A STUDY ON PRICE ORIENTED PROMOTIONS EFFECTS ON BRAND LOYALTY

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A STUDY ON PRICE ORIENTED PROMOTIONS EFFECTS ON BRAND LOYALTY

By

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2012
I certify that I have supervised and read this study in and in my opinion it confirms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a research paper for the degree of Corporate Master in Business Administration.

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I hereby declare that this research is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and a bibliography is appended.

Signature : 

Date : 11/10/2012

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ABSTRACT

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JANETTE BONIFACE BARAU

(Price-oriented sales promotion techniques are important in marketing activities as part of the strategy to increase sales and profit either in short or long term. Nevertheless, maintaining or enhancing brand loyalty is essential to promote brands’ advantage. Therefore, this study aims to examine the effects of price-oriented promotions on brand loyalty.) The objective of this study is to investigate the influence of predisposition to use price sales promotional tools in buying other than preferred brand products would effects his or her brand loyalty level among personal care product users or buyers. Questionnaires were distributed and self-administered to 150 respondents. Descriptive analysis, One-way ANOVA, independent t-test, Pearson correlation and simple regression analysis were used in this study. This study strived to determine the differences of predisposition to use price-oriented promotional tools towards consumer’s brand loyalty. The findings of this study indicated that consumers have strong correlation with brand loyalty. In addition, this research would give managerial implications for marketers with regards to customer preferences to improve their strategy in enhancing product brand name.)
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CHAPTER 1
INTRODUCTION

1.1 Introduction
This chapter discusses the background of the study, problem statements, objectives, research question, significance of the research, scope of the study and definition of terms.

1.2 Background of the Study

There are numbers of reason for the growth of sales promotion throughout the years in retail industry. The spurious growth of various sales promotion techniques is due to increasing competition, price sensitive consumers, positive impact on sales, product standardization, advertising becoming increasingly costly, impulse buying and excess stock. This is supported by studies where the growth of promotional expenditures are due to changes in the consumer, media and retail environments that have made traditional advertising communications more fragmented and less effective (Owens et al, 2001). Thus, manufacturers and retailers from different countries have invested a large part of their budgets for sales promotion activities.

Consumer sales promotions are an essential part of the marketing mix for many consumer products. Marketing managers use sales promotions such as coupons, price reduction, contests, sweepstakes and samples to increase sales and market shares. Thus, the usage of sales promotional tools have generated considerable interest in consumer's acceptance, satisfaction, brand choice, brand switching behavior and also may encourage on brand loyalty. Generally, sales promotions can be divided into two categories, monetary and non-monetary promotions. There are major differences between both promotions; monetary promotions relate to monetary value savings. For example, coupons, rebates and price packs that tend to provide fairly immediate rewards to the customer and are transactional in character (Kwok and Uncles, 2005). Meanwhile, non-monetary promotions tend to delay customer's incentive and are more relationship-based. For example sweepstakes, free gifts and loyalty programs (Kwok and Uncles, 2005).

In addition, consumers are interested in promotions as it can offer many benefits. Based on the differences between the types of sales promotions and promotion benefits, Chandon et al. (2000) showed that monetary promotions provide the benefits of monetary savings, adding value, increasing quality and convenience while non-monetary promotions provide the benefits of
value expression, exploration and entertainment. This research paper focuses on monetary promotion which is also known as price-oriented sales promotion because it provides the most obvious value offered to consumers. Hence, three types of price-oriented promotional tools are used in this research paper, namely coupons, price discounts and bonus packs.

With regards to the advantages of monetary value saving offers, consumer may have the tendency to utilize the benefits which may effects on his or her brand loyalty on the products that are regularly purchased or used. Brand loyalty is associated with consumers' strength preference for certain brand compared to other similar available choices regardless of strong promotional activities conducted by competitors for similar products. Brand loyalty is a measure of the attachment that a customer has to a brand (Leahy, 2008). Significantly, brand loyalty exists when consumers have high involvement for brand exhibited through consistent repurchases of a favored brand.

Investigation on the relationships between the use of sales promotion and brand loyalty will be researched. Personal care products were chosen to be used in this study is because toiletries and cosmetics are among the type of products that frequently use sales promotional tools especially by retailers to boost sales. The research paper will examine the degree of consumer's tendency to use price-oriented promotional tools on the personal care products other than buying preferred brand choice which may effects on his or her brand loyalty. The research will determine if sales promotion activities has an effect on consumers’ brand loyalty.

