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On consumer choice patterns and the net impact of feature promotions[☆,☆☆]

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ABSTRACT

Even in the digital age, feature promotions continue to receive significant investments from CPG manufacturers and retailers. Whether this is money well spent depends on consumers' (heterogeneous) tendency to switch brands or stores in response to features. This study proposes a 'Mixed-pattern Random-effects Nested Logit' (MRNL) model to analyse the effect of feature promotions in a multi-retailer multi-brand setting. Across 16 different CPG categories, our results reveal that in all cases a mixture of choice patterns prevails: about half of households exhibit a brand focus (i.e. rather substitute between stores offering that brand), the remaining half show evidence of a store focus (i.e. rather substitute brand offers within a visited store). We find that the size of the promotion lift and its underlying sources differ substantially between patterns. Brand-focused consumers are generally more responsive to feature ads than store-focused consumers – especially in low-concentration categories; while they imply much stronger cannibalization for the manufacturer, and much weaker cannibalization for the retailer. It follows that retailers reap much higher benefits in the brand-focused segment, while manufacturers may not prefer that segment in terms of net gains and must be wary of subsidizing those consumers. We identify household and category characteristics that underlie the choice patterns and offer opportunities for targeting.

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1. Introduction

Feature promotions in consumer packaged goods (CPG) markets are ever-more pervasive. Even in the digital age, store flyers continue to be a key marketing instrument in many countries (Ziliani & Ieva, 2015), accounting for over 50% of retailers' marketing budget (Gázquez-Abad & Martínez-López, 2016), and involving huge investments from national brand manufacturers (Bia, 2010; Narasimhan, 2009). Business reports show that 83% of all households read the 'physical' store flyers while 26% access the digital version through an app or comparison website, and that such readership influences where and what they buy (Foldermonitor and GfK, 2016). Moreover, the share of national brands (NBs) sold on feature promotion at traditional supermarket chains has been steadily increasing (GfK, 2012; Guyt & Gijsbrechts, 2014).

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Yet, the net sales gains from such promotions have been called into question (Ailawadi, Beauchamp, Donthu, Gauri, & Shankar, 2009; Grewal et al., 2011; Srinivasan, Pauwels, Hanssens, & Dekimpe, 2004). For the NB manufacturer, the promotion lift may come at the expense of the NB's sales in other stores where it is not on deal. Likewise, for the retailer, the lift for the promoted brand may come from within-store brand switching. In such cases, the feature investments fail to enhance sales volume and, to the extent that deal prices and margins are lower than usual, even reduce the revenues and profitability of the promoted brand (or, for the retailer, category). These issues become more pressing as consumers' willingness to pay for NBs decreases (Steenkamp, van Heerde, & Geyskens, 2010), while their propensity to patronize multiple stores goes up (Baltas, Argouslidis, & Skarmeas, 2010). So, whether feature advertising investments are money well spent, depends on how consumers switch between the available brands and stores for their CPG purchases.

Extant studies suggest that households are heterogeneous in their CPG purchasing patterns, and in their promotional response within these patterns (Bucklin & Lattin, 1992; Gauri, Sudhir, & Talukdar, 2008; Gupta, 1988; Inman, Shankar, & Ferraro, 2004; Mehta & Ma, 2012). However, these studies typically focused either on households' brand choice (e.g. Mehta & Ma, 2012) or store choice (e.g. Gauri et al., 2008) separately. Papers that document both brand and store switching do so at the aggregate (market or store) level (Nijs, Dekimpe, Steenkamp, & Hanssens, 2001; Srinivasan et al., 2004; van Heerde, Leeflang, & Wittink, 2004). Little is known about how individual households trade off their category purchases across both brands and stores, and how these - possibly heterogeneous - purchase patterns align with the effect of feature promotions. Especially at times where budgets are strained and managers are increasingly held accountable, understanding how shoppers switch among brands and stores, and how this affects the net sales gains of feature ads, is critical for the effective allocation and targeting of manufacturer and retailer store-flyer budgets.

