Price Promotions in Market

Qingqing Hu(✉)

Hangzhou Foreign Language School, Hangzhou 310018, China
qing.1747@outlook.com

Abstract. In everyday life, businesses use a variety of methods to maximize their benefits. Consumers can also use a variety of channels to learn about the best purchase options that will allow them to reduce the exchange of benefits. In this case, price promotions are one of the sales tools that are often used. People walking around may encounter the wording of price promotions, for example, two hundred off fifty, trade-in, and so on. But why do producers use price promotions as a sales tool? What are the types of price promotions? What is the relationship between the producer and the consumer that price promotions give? What are the factors that affect price promotions themselves? This paper will examine and organize the above questions and illustrate the link between price promotions and consumers' desire to buy, sensitivity and brand loyalty. In this study, we can conclude that there is a negative relationship between price promotions and consumer brand loyalty. Moreover, we can learn that consumer demand, competition among brands and company budget can influence the setting of price promotions in different ways and from different perspectives.

Keywords: consumer's intention · loyalty · demand · competition · budget · coupon · types of price promotion

1 Introduction

It is common for service businesses to use marketing strategies that can persuade people to buy certain products. Businesspeople are under increased pressure to have a proper strategy for hitting sales volume goals. Price promotion is a typical strategy for attracting customers and increasing revenue. From the producer's point of view, price promotion increases sales by using some means of reducing the actual value paid to win customers over to the product. Price promotion is undoubtedly a very effective tool with significant results, and the economy will be stimulated to grow. A considerable amount of marketing communications budgets for numerous businesses are still devoted to consumer advertising. In a marketplace with many competitors, consumers have access to multiple channels, adding to the already fierce competition. In this situation, the marketing strategy that marketers develop is the most important factor influencing consumers' willingness to buy. The goal is to rapidly and expeditiously persuade customers to purchase more goods and services in the face of intense rivalry. Promotion has become the most important marketing strategy to motivate consumers to buy [1].

S. Tehseen et al. (Eds.): ICEDBC 2023, AEBMR 258, pp. 120–126, 2024.
https://doi.org/10.2991/978-94-6463-246-0_14

There are various forms of sales promotions aimed at increasing consumers' awareness of the value of a product. It is important to examine the relationship between price promotions and purchase intentions and related variables. Since price promotions exert a strong pull and influence on both consumers and manufacturers, research on the characteristics of price promotions can be summarized by examining the influence of price promotions from various perspectives. First, the benefits that price-sharing can provide should not be ignored. One of the benefits of price promotions is that sellers can get rid of old inventory through price promotions. The easiest and most cost-effective way for a business to get rid of old or unwanted inventory is to offer discounts. In addition, price promotions can significantly increase short-term sales of that merchandise. The advantage of a low price during a price promotion is especially attractive to customers because price is one of the most important purchasing factors, especially for products with a certain level of brand recognition. If the price of a product drops after a promotion, a significant percentage of consumers will be interested in purchasing that product. In this case, the sales facilitated by the price promotion will increase substantially, resulting in a large short-term turnover. Price promotions are effective not only in attracting new customers, but also in encouraging existing customers to repurchase. It can be concluded that the acquisition of new customers is also an important effect of price promotions. When a product or service is launched, there are usually customers who are affected and those who are not. Of those who are not affected, a certain percentage will not purchase the product because of its price. For those who do not purchase such products or services, the sales logo is sufficient to attract their attention and establish the brand in their memory. The powerful attraction generated by this is especially advantageous for fledgling brands striving to gain a foothold in the market, prompting them to purchase the service or product. Thus, price advertising helps draw customers into the buyer's arena.

2 Categories of Price Promotion

The types of price promotions offered today are diverse and constantly updated. Taking the information together, three main types of price promotions can be identified, each of which has a different impact on consumers' purchasing decisions. The first is a coupon, a ticket that can be exchanged for a cash rebate or discount when an item is purchased. Statistics show that most people like coupons: 60% of consumers actively seek them out and 95% prefer them. According to marketers interviewed by Business Insider, coupons do more than save money: they cause consumers to spend more than they save [2]. According to market research firm A.C. Nielsen, coupons stimulate consumers to spend more. According to the history of coupons, Coca-Cola was the first company to use coupons to attract customers, starting in 1887 [3]. It developed handwritten $5 paper coupons that customers could use to receive a free Coke. The Coca-Cola concept was a great success. By 1913, about 8.5 million drinks were offered, in every state in the U.S [4]. Another promotion that was very common in the market was "buy a bottle and get one free." This is especially common in supermarkets, some of which sell expired products along the lines of "buy one bottle, get one free." For example, two dairy products whose expiration dates are about to expire are packaged together and labeled "Buy one bottle