1.2.1 The Global Personal Care Industry

Personal care products include cosmetics, toiletries, fragrances, skin care products and hair care products. The local personal care industry involves mixing, blending and formulation processes using imported raw materials. The main use of personal care products is for personal hygiene, to enhance attractiveness through cosmetics, to improve self-esteem and promote serenity, skin and hair protection and anti-ageing. It has become a common routine to consumers in enhancing or maintaining self-images in daily life as part of the need regardless of age groups, gender and socio-economic backgrounds.

Cosmetics and toiletries products are trendy and fashionable products and the fastest growing category in countries worldwide. According to Euromonitor (2003), the average percentages of world sales by retail channels in 2002 are 10%, 13%, 53%, and 24% for direct
sales, specialty stores, mass merchandisers, and the other channels respectively. Cosmetic products account for approximately 18% of the entire global market for cosmetics, toilet, and fragrance (Kumar, 2005). The cosmetic and fragrance industry has been a successful performer with an average of 5% industry growth rate annually (Kumar, 2005). Usage of personal care products is increasing and consumers are more concerned about the implications of cosmetics to their healthy and physical outlook. NielsenGlobal Services (2007) reported that the consumers and personal care products consist of more than 75% of the global population contributing more than 90% of the world’s GDP as most people like to feel and look attractive and healthy.

Many products range from premium/luxury cosmetics and toiletries products until the high quality mass market products that possess the appearance of prestigious items, give consumers the option of buying from higher end to cheaper priced products. A thriving regional economy has strengthened purchasing power of consumers leading to an increase in sales revenue annually for beauty products companies worldwide. Sales by retail distribution channels of cosmetics products are vary by product and consumer characteristics of different countries such as departmental stores, discounters, grocery, pharmacy, direct sales and etc (Oh and Rugman, 2006). Thus, products with strong brand names such as L’Oreal Group, Procter & Gamblar, Unilever PLC, Shiseido Co. Ltd, Mary’ Kay Inc, Body Shop, Yves Rocher and Kao Corporationhelps in building the trusts of the consumersthat boost sales and promote the products quality.

1.2.2 Personal Care Industry in Malaysia

The estimated worth of Malaysia’s cosmetics and toiletries industry is approximately RM3.6 billion with a healthy projected annual growth rate of 13% (Business for Sale Magazine, 2008). Malaysians annually spend an estimated US$500 million on cosmetics (Business for Sale Magazine, 2008). This industry is enjoying an upward swing, with an encouraging increase in the demand for beauty products. Moreover, the rising demand of Malaysian consumers for quality products containing natural ingredients have contributed to an increase in consumers’ purchasing power seeking higher quality and branded personal care products brands.

Increasing sales in the personal care industry is usually due to the increased urbanization in Malaysian society, a rise in the number of working women, rising awareness of personal appearance among men and aggressive marketing and promotional activities of
The increasing demand for cosmetic products in Malaysia is also due to a greater awareness of beauty issues and personal grooming, increasing numbers of women in employment, rising income levels among urban women, the increasing influence of western fashion trends and female consumers becoming more knowledgeable in the use and application of cosmetics products (Euromonitor, 2007).

Buoyed by a strong economic growth, in year 2003, the Malaysian cosmetics and toiletries market recorded sales of approximately US$800 million (OpportunityMalaysia, 2005). Based on a report of Asia-Pacific Cosmetics and Toiletries (2004), Malaysian cosmetics and toiletries market has achieved sales of approximately US$811 million. Further, Malaysia is the second largest market after Thailand within Asia Pacific region in which the sales value for year 2005 is at US$ 855 million whereas in year 2006, the sales value of cosmetics and toiletries has increased at US$ 890 million (Rowe, 2007). In 2007, sales recorded have increased at US$973 million (Farquharson, 2009) in Malaysia market. Table 1 shows the increasing sales trend for personal care products in Malaysia.

