Journal of Retailing and Consumer Services 25 (2015) 1–11

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

Price promotion landscape in the US and UK: Depicting retail practice to inform future research agenda

Svetlana Bogomolova [a,*], Steven Dunn [a], Giang Trinh [a], Jennifer Taylor [a], Richard J. Volpe [b]

[a] Ehrenberg-Bass Institute for Marketing Science, University of South Australia, GPO Box 2471, Adelaide 5001, Australia
[b] U.S. Department of Agriculture, Economic Research Service FED/FM, 355 E. Street SW, Washington, DC 20024, USA

ARTICLE INFO

Article history:
Received 1 May 2014
Received in revised form
29 August 2014
Accepted 29 August 2014
Available online 20 March 2015

Keywords:
Price promotions
Deal types
Grocery retail practices

ABSTRACT

Price promotions dominate the modern grocery retail environment. This paper documents the prevalence and nature of these price promotions (i.e., deal types and discount depths) in the United States and United Kingdom. The analysis comprises of 23 categories across five retail chains. One of the key findings is that multiple-unit promotions – deal types that have been under-researched – account for approximately half of all price promotion activity. The analysis also identifies an increase in price promotion prevalence since the Global Financial Crisis, predominantly driven by national brand promotions. This research carries important implications for the alignment of academic research with common industry practices.

1. Introduction

Signage such as '*sale*', '*special*', and '*save*' dominates the shopping environments of contemporary supermarkets. Price promotions have come to be a central element of the competitive grocery retail sector. We refer to price promotions here as temporary price reductions signalled to consumers at the point-of-purchase. The widespread use of price promotions is evident in the volume of fast moving consumer goods (FMCGs) being sold on deal types, which has been reported at 54% of food items in the United Kingdom and 39% of food items in the United States (Street, 2012).

The appeal of price promotions to manufacturers and retailers is that they reliably produce observable and immediate impacts on sales volume (Blattberg and Neslin, 1989). This has led to a situation where marketing spend has moved away from advertising to promotions (Ailawadi, 2001; Jedidi et al., 1999). For FMCG brands, price promotions usually account for over half of the marketing budget (Bolton et al., 2010).

While sales increases are consistently observed in response to price promotions, the effects of these activities are not all equal. A large body of literature (e.g., Bell et al., 1999; Bemmaor and Mouchoux, 1991; Bijmolt et al., 2005; Bolton, 1989; Danaher and Brodie, 2000; Mulhern et al., 1998; Narasimhan et al., 1996; Zenor et al., 1998) has identified various characteristics of brands (e.g., brand share, advertising spend), product categories (e.g., price, storability), retailers (e.g., location, pricing strategy), consumers (e.g., prior usage, demographics) and promotions (e.g., deal type, discount depth) that can moderate the effects of sales. The majority of these characteristics are constant and cannot be easily altered. However, price promotion characteristics are the direct results of retailer and manufacturer decision-making (depending on who initiates the promotion activity).

Setting price promotions requires two key decisions: (1) the type of deal to use (i.e., how to frame or communicate the deal to consumers), and (2) the depth of the discount. The outcomes of these decisions influence the overall effectiveness of the promotion activity, yet common industry practices and trends have not been systematically documented. Understanding the prevalence of different deal types and discount depths is essential for the alignment of academic research with industry practices. A greater alignment is warranted to improve the external validity of research and provide stronger managerial implications.

Much of the research investigating the effects of deal types, have been experimental studies, in which the types of deals examined are based upon researcher judgement (e.g., Chen et al., 1998; Gendall et al., 2006; Sinha and Smith, 2000). To our knowledge, only two studies have actually assessed deal types based on industry transaction data (Felgate et al., 2012; Nies et al., 2011). With regards to discount depth, it is regularly included as a variable in modelling of price promotion effects, however only few studies have actually reported the descriptives of the depths analysed (e.g., Dawes, 2012). To date, no research has examined how, and whether, decision-making of different deal types and discount depths vary across brand types, product categories, retailers and countries.

* Corresponding author. Tel.: +61 8 8302 9170; fax: +61 8 8302 0442.
E-mail addresses: Svetlana.Bogomolova@MarketingScience.info (S. Bogomolova), rvolpe@ers.usda.gov (R.J. Volpe).

http://dx.doi.org/10.1016/j.jretconser.2014.08.017
0969-6989/

The objective of this article is twofold: (1) to develop a taxonomy of deal types (i.e., framing techniques) and depths of discounts used in the marketplace and describe their prevalence; and (2) to document how this prevalence and depth varies across product categories, retail chains, countries, time periods and seasons. The focal period includes time both before and after the Global Financial Crisis, which is a period when shopper behaviour supposedly changed towards more frugal choices (Street, 2012).

Our article makes a broader contribution to the body of recent editorials aimed at documenting current industry practices and formulating future research directions (e.g., Ailawadi et al., 2009; Bolton et al., 2010; Grewal et al., 2011; Levy et al., 2004; Shankar et al., 2011). Our approach follows descriptive empirical studies that have used extensive empirical observations to inform their summaries of the recent trends in retail pricing (e.g., Bolton et al., 2010; Bolton and Shankar, 2003, 2004). The dated nature of the data reported in these studies, and the Global Financial Crisis period that occurred since, justifies the need for an updated and extended descriptive study.