- get one free." In such cases, product sales increase significantly, not only because consumers receive a discount through the "buy one - get one free" scheme, but also because the "buy one - get one free" scheme can suggest to consumers that they are blindly buying something they don't need. The problem with the buy-one-get-one-free strategy is that consumers end up buying unnecessary goods in search of a good deal. Evidence shows that consumers prefer free offers to discounts, even when the net value of the two offers is comparable. This preference is reinforced when the discount is much larger. In this case, a free offer is more attractive than a percentage off offer. The results also caution consumers to weigh their options carefully and not to be seduced by the first best blogger offer, as it may not be the most profitable [5]. Another type of exchange is trade-in, where customers can exchange previously purchased products for new ones. Old products are used as discount coupons, and if customers return some of their old products, they can get new products or a lower price. LANCOME is a skin care brand that runs a campaign to recycle empty bottles. When a customer returns an empty bottle left over after using a skin care product to the cashier, they receive points. These points can be used to purchase new products. This measure not only gives consumers a discount, but also protects environmental resources and recycling.

3 Price Promotion and Consumers

In examining the relationship between shoppers and price offers, the study focuses on two main categories. These are impulse buying by buyers and price sensitivity by consumers. Consumer sensitivity to price is intuitive. Aggressive price promotions by competing brands increase consumers' sensitivity to loss, but do not affect consumers' sensitivity to profit [6]. On the other hand, when the company's price fluctuates more, consumers increase their sensitivity to profits and decrease their sensitivity to losses. Some researches have consistently shown that four important variables influence consumers' brand choice: 1. Their internal preference or brand loyalty, 2. Buying behavior before, 3. Brand attributes and presentation, and (d) price [7].

The purpose of price promotions is to attract consumers of another brand and thus increase category profits. In price promotion research, retail price promotion models have been chosen to study consumer behavior. In the study by William Allender and Peachers, the study is divided into three steps. The first stage focuses on identifying brand-specific loyalty indicators. A demand model was formed by using household purchase data to obtain loyalty. A household is loyal to only one brand and the brand preference for other brands is capped at zero because a family is loyal to a particular brand. Thus they were able to determine the loyalty value for each household, after which they averaged the probability of purchasing for each brand over all households loyal to brand b to determine the loyalty for each brand. The second step is to derive the approximate vertical channel supply and demand patterns as a way to obtain unobserved wholesale prices. They first describe the elements of demand, followed by the pricing decisions of producers and traders. A random utility model of consumer demand is used assuming that consumers make a stratified decision about the store they want to patronize and choose one brand from all brands or not to buy based on that decision. Retail and wholesale pricing is modeled as a pricing game decision between wholesalers and retailers in each product supply chain based on demand forecasts. In the Bertrand-Nash competition, the wholesaler first determines the price to be paid by the retailer, and then the retailer prices the product to the consumer. Since they cannot observe wholesale prices, but rather estimate first-tier retail conditions based on predicted wholesale prices, production costs are calculated based on the wholesaler's optimization problem. It is critical to clearly identify the impact of brand loyalty on retailers' price promotion decisions [8]. To be able to evaluate strategies such as the number and efficiency of promotions per brand, as well as the loyalty and wholesale prices determined from steps 1 and 2, they made some improvements to step 3, combining some estimates on the household level and the market level. Finally, the conclusion that the depth of retail price promotion has a negative relationship with brand loyalty can be drawn [9].

4 Factors Affecting Retail Pricing Promotion Strategy

Price promotions are not only a consumer selling tool, but also a differentiating pricing tool [10]. Sellers use the strategy of price promotion to win customers over on price. In such a marketing situation, the price promotion itself can be influenced by a number of factors. Nowadays, people are susceptible to price promotions, in which case they become less and less effective over time, and sellers can receive price promotion erosion and backlash. For example, fewer consumers continue to buy the item after the price promotion, forcing the seller to lower the price and increasing costs. Therefore, before setting the price promotion, due to the flexibility of consumers and the diversity of price promotion, it is very necessary to understand the influencing factors of price promotion.