Table 1:- Sales Trend of Personal Care Products from the Year of 2003 to 2007 in Malaysia

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales (US$ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>800</td>
</tr>
<tr>
<td>2004</td>
<td>811</td>
</tr>
<tr>
<td>2005</td>
<td>855</td>
</tr>
<tr>
<td>2006</td>
<td>890</td>
</tr>
<tr>
<td>2007</td>
<td>973</td>
</tr>
</tbody>
</table>


The distance between men and beauty products is reduced when men’s demands for skin care products are revealed to fulfill pleasure and wellness, skin care, anti-aging treatment, body and hair cares spa centers or even beauty institutions (Cole, 2008). The use of personal care products has increased significantly with more consumers taking greater interest in personal grooming and cleanliness due to increasing disposable incomes, changing lifestyles, the influence of satellite television and greater product choices and availability. Relating to the
development of purchasing power in consumers and market trend, people have become more conscious of hygiene and beauty (Souiden and Diagne, 2009). Therefore, this affects rapid sales growth in beauty care industry. Many of the world’s most popular product brands have entered the Malaysian market. Numerous new product launches in the market shows that there still room for growth. In Table 2 shows an upward trend of sales value in millions (Ringgit Malaysia) between 2001 and 2006 for all categories of cosmetics and toiletries products:

Table 2: Sales Value of Cosmetics and Toiletries by Sectors from the Year 2001-2006 in Malaysia

<table>
<thead>
<tr>
<th>RM million</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baby care</td>
<td>134.1</td>
<td>140.2</td>
<td>147.4</td>
<td>155.1</td>
<td>162.9</td>
<td>170.7</td>
</tr>
<tr>
<td>Bath and shower products</td>
<td>416.5</td>
<td>427.6</td>
<td>440.9</td>
<td>454.5</td>
<td>466.4</td>
<td>479.1</td>
</tr>
<tr>
<td>Deodorants</td>
<td>65.8</td>
<td>68.6</td>
<td>72.0</td>
<td>75.6</td>
<td>79.5</td>
<td>83.9</td>
</tr>
<tr>
<td>Hair care</td>
<td>525.6</td>
<td>542.4</td>
<td>570.9</td>
<td>602.7</td>
<td>630.9</td>
<td>660.2</td>
</tr>
<tr>
<td>Color cosmetics</td>
<td>254.6</td>
<td>268.5</td>
<td>284.7</td>
<td>302.5</td>
<td>321.4</td>
<td>341.9</td>
</tr>
<tr>
<td>Men’s grooming products</td>
<td>181.4</td>
<td>183.0</td>
<td>193.0</td>
<td>205.3</td>
<td>220.8</td>
<td>238.8</td>
</tr>
<tr>
<td>Oral hygiene</td>
<td>400.6</td>
<td>399.2</td>
<td>407.4</td>
<td>419.3</td>
<td>430.8</td>
<td>442.0</td>
</tr>
<tr>
<td>Fragrances</td>
<td>171.8</td>
<td>183.2</td>
<td>196.4</td>
<td>205.4</td>
<td>214.6</td>
<td>224.1</td>
</tr>
<tr>
<td>Skin care</td>
<td>587.9</td>
<td>625.1</td>
<td>671.9</td>
<td>721.0</td>
<td>788.1</td>
<td>865.3</td>
</tr>
<tr>
<td>Depilatories</td>
<td>11.5</td>
<td>12.0</td>
<td>12.7</td>
<td>13.4</td>
<td>14.4</td>
<td>15.4</td>
</tr>
<tr>
<td>Sun care</td>
<td>8.0</td>
<td>8.6</td>
<td>8.7</td>
<td>8.8</td>
<td>8.9</td>
<td>9.1</td>
</tr>
<tr>
<td>Premium cosmetics</td>
<td>440.3</td>
<td>461.4</td>
<td>494.7</td>
<td>531.1</td>
<td>578.0</td>
<td>637.4</td>
</tr>
<tr>
<td>Cosmetics and toiletries</td>
<td>2,649.7</td>
<td>2,747.6</td>
<td>2,884.6</td>
<td>3,029.9</td>
<td>3,190.3</td>
<td>3,365.4</td>
</tr>
</tbody>
</table>


Sales promotion is a component of the promotional mix that is used widely by personal care industry as a marketing strategy. Product promotions for personal care industry can be divided into several types such as price discounts, buy-one-get-one-free, cents-off and coupons. In western market, for example in USA, several marketing managers blame couponing and promotions for reduced brand loyalty (Forbes, 1991). Furthermore, some companies believe that promotions have made consumers more price sensitive, which consequently has lowered the effective price companies can charge (Brand Week, 1993). Due to this, Colgate-Palmolive and Procter & Gamble (P&G) have restricted the frequency of using price promotions (Wall Street Journal, 1996). For additional example, Procter and Gamble (P&G) also applied the strategy of decreasing coupons for diaper products and adopt price cuts which show that consumers prefer
coupons to price cuts although consumers paid the same price (Gonul and Srinivasan, 1997). Consumers become very price-sensitive and promotion-sensitive because consumers like good bargains, when he or she can buy something more affordable and of higher quality.