The primary objective of this study is to shed light on the patterns of brand-store choice (i.e. which brand is bought at which retailer), conditional upon a category purchase in CPG categories; and to explore how these patterns are related to the impact of feature promotions on the manufacturer and retailer. Our research questions are fourfold. First, given a category purchase, how do consumers trade off different brand-store choices, and are consumers heterogeneous in their switching patterns? Second, does the promotion lift (i.e. the share increase) for a national brand featured at a supermarket chain differ depending on the choice pattern? Third, what is the impact on the manufacturer and retailer's net gains from the feature promotion, after accounting for within-brand and within-store cannibalization, respectively? Finally, if feature promotions lead to different outcomes depending on the choice pattern, can we profile which consumers in which categories will yield ‘bigger bang for the feature-buck’?

To answer these questions, we propose and estimate a ‘Mixed-pattern Random-effects Nested Logit’ (MRNL) model that flexibly captures shoppers' brand and store choice for a given category purchase. We estimate this model on household scanner panel data across sixteen categories, spanning a period of 4 years. Our MRNL model allows the choice of a brand-store combination to materialize through two different substitution patterns, (i) one in which the households' focus is on retailers, and brands disproportionately compete with each other within a retailer (‘store focus’), and (ii) another in which the households' focus is on brands, and retailers disproportionally compete for a brand (‘brand focus’). We expect a mixture of choice patterns to prevail in each category, but possibly with different importance weights. Moreover, our model allows the impact of feature ads to differ between the two choice patterns. We use the outcomes of this model to empirically document the prevailing mixture of choice patterns in each category and, for each category-choice pattern, to quantify the impact of store flyer appearances for the promoted brand-store alternative and for the brand and store as a whole. We also explore the drivers of the choice patterns, and reflect on managerial implications.

We contribute to extant literature in several ways. To the best of our knowledge, we are the first to: (i) simultaneously consider (inter- and intra-) brand- and store-competition, taking an individual shopper perspective and allowing for a flexible interplay between the two choice dimensions, (ii) empirically document the relative importance of these choice patterns across multiple shoppers and product categories; and (iii) explore the effectiveness of store-flyer ads in these choice patterns. As such, our paper fits in with a ‘shopper marketing’ perspective (Shankar, Jeffrey Inman, Mantrala, Kelley, & Rizley, 2011), in which brands' marketing activities are tailored to specific retail accounts for maximum shopper response (Kushwaha & Shankar, 2013). Effective shopper marketing hinges on fine-grained insights into shoppers' buying tradeoffs and ‘paths-to-purchase’, and we answer a call to enhance such knowledge (Shankar et al., 2011). Moreover, by shedding light on the choice shifts among brands and stores, we contribute to the promotion decomposition literature-indicating how the portion of the promotion lift that benefits the manufacturer or retailer is shaped by the consumers' choice pattern, thereby providing a more refined perspective on the decomposition. Uncovering how these choice patterns influence the ‘net’ share increase from price cuts and store-flyer appearances for both parties may provide guidance for feature-ad investments and targeting.

Below, we briefly review relevant background literature. We then outline the methodology, followed by a description of the data and setting. Having presented the estimation results, we identify the resulting patterns of brand-store competition and ensuing feature effects. We end with a discussion of implications, limitations, and future research areas.

2. Background

2.1. Impact of feature promotions on brand and store choice

An extensive body of literature has documented the impact of feature ads in a wide range of CPG categories (e.g. Ailawadi, Harlam, César, & Trounce, 2006; Ataman, Mela, & van Heerde, 2008; Gázquez-Abad & Martínez-López, 2016; Gupta, 1988; Haans & Gijsbrechts, 2011; Narasimhan, Neslin, & Sen, 1996; van Heerde et al., 2004; Zhang, 2006). An established finding from

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