Evidently, the demand for a product is one of the factors that people consider [11]. Supply demand is very elastic and varies for each product. When there is a high demand for a product, sellers can increase their profit by increasing the price and reducing the cost share. They can use price promotions so that regular customers who buy the product will get some benefits and new customers will be attracted. When the supply demand for a product is low, sellers can also use price promotions to attract customers. But compared to the case of high supply demand, now, the degree of price promotion may need to be greater than the above kind of situation, because the less it has demand, the more price elasticity of the goods. More customers will be attracted by the promotion.

This is also usually influenced by the price elasticity of demand. The price elasticity of demand is elastic when it is greater than one in Fig. 1. In this case, if the degree of price promotion is large, the actual consumer consumption price is reduced and can attract a large number of customers, therefore, the company is able to gain more profit.

The converse is also true, when the price elasticity of demand is less than one, the price elasticity of demand is inelastic in Fig. 2. This means that the impact on consumer demand is very small, regardless of the ups and downs of prices. Therefore, a company can either choose price promotion or not choose price promotion. Of course, not choosing price promotion can be more beneficial. In addition, the scope of a company's positioning price promotions will also be determined by observing and anticipating competitors' pricing policies and reactions to their actions. A company can reduce the actual consumer consumption value in the form of price promotions in order to gain more market share, while competing companies can also reduce prices by matching the same,

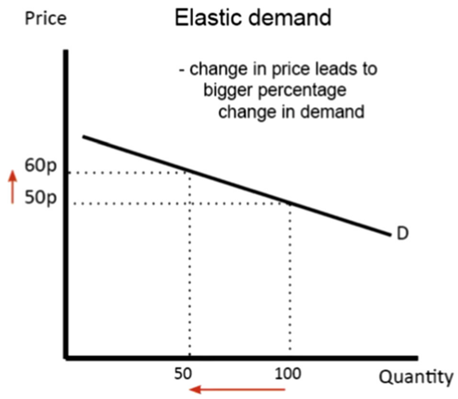

Fig. 1. Elastic demand [12]

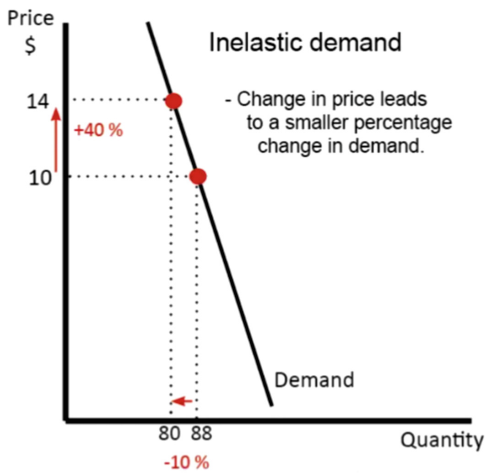

Fig. 2. Inelastic demand [12]

or more, price promotions. The competing companies always have some connection with each other, for example, they produce two products with similar characteristics, each is a substitute for the other, and so on [13]. People will make their choice by comparing the quality, price, or some other differences between the two products. The competitive pressure between companies and firms rises, everyone wants to gain market share and gain consumer choice, and the extent of price promotion as something that is included in the scope of consumer comparison takes a bigger part and it is subject to change.

Available budget is also an important influence on the size of a price promotion and the decision to implement it or not. For companies, their available budget determines the products they can choose to promote, the extent of the promotion, and the benefits they receive [14]. For companies that are small, do not invest enough, or have a low demand for their products, they do not have enough budget, making them less likely to put a lot of promotional tools on their products. Conversely, some companies with a large market share and greater control over market power have relatively large marginal profit margins and therefore do not fear the decline in revenue that would result from lower prices as a result of promotions. In such cases, price promotions may be used as a means to increase profitability and further expand market share in order to further company expansion and to better satisfy stakeholders' desired outlook for the company's growth.

