

An Exploratory Analysis of Marketing Budget Allocation: Advertising vs. Sales Promotion

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Abstract

The issue of increasing sales promotion at the expense of advertising has been looked at with growing concern over the last two decades. This study provides an exploratory analysis of the marketing communication budget allocation dilemma in the Japanese food industry: advertising for the long-term vs. sales promotion for the short-term. Based on data collected from Nikkei Need-FinancialQUEST, an increase of marketing budget allocated to sales promotion relative to advertising in the Japanese food industry was supported in a time series analysis study (1976 to 2008). This contrasting view of advertising vs. sales promotion has looked to be remarkably accurate, especially since around the time of the collapse of the bubble economy. The use of sales promotion budget would have a two-fold effect on financial performance: sales promotion budget is positively related to sales volumes and negatively related to profitability, considering the effects of the gross margin change over time. Managerial implications and areas for future research are discussed at the end of this article.

Keywords:

Marketing budget allocation, Sales promotion, Advertising, Short-term vs. long-term, Effects of sales promotion

I. Introduction

An intriguing but shocking set of articles, titled “Increasing Sales Promotion in America”, was published in a series in Nikkei Marketing Journal in mid-1987. These

four writings included the decreasing effects of the mass advertising media tool (4 July), the impact of sales promotion on the consumer decision making process (11 July), national marketing versus regional marketing (18 July), and new technique for customer acquisition (25 July). These stories concerned the strategic management of sales promotion as an effective marketing communication tool in the replacement of mass advertising media.

This argument was based on the reports presented by both practitioners and academics at the conference, which was hosted by the sales promotion section of the American Marketing Association in 1986. The reports revealed that total expenditures toward sales promotion would exceed 100 billion dollars (approximately 14 trillion yen) in 1986, which accounted for 66% of total marketing communication expenditures. In contrast, the proportion of advertising showed a sharp decline. Advertising accounted for 34% in 1986, compared with 42% in 1976. What is more, the annual growth rate of sales promotion was 15% increase, which exceeded that of advertising (12%).

These articles were intriguing enough for both Japanese practitioners and academics to start an open discussion of what factors made the paradigm shift in the marketing communication budget allocation possible, and what the implications could be for marketing firms in the context of the Japanese market (Nikkei Marketing Journal, 3 February 1992; Onzo and Moriguchi, 1994; Otsuki, 1997, 1998, 2005; Okuse, 2000; Teramoto, 2001). Research giving evidence of relative budget allocation spending suggests that the growth rate differential of sales promotion relative to advertising has become noticeable in recent years (Kim, 2010).

However, in spite of qualitative and quantitative research in the last two decades, it is apparent that an information gap still exists concerning the outcomes of advertising and sales promotion budget allocation decisions in the industrial sector with respect to time series analysis.

The purpose of this article focuses on improving our understanding of whether the paradigm shift in budget allocation from advertising to sales promotion exists or not, and if this is the case, how marketing firms' performances are affected by the growing sales promotion budget in regards to sales volume and profitability. To address these issues, this study examines the budget allocation decisions of advertising and sales promotion from the perspective of a short-term versus long-term objective (Quelch, 1983; Achenbaum and Mitchel, 1987; Buzzell, Quelch, Salmon, 1990; Jones, 1990; Low and Mohr, 1999, 2000;

Rossiter, and Percy, 1997).