The strength of our study is in:

1. Focusing on *deal types* and *depth* of price promotions. The topic under-informed from the perspective of description of current industry practice in either industry and/or academic literature;
2. Being based on *extensive sources of empirical data*: two and a half years of US ‘strip’ data, covering two major supermarket retailers and 16 categories; and eight years of the UK consumer panel data, covering three major supermarket retailers across 20 product categories and 7995 brands.
3. Proposing pathways to *align the academic knowledge with the leading industry practice* with the end goal to help the industry develop better-informed strategies.

Our data sets cover two of the largest and most innovative retail markets—the United States (US) and the United Kingdom (UK). The food retail sector in the US is the largest in the world, with total sales reaching $521 billion in 2010 for supermarkets and other retailers (U.S. Census Bureau, 2012). The UK's grocery retail sector is also one of the largest industries in its kind, with the highest level of promotional activities (Gedenk et al., 2010). Worth $147.3 billion (Euromonitor International, 2012), it is arguably one of the main leaders in retail and pricing innovations (De Kervenoael et al., 2006; Kantar Retail, 2012). Therefore, understanding the pattern of retail promotion activities in the US and the UK can enlighten researchers about the likely development in the retail sectors of the other countries that follow suit. Comparing the US and the UK can also aid in understanding the roles market structure and specific retailers have in shaping promotional activity and prices.

The rest of the article is arranged as follows. Section 2 presents the background literature and formulates the research questions. Section 3 presents the data sources we used and the method of analysis. Then, we discuss the results for each of the data sets addressing the key research questions. The paper lastly concludes with a discussion of the key patterns observed in the data and their practical and academic implications, followed by limitations and future research suggestions.

2. Background and research questions

2.1. Deal types

Price promotions can be communicated to consumers in a variety of different deal types. For example, as *Price Off* (e.g., ‘20% off’), *Multiple Unit Promotion* (e.g., ‘2 for price of 1’, ‘3 for $3’), or *Extra Free* (e.g., ‘20% extra free’). A great number of experimental studies (for meta-analysis, see Krishna et al., 2002) have demonstrated that promotion framing influences consumer perceptions and responses, even when deals offer objectively equivalent value. A major limitation of these studies is that the experimental designs (e.g., deal types, depths, competitive environments) are left to the researcher's judgements, rather than being guided by the industry practices, which severely limits the generalisability of the findings. This is an issue that this paper aims to remedy, through documenting the prevalent industry deal type practices.

In addition, the majority of research that has analysed price promotion effects in sales data has overlooked any deal type effects (exceptions include Felgate et al., 2012; Nies et al., 2011). If deal types do influence consumer responses *and* are prevalent throughout data sources, this is potentially a significant source of variance in sales that has not yet been taken into account. Such variance may be having the effect of making other influences difficult to discern, and/or leading to the effects being erroneously attributed to other variables that correlate with a specific deal type.

The few descriptive studies aimed at documenting the current practices in setting price promotions (e.g., Bolton and Shankar, 2003; Fader and Lodish, 1990) have not reported the deal type. The only exception to this was Hardie (1996) who reported on the UK washing machine category, finding that multiple unit promotions accounted for 70% of national brand price promotions and 80% of private label brands' price promotions. Industry reports, such as those provided by IRI and Nielsen, typically do not report on the prevalence of different deal types.

The lack of focus on deal types could be explained by the difficulty of obtaining such information, which does not typically appear in the transaction logs, but have to be matched from the retailer and manufacturer activity plans or from consumer reporting. This complexity and rarity makes our data unique and very valuable. Shankar and Bolton (2004) called for investigating usage of different deal types by the industry as a fruitful avenue of future research. This is the focus of our first research question:

RQ1: What is the prevalence of different deal types in the marketplace?

2.2. Depth of deals

Discount depth is an essential component of deal attractiveness to consumers, as well as to the overall profitability of the activity for retailers and manufacturers. Understandably, there is a positive relationship between discount depth and sales, whereby as the depth of a discount increases, the sales of the product also increases. However, this is not a linear relationship, rather promotional price elasticity (i.e., incremental sales increases for each 1% decrease in price) has been found to vary at different discount depths. There have been conflicting research findings as to whether promotional elasticities are greater at smaller or larger discount depths (Bolton, 1989; Danaher and Brodie, 2000; Fok et al., 2006). However, there is evidence that threshold and saturation points may play a role in the influence of depth of sales effects (Pauwels et al., 2007; van Heerde et al., 2001). Further to this, the depths of discounts to which consumers are exposed can also bias their memory and recall of brand prices (Alba et al., 1999).

There has been minimal reporting of the standard discount depths practices observed in-market. In the United Kingdom, industry reports have indicated average discounts to be 30% (Symphony IRI Group, 2011), and in the United States this figure has been reported as 23% (Volpe and Li, 2012).