5 Conclusion

Of the various factors that lead shoppers to make purchases, research has shown that price incentives most often lead to impulse purchases. Price incentives can take many forms, but the three most common forms are redemption promotions, discount coupons and buyout offers. It is widely accepted that price promotion are one of the most universal marketing tools that used by companies. Price promotions are the most widely used promotional tool to encourage impulse purchases because they encourage consumers and retailers to buy more or offer services earlier. However, in the context of price promotions, it is of interest to study the psychological mechanisms by which consumer impulse purchases are generated, developed and executed. In order to develop a price promotion strategy, it is critical to understand the mechanisms by which price promotions influence consumer impulse buying and to examine how price promotions influence impulse buying. Price promotions should be used to increase product awareness, encourage customer enjoyment of the product, emphasize the uniqueness of the brand, and strengthen the relationship between the consumers' intention and the tradeparks. Consumers are familiar with prices and promotions through frequently purchased packaged goods, which can form expectations and guide future behavior. Psychological explanatory theory states that consumers compare the potential benefits and risks of a behavior before deciding whether or not to engage in that behavior. Therefore, buyers need to consider their perceived benefits and risks when evaluating different transactions. Under some situations, the problem may be the product that be marketed or positioned. If a product is not selling well or has become obsolete, there is a need to change the marketing strategy and sales approach. Price promotions offer some significant benefits due to the increased competitive pressures that globalization has brought to industries. Price promotions provide some benefits, but they also cause some problems. However, the benefits far outweigh the problems.

References

1. Bata Ilyas, G. and Mustafa, H. (2022) "Price, Promotion, and Supporting Facilities on Customer Satisfaction", Golden Ratio of Marketing and Applied Psychology of Business, 2(1), pp. 01-11. doi: https://doi.org/10.52970/grmapb.v2i1.65.
2. Frank Olito, (2019) Sneaky ways coupons and sales actuaaly make you spend more money,https://www.businessinsider.com/how-coupons-and-sales-make-you-spend-more-money-2019-8
3. Danny Wong, (2020), What Science Says Abount Discunt, Promotions and Free Offers,https://cm-commerce.com/academy/what-science-says-about-discounts-promotions-and-free-offers/

4. Cosmin Brehoi, (2022).The History of Coupons & Their Link with Online Gambling, https://casinoalpha.com/blog/history-of-coupons/
5. Gordon-Hecker, T., Pittarello, A., Shalvi, S., Roskes, M., (2020). Buy-one-get-one-free deals attract more attention than percentage deals. Journal of Business Research 111, 128–134. https://doi.org/10.1016/j.jbusres.2019.02.070
6. Hardesty, D.M., Bearden, W.O., (2003). Consumer evaluations of different promotion types and price presentations: the moderating role of promotional benefit level. Journal of Retailing 79, 17–25. https://doi.org/10.1016/S0022-4359(03)00004-6
7. Han, Sangman, Sunil Gupta, and Donald R. Lehmann. (2001) "Consumer Price Sensitivity and Price Thresholds." Journal of Retailing 77, no. 4: 435–456. (Honorable Mention, Davidson Award for Best Paper, Journal of Retailing, 2003.)
8. Dawes, J., (2004). Assessing the impact of a very successful price promotion on brand, category and competitor sales. Journal of Product & Brand Management 13, 303–314. https://doi.org/10.1108/10610420410554395
9. Allender, W.J., Richards, T.J., (2012). Brand Loyalty and Price Promotion Strategies: An Empirical Analysis. Journal of Retailing 88, 323–342. https://doi.org/10.1016/j.jretai.2012.01.001
10. Kuntner, T. and Teichert, T., (2016). The scope of price promotion research: An informetric study. Journal of Business Research, 8(69), pp.2687-2696.
11. Hannah Wickford (2019). Factors Influencing Pricing Strategy https://smallbusiness.chron.com/factors-influencing-pricing-strategy-54489.html
12. Tejvan Pettinger (2019) Price Elasticity of Demand (PED), https://www.economicshelp.org/microessays/equilibrium/price-elasticity-demand/
13. Dana Griffin (2019) The Effect of Competition on Pricing Strategy. https://smallbusiness.chron.com/effect-competition-pricing-strategy-1109.html
14. Lattin, James M., and Randolph E. Bucklin. (1989) "Reference Effects of Price and Promotion on Brand Choice Behavior." Journal of Marketing Research, vol. 26, no. 3, pp. 299–310. JSTOR, https://doi.org/10.2307/3172902. Accessed 6 Mar. 2023.