However, from early research Ehrenberg, et.al (1994) found that price promotions often reward the brand's existing customers and consumers rarely respond to a price promotion if the brand has not previously been tried. Consumer tends to purchase products that he or she is already familiar with or experience before. Simultaneously, price promotions also help to increase sales and reward long-term loyal consumers. Hence, it is important to examine consumer's tendency to use price-oriented promotional tools in buying personal care product brand offered by other competitors which is not familiar by the consumers or a brand choice. This is to determine the level of consumer's brand loyalty towards product that he or she always buys regardless attractive monetary value saving offered by the competitors for similar personal care product brand.

1.3 Problem Statement

Studies argued that the ever-increasing large number of brands, price competitiveness and the strength of own label brands have all effort to drive down brand loyalty (Caudron 1993; Olsen, 1997). Pressey and Matthews (1998) have shown that there is a fifty percent chance that a shopper will switch from their normal brand to a competitor's brand, which is on promotion, plus, many shoppers claim to always compare prices before choosing a product. This is because price is viewed as the most important purchasing decision criterion. Besides, Keller (1998) also stated that numbers of disadvantages of sales promotions are such as decreased brand loyalty, increased brand switching, decreased quality perceptions and increased price sensitivity.

Few research studies show sales promotions can weaken brand preferences. Less attention is devoted to investigating the consequences of sales promotions for brand preference after the promotion has ended (DelVecchio et al, 2006). Inevitably, sales promotion can induce choice. However sales promotion also can weaken consumer's preference for the brand when the product brand is no longer promoted. Despite the fact that sales promotions have long been employed in marketing practice and researched academically, a clear understanding of the impact of sales promotion on post-promotion brand preference continues to evade brand managers and marketing experts alike (DelVecchio et al, 2006). Conversely, other researchers
contend that sales promotions can increase brand preference (Davis et al. 1992; Rothschild and Gaidis, 1981). Although, promotions have a powerful influence on consumer buying decisions (Derrick, 2007), given that the marketplace is increasingly characterized by unpredictability, diminishing product differentiation and heightened competitive pressure, brand loyalty becomes all the more important (Leahy, 2008). Thus, the extant literature is ambiguous whether sales promotions can either diminishes or enhance brand preference.

The Malaysian market is flooded with many brands of personal care products, both imported and local product. Consumers are given many choices with great quantity of different brands of cosmetics and toiletries products. Due to plentiful choices of product brands available in the market, suppliers are faced with the problem of ensuring sustained preference to achieve loyalty and retention which impact the financial performance of the firms in Malaysia (Chelliah and Kwon, 2011). Inability to retain old and new customers will cause the loss in revenues for suppliers. Therefore, the need to investigate the impact of consumer’s tendency to use price-oriented promotional tools such as coupons, price discounts and bonus packs on brand loyalty of personal care product, in which, such promotions are imposed by other competitors in the market will be of interest to both academicians and practitioners alike in Malaysia. The findings will be useful in assisting better management and designing effective sales strategies in achieving higher level of brand loyalty.

1.4 Research Objectives
The main purpose of this study is to examine effects of price-oriented promotions on brand loyalty among personal care products users or buyers. This study also intends to investigate consumer’s tendency to use price-oriented promotional tools in buying other brand of personal care products than the brand the consumers frequently use or buy. This is done through survey questionnaires. Therefore, the specific objectives of this study also include: -

1. To determine the impact of coupon in consumer’s purchase of other brand of personal care product and on their brand loyalty.
2. To determine the impact of price discount in consumer’s purchase of other brand of personal care product and on their brand loyalty.
3. To determine the impact of bonus pack in consumer’s purchase of other brand of personal care product and on their brand loyalty.
1.5 Research Questions
This study is conducted in order to answer the following questions:

1. Do price-oriented promotions such as coupons, price discounts and bonus packs affect consumer’s purchase power and hence brand loyalty?

1.6 Significance of the Study
Most previous studies on the effectiveness of sales promotion tools affecting consumers’ brand loyalty have been conducted in Western and East Asian countries (Raghubir and Corfman, 1999; Owens, et al, 2001; Alvarez and Casielles 2005; Ergin, et al, 2005; Ndubisi and Moi, 2005; Rao, 2009). In Malaysia, sales promotion is always linked with product trial (Ndubisi and Moi, 2006) and there is a little insight in regards to brand loyalty.

