Journal of Retailing 91 (4, 2015) 644–659

# Consumer Brand Marketing through Full- and Self-Service Channels in an Emerging Economy

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Available online 30 April 2015

**Abstract**

A unique characteristic of emerging economies is the wide variety of dominant channel formats. We evaluate the influence of a brand's marketing mix on channel partners and consumer sales in both full and self-service channels in one emerging economy (Brazil). We use monthly stock-keeping-unit (SKU) level sales, and marketing mix data from the beverage category in southeastern Brazil spanning more than four years. In this study, we specify a panel vector autoregression framework with error decomposition to account for endogeneity between sales and marketing mix, cross-sectional heterogeneity among SKUs, seasonality, and the different aggregation of marketing mix elements across the channels. The results show that structural differences in these channels cause differences in the responses to some of the manufacturers' marketing mix elements. Package size variety, price and merchandising have a greater long-term effect on sales in self-service than in full-service channels. Brands' channel relationship programs support price increases in self-service channels without a corresponding decrease in sales. Distribution gains are important in both channels. In the full-service channel, package size variety has the highest long-term effect among all of the modeled marketing mix elements. Our study highlights that marketing mix strategies popular in the self-service dominant channels of the developed economies are not as effective in the full-service formats that remain important in emerging economies.


*Keywords:* Consumer package goods; Multichannel marketing; Emerging markets; Channel formats; Marketing mix; Channel relationships

## Introduction

Emerging economy markets are important to companies in the global economy (Sheth 2011) and will account for most of this century's economic growth (Burgess and Steenkamp 2013). For example, these markets have contributed more than half of the Coca-Cola Company's global revenue since 2006. Eighty-one percent of the company's unit sales were outside the U.S. in 2012, and the three largest contributors were Mexico, China and Brazil, all classified as emerging markets. Despite the interest and potential, many companies are still striving to identify effective marketing strategies for emerging economy markets. Competencies and strategies that have worked well in developed markets cannot necessarily be replicated in developing markets (Sheth 2011; White and Absher 2007).

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http://dx.doi.org/10.1016/j.jretai.2015.04.003
0022-4359/

Even Coca-Cola, a company with both experience and success in this realm, lists marketing in emerging markets as a major risk factor in achieving growth targets.[4]

Of particular difficulty for consumer packaged goods (CPG) companies in emerging markets[5] is marketing to and through a diverse set of distribution channels (Kumar, Sunder, and Sharma 2014). Traditional full-service (TF)[6] retailers (such as owner-managed grocers and mom and pop stores) compete alongside sophisticated chain self-service (CS) stores such as Wal-Mart and Carrefour. Indeed, in emerging markets, smaller TF-type stores are not disappearing but are growing and, in many cases, providing manufacturers with higher margins (Diaz, Lacayo, and Salcedo 2007).

Several differences between TF and CS stores are relevant for a brand to design its marketing mix strategies. In full-service formats, clerks can exercise more influence on sales by recommending specific products and brands, whereas in self-service, as the term implies, consumers generally browse assortments unassisted. Merchandising aids that support product visibility and call attention to temporary price reductions may therefore be more influential in self-service stores. There are also differences in the effects of marketing mix elements, such as promotion and sales efforts directed at the trade. More professional management is generally found in the self-service channel, and these retailers may respond more to data on sales velocities and gross margins in selecting assortments than less professionally managed retail stores. Such differences in consumer and retail responses to brand marketing activities are important for tailoring marketing mix efforts to each channel.

Marketing mix modeling research has, however, largely been conducted within retail environments that are similar to that found in developed markets (e.g., self-service, sophisticated retail managers and "pull" distribution systems). The heterogeneity in consumer and retail management response in emerging markets has rarely been reflected in published research thus far. This is an important gap, especially since Kumar, Sunder, and Sharma (2014) show that firms can improve the return on marketing efforts in emerging markets by tailoring products and programs to different distribution channels. We build on this important contribution and study how the effects of all four elements of marketing mix (product, price, place and promotion, such as advertising and merchandising) change across channel formats in one emerging economy. Since brand marketing efforts are directed toward channel partners as well as the end consumer, we model the retail and consumer responses to marketing mix decisions.

[4] The Coca-Cola 2012 10-K "...the supply of our products in developing and emerging markets must match consumers' demand for those products. Due to product price, limited purchasing power and cultural differences, there can be no assurance that our products will be accepted in any particular developing or emerging market."

[5] We refer to emerging economy markets and emerging markets interchangeably in the manuscript.

[6] This is intended to include small mom-and-pop operations, where chain self-service is used as a synonym for supermarkets.

### *Research Questions*

Our research aims to address three general questions:

(A) Does the effectiveness of modeled marketing mix elements vary with CS and TF stores (i.e., self-service versus full service formats)?
(B) How do the short- and long-term effects of distribution and in-store attractiveness (merchandising and promotions) differ for the CS and TF channel formats?
(C) How does the relative importance of channel relationship management and brand marketing differ by channel format?

This research focuses on understanding the effects of manufacturer marketing activities that target consumers and retailers in a multichannel environment of an emerging economy. Thus, this research is more concerned with how a brand should seek to market to and through different retail channels than how retailers in different formats should manage their own businesses. To investigate the proposed research questions, we have analyzed data from a large CPG manufacturer in Brazil. Joseph et al. (2008) point out that the role of full-service stores in Brazil is less important than in China or India, but far more important than in the U.S. and Europe. This good mix of retail formats makes Brazil an especially interesting market (among the emerging economies) for a multichannel study.[7] Competing in these markets will require consumer marketers to manage brands that are sold through radically different retail formats and may provide guidance for other emerging markets as the retail mix changes in favor of CS stores.

### *Contribution*

Our research contributes to the small but growing literature on modeling marketing mix effects in emerging economies. The results of our research validate the importance of distinguishing between push and pull marketing effects, especially with regards to self-service and full-service channel partners. The two formats are associated with different retail management styles and sophistication and, as we show, this leads to variations in the effectiveness of marketing activities. Almost all modeled marketing mix elements have higher long-term effects in the self-service channels. Variety in package sizes is shown to have the greatest effect on sales among all the modeled marketing mix elements in the full-service channel, followed by distribution. Thus, in an emerging economy, consumer brands need to carefully monitor distribution intensity and identify the package sizes that are effective in the full- and self-service channels. Our research hence provides managers guidance on managing the traditional full-service channels, a major challenge they usually face in emerging markets. Finally, we contribute to the evolution of marketing mix models by constructing a stock-keeping-unit

[7] Euromonitor International Report (2014), Retailing in Brazil and Nielsen. *Mudanças no mercado brasileiro*. In: Seminário Nielsen Tendências. São Paulo, 2010.