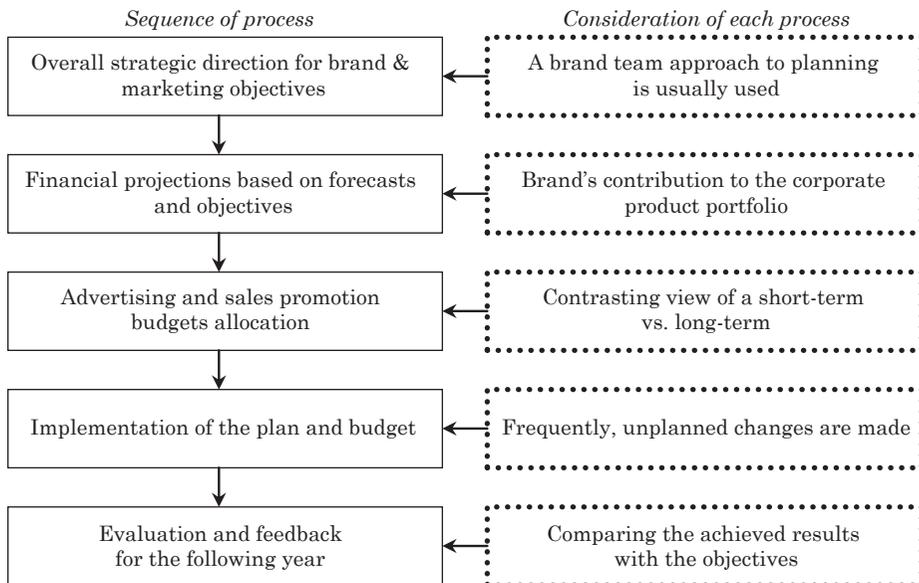
II. Overview of the budget allocation decision process

Prior to discussing the profile of what advertising and sales promotion are, this article first will describe the nature and characteristics of the budget allocation decision process in marketing communication in order to better understand the perspective of the budget allocation decision (i.e. short-term vs. long-term).

In general, the decision process regarding the marketing communication budget allocation depends largely on industries and companies, and the total marketing communication budget itself. This belief comes from the conflicting nature of the accountabilities of the people and various functions involved (Low and Mohr, 1999, 2000). In this context, Low and Mohr (1999) provides simple but realistic budgeting decision process, which conducted a series of depth interviews with 21 managers in 8 consumer products firms. To make the discussion simple, this study turns to their research findings for the guidance as following (Figure 1).

Figure 1 gives us a broad picture of how the budgeting decision is planned and

**Figure1. The nature of the budgeting decision process:
the perspective of advertising vs. sales promotion**



Source: Low and Mohr (1999, pp.69-70)

Note: Figure 1 was imported by the author from Low and Mohr's original work.

implemented by providing characteristics of each process stage in sequence. Based on Low and Mohr's finding, for the reason budget allocation is made as a part of the annual brand marketing planning process, a brand team approach to planning is usually used, involving various managers: sales, trade marketing, manufacturing, accounting, marketing research, brand manager and so on. First, managers establish the overall strategic direction for the brand and set marketing objectives, and then, financial projections are made based on sales forecasts and objectives. Third, the relative proportions of the advertising and sales promotion budgets are allocated. Next, the plan and budget are implemented. And finally, the budget allocations are measured comparing the achieved results with the objectives, and the evaluation results are fed back to be used in the following year's planning.

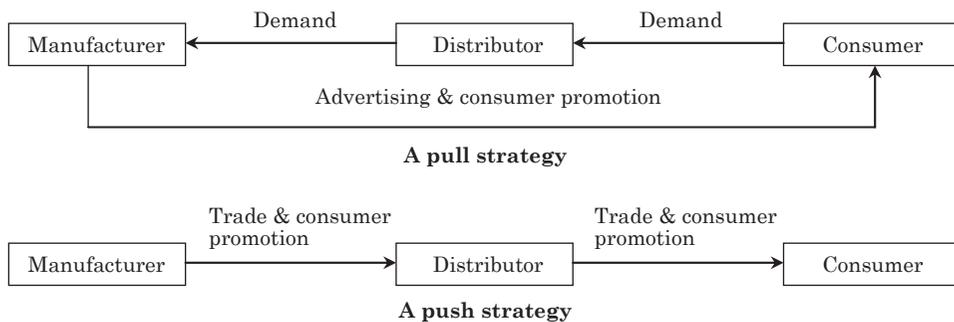
As per Figure 1, the decision regarding the total marketing communication budget would be made as a part of the financial projections. Then, various strategies for determining the total communications budget are developed and used (Kotler and Keller, 2007, pp.287-288). They are broadly, as follows, including: the affordable method (the budget the firm can afford), the percentage-of-sales method (expenditures are set at a specified percentage of sales or price), the competitive-parity method (a budget to achieve share-of-voice parity with competitors), the objective-and-task method (the budget is defined by specific objectives and predetermined tasks).

