ELSEVIER

Journal of Retailing 87 (4, 2011) P1–P8

Journal of Retailing

Executive Summaries

This section provides a concise, nontechnical summary of each article in the current issue of JR focusing on its strategic implications for management.

"One-deal-fits-all?" On Category Sales Promotion Effectiveness in Smaller versus Larger Supermarkets

Hans Haans, Els Gijsbrechts

Even within a given supermarket chain, store outlets often exhibit substantial differences in selling surface. Effectively managing these differently sized-outlets, and specifically, the pricing and promotional program for these outlets, has become a paramount concern for retailers. First, headquarters need to accurately *forecast the sales lift* from promotional activities in the different stores, in order to anticipate the product quantities that need to be shipped to these different outlets: overestimating promotional demand in a store will lead to high storage costs or to perished items, whereas promotional stock-outs may be costly in terms of lost sales or goodwill. Second, if promotion effectiveness varies with store size, retailers may need to *adjust their promotional programs* accordingly. While some retailers price-promote more intensively in their larger stores, there are also cases where large stores within a chain more strongly engage in every-day-low-pricing pricing. This begs the question: which of these approaches is more advisable, and why? To complicate matters, the impact of store size on promotion effectiveness may well vary with the type of promotion. For instance, even if the percentage sales lift from a display would be the same in a 1000 m^2 as in a 500 m^2 store, this might not hold for a price cut.

In this paper, we shed more light on the relationship between promotion effectiveness and store size, and – hence – on the potential payoffs from tailoring promotional programs to store size. Given the extensive accumulated knowledge on the drivers of promotion response, what could we gain from such an analysis? We see four reasons why analyzing the impact of store size on promotion effectiveness is fruitful. First, the sheer selling surface of the store, through its effect on fixed in-store shopping costs and search costs, exerts an impact on the promotion's category sales lift not captured by other drivers. Second, apart from its effect on promotional sales lift, store size shapes the profitability of alternative promotion instruments. Large stores – because of their larger (base) sales – are less suited for promotion activities with a large per-unit cost component. Third, store size may serve as a valuable proxy for (a multitude of) other factors that are difficult or costly to measure and integrate: differently-sized stores will attract different types of *customers*, for different types of shopping *trips*, which influences promotion response. Finally, tailoring the promotional program to store size is appealing from an implementation viewpoint: retailers have often adjusted their logistic operations to accommodate supermarket outlets of different selling surface, and promotion programs that exploit differences in promotion response among these size classes can easily be integrated into these logistical systems.

Having conceptualized why and how store size influences the category sales effectiveness of four promotional indicators (depth of the promotional discount, display support, feature support, and whether the promotion is quantity-based), we estimate the effects on four product categories for 103 store outlets belonging to four chains.

For each of the promotion instruments, we find the *percentage* sales increases to be lower in large stores. For instance, whereas a 10% point increase in feature activity enhances category sales by about 1.64% in a 700 m^2 store, this figure drops to only 1.03% in a 1300 m^2 store – a 59% reduction. The effect is especially pronounced for discount depth, the relative sales lift from a typical price cut being about 78% lower in the larger-sized (1300 m^2) outlet.

However, since large outlets also have larger base sales, the picture changes when we consider *absolute* sales effects. The net outcome is that deeper discounts or quantity-based promotions do not systematically generate larger or smaller absolute sales bumps in large stores. In contrast, feature ads or in-store announcements generate higher incremental sales in large outlets. Still, the increase is less than proportional with the store's selling area: if store size is doubled (e.g. from 600 m^2 to 1200 m^2, a 100% increase), incremental category sales go up by only 55% for in-store displays, and by 47% for feature ads. For displayed or featured price cuts, these figures approximately drop to 41% and 10%, respectively. Retailers can use these numbers as a first indication of the sales lift from promotions in smaller versus larger outlets.

Our results also show how retailers can adjust their mix of promotion instruments to stores' selling surface. We find that for retailers aiming to enhance absolute category sales, featured and especially displayed price cuts appear particularly rewarding in large outlets. For retailers who seek to enhance

profitability, it appears good practice to offer more shallow discounts and use more non-price support in large stores, thereby avoiding large amounts of subsidization of these stores' substantially larger installed base. This holds true unless the manufacturer's promotional funding comes in the form of a per-unit discount instead of a lump-sum trade support budget, and the retailer can keep part of this discount to himself. Also, retailers should avoid the use of retailer-induced promotions in large outlets (e.g. on their private labels), and adopt low levels of pass-through for manufacturer-funded price cuts in those outlets.

