and Michael Belch. 2009. Advertising and Promotion
- i M. Pfau and J. Dillard. 2010. The Persuasion Handbook
- j Robert Cialdini, PhD. 2007. Personal correspondence