Firstly, this study will contribute to the body of knowledge in terms of determining the influence of different forms of price oriented sales promotions effecting brand loyalty on cosmetics and toiletries industry among consumers. It is hoped that the findings of this study provide an understanding on consumers purchasing behavior for personal care product brands in Malaysia. Secondly, the findings of this study have important implication for marketers. The findings of this study will give insight in designing effective sales promotion techniques in promoting current and new product brands to gain brand loyalty among consumers. Hence, more effective guidelines can be drawn by marketing practitioners to enhance and strengthen their business reputation.

1.7 Scope of Study
Common promotional tools used in personal care product industry would include coupons, price discounts and bonus packs in which also known as monetary saving sales promotion techniques. This study will be conducted in Kuching through a questionnaire survey.

1.8 Definition of Terms
The operational key terms in this study are as below:
1.8.1 Personal care products
Personal care product or toiletries is the industry which manufacture consumer products used for beautification and personal cleanliness; cosmetics products, makeup, perfume, toothpaste, shampoo, and deodorant (Kumar et al., 2006).

1.8.2 Brand
A brand is a distinguishing name and/or symbol (such as logo, trademark, or package design) which intend to identify the goods or services of either one seller or a group of sellers, and to differentiate those goods or services from those of competitors (Ghodeswar, 2008).

1.8.3 Brand loyalty
A degree to which consumer will repeatedly purchase the same brand. Brand loyalty can be defined as the biased (non-random) behavioral response (purchase) expressed over time by some decision-making unit with respect to one or more alternative brands out of a set of brands and is a function of psychological processes (Jacoby, 1971).

1.8.4 Coupon
A coupon is a certificate that entitles the bearer to a certain price reduction on a specified product when the goods are purchased and the retailer honors the discount (Price, 1999).

1.8.5 Price discount
A price discount is a decrease of the published price, which the consumer uses for comparing with the recalled price information (Campo and Yague, 2007). It is a reduction from a usual or list price.

1.8.6 Bonus packs
A bonus pack is a special factory pack that offers the consumer extra product at no additional cost (Urseth, 1994).
1.9 Conclusion

The subsequent chapters are organized in the following manner; Chapter 2 consists of literature review and also the theoretical framework of price oriented promotions that will influence consumer brand loyalty. In Chapter 3 will consist of the research methodology include research measurements and data analysis. In Chapter 4 consists of research findings and results. Finally, Chapter 5 consists of discussion of findings and Chapter 6 is the conclusions and the recommendations of the study.
CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

The literature reviewed in this chapter consists of the importance of sales promotion, Theory of Reasoned Action, price orientated promotions and brand loyalty.

2.2 Definition of Sales Promotion

Promotion is one of the most important elements in marketing mix besides product, price and place. It is defined as sales promotion, advertising, personal selling, public relations and direct marketing (Borden, 1984). However, the primary focus in this study is sales promotion as one of the distinct promotional mix elements for personal care industry. Therefore, sales promotion is defined as a diverse collection of incentive tools, mostly, short-term, designed to stimulate quicker and/or greater purchase of particular products/services by consumers (Kotler, 1988). It is also referred to those marketing activities which stimulate consumer buying behavior and seller effectiveness. Shultz, et al (1998), stated sales promotion are marketing and communication activities that change the price/value of a product or service perceived by the target market, thereby firstly, generating immediate sales and secondly, altering long-term brand value. The success of a promotion depends on the profits made on the promoted item, the cannibalization caused by customers who switch from regular-priced brands to a promoted item, increased sales of products that are complementary to the promoted product, and the ability to increase store traffic and get more sales of items at regular prices (Mulhern and Leone, 1991; Blattberg and Neslin, 1993). Hence, sales promotion is loosely defined as ‘special offers’ essentially aim to stimulate demand during the period in which promotions are set (Peattie and Peattie, 1995).

O’Guinn (2000) listed several tools for consumer-market sales promotion, including price-off deals, contests and sweepstakes, brand(product) placements, sampling and trial offers, event sponsorships, rebates, frequency, and premiums. Kotler (2003) displayed thirteen sale promotion tools which included samples, coupons, rebates, price packs, premiums, frequency programs, prizes, patronage awards, free trials, product warranties, tie-in promotion, cross-promotion, point-of-purchase displays and demonstrations. In addition to these sales promotion tools, several tools, examples bonus pack (Ong, 1999), specialty advertising (Lee, 2002), and