Analysis of free gift card program effectiveness

MOUTAZ KHOUJA, JINGMING PAN, BRIAN T. RATCHFORD, JING ZHOU

We develop a model of a retailer giving consumers who spend specified threshold amounts or more in a single purchase "free" gift cards. We identify the optimal purchase amount thresholds at which to give the gift cards and the optimal gift card values. We find that gift cards' profitability is largest when

1. The retailer's profit margin is large.
2. additional spending to get gift cards is made on products they would not have purchased in the future at the retailer with cash.
3. Consumers redeem the gift cards on products they would have purchased from other retailers or on products they would not have purchased without gift cards.

Giving at most one large-value gift card at a single purchase amount threshold or multiple small-value gift cards, one for exceeding each threshold purchase amount, depends on consumers' willingness to increase their purchase amounts to receive the gift cards. When consumers are willing to increase their purchase amount significantly, it is best for the retailer to offer one large-value gift card at a large purchase amount threshold, for example, get a $50 free gift card for a $250 purchase. When consumers are willing to increase their spending amounts only slightly, it is best for the retailer to give a small-value gift card for each purchase threshold amount met or exceeded, for example, get a $10 free gift card for every $50 purchase. There are several factors that may impact gift card effectiveness including

1. The degree to which consumers behave consistently. Gift cards become much more profitable when consumers overestimate their probability of redeeming the gift cards at the time they make their purchases. Consumers' actual redemption probability during the redemption period may be lower than their estimated probability of redemption at the time of purchase due to consumers losing the cards or finding it inconvenient to visit the retailer.
2. Consumer spending above gift cards' value. Gift card redemption will cause some consumers to return to the retailer. Some gift card redeemers may spend more than the cards' value because they make some unplanned purchases or make purchases that would have been made at competing retailers without the gift cards. This additional spending has a strong positive effect on gift card profitability.
3. Diminishing value of gift cards to consumers. As consumers get more gift cards, they are likely to have less use for more cards and will place lower value on them. When consumers exhibit such diminishing valuation, gift cards become less profitable.

The above aspects of gift cards suggest that managers can increase gift card effectiveness through careful timing of the gift card program and redemption period. Gift cards should be offered prior to a season's end when consumers are making their purchases for the season and are more likely to have high valuation for additional goods. Decreasing consumers' use of gift cards to reduce their future cash purchases can be accomplished by restricting the gift card redemption period to the end of the season, prior to the new season's shopping period to ensure that new season's sales are made with cash. Also, managers can increase gift card effectiveness by motivating consumers to increase their purchase amounts even if they already qualify for one or more cards with their intended purchase amounts. Displaying the prices of some popular items which require redemption of few gift cards may remind consumers who qualify for one or two small value gift cards with their intended purchase amounts that they will still benefit from more gift cards. Finally, managers can use promotions to increase spending beyond gift cards' value during the gift cards redemption period. Based on sales data during the gift card giving period, the amount of gift card dollars held by consumers and their distribution among consumers can be found. During the redemption period, products with higher prices requiring most card holders to spend more than the value of the gift cards they hold can be promoted to encourage spending beyond the cards' value. This should be done before the arrival of the new sales season to avoid having consumers redeeming their gift cards on products they would have purchased with cash.

Understanding Money-Back Guarantees: Cognitive, Affective, and Behavioral Outcomes

THOMAS SUWELACK, JENS HOGREVE, WAYNE D. HOYER

By offering a money-back guarantee (MBG), a seller promises that any customer who is not satisfied with a purchase can return the item within a certain period and receive a full refund (Davis et al. 1995). In response to intense competitive forces in business environments, especially during the recent recession, MBGs have been widely implemented by retailers and manufacturers as a promotional tool to gain consumers' attention and positively influence their behavior (Sullivan 2009). Previous research has revealed that MBGs increase consumers' quality perceptions, reduce risk perceptions, and thereby increase purchase intentions. However, important issues have been neglected which we address within two empirical, representative studies. First, research on MBGs has

Download English Version:

https://daneshyari.com/en/article/886439

Download Persian Version:

https://daneshyari.com/article/886439

Daneshyari.com