These methods could also be applied to the advertising versus sales promotion question. For example, when determining advertising budgets, objective and task is the most basic and popular method for consumer products firms which include affordable or percentage of sales as complementary methods (Bigne, 1995). Therefore, to identify how firms set and allocate each communication mix, it is important to clarify how firms establish their objectives and tasks in communication.

Traditionally, it is believed that the budget allocation decision concerning the communication mix is heavily influenced by whether the firm chooses the philosophy behind the pull strategy or behind the push strategy (Achenbaum and mitchel, 1987; Olver and Farris, 1989; Kotler and Keller, 2007). The two different views are depicted in Figure 2.

A pull strategy aims to entice consumers into buying the product by targeting the final consumer in its marketing. In the case of a pull strategy, both advertising and sales promotion such as mass media advertising, point-of-purchase materials, and packaging primarily help the manufacturers build, maintain, and reinforce consumer franchise for their particular brand. If a pull strategy is effective, consumer demand which is sustained

Figure 2. A pull versus push strategy



by true brand loyalty pulls the product through the distribution channels (i.e. retailers and wholesalers). In contrast, under a push strategy, manufacturers push the product through the distribution channels toward the final consumer. Thus, the manufacturers' marketing efforts are directed toward channel members to induce them to carry the product and promote it with in-store attractiveness to the final consumers. In the case of a push-strategy, sales promotions, such as giving allowances to the channel members and consumer promotions in the form of discount pricing, are predominantly designed to increase the channel control and in-store attractiveness.

The manufacturers' concern is whether their budgets are being allocated and implemented in an effective way. Achenbaum and Mitchel (1987) state that the expenditures in the push strategy are growing fast at the expense of pull marketing, along with changes in socioeconomic factors, such as changes in consumer values and life-styles, ineffectiveness of mass media, the spread of market information and R&D technology, emerging large retailers and changes in power relations. They point out that the net result of strategic change from pull to push is causing major problems for the brand franchises.

Undoubtedly, we can capture the thinking of manufacturers based on their budget allocations in relation to pull and push strategies. In general, we can trace the historical data pertaining to communicating expenditures by analyzing advertising, trade promotion, and consumer promotion, which are the way most companies announce their communicating expenditures. However, whether the expenditures of the two strategies could be empirically estimated correctly is still an open question.

Advertising is classified as a type of pull strategy whereas trade promotion is considered as a typically push strategy. The question which arises is how to classify consumer promotion in this context. Consumer promotion (like point-of-materials) can

be a part of a pull strategy and consumer promotion (like discount coupons, for example) can be used as a push strategy at the same time. In short, determining a pull-versus-push strategy to identify the trend of relative budget allocations is almost impossible.

This is the primary reason why this article focuses on the contrary view of advertising versus sales promotion in terms of the short-term or the long-term objective and task (Quelch, 1983; Achenbaum and Mitchel, 1987; Buzzell, Quelch, Salmon, 1990; Jones, 1990; Rossiter, and Percy, 1997; Low and Mohr, 1999, 2000). This perspective captures the relative emphasis on long-term brand-building activities (advertising) in a way similar to that in which a pull strategy is planned, compared short-term sales increase activities (sales promotions) in the similar way to which a push strategy is designed, traditionally. Hence, advertising for long-term brand-building activities is designed for increasing price by means of strong brand franchise while sales promotion is planned for increasing sales volumes, usually through price-off (discount) promotions.

It is also notable that one important difference in perspective is the contrast between senior managers and brand managers (Low and Mohr, 1999, 2000). Initially, the brand managers set and allocate the budgets for advertising and sales promotion. The budget allocation is then presented to senior managers who are in charge of adjusting and approving budgets for all brands at all levels. These two perspectives are not necessarily in harmony. Indeed, brand managers seek to formulate and implement the plan for reinforcing their individual brand franchises. On the other hand, senior managers seek to further corporate aims which are usually short-term sales volumes increase, if anything.

Plus, the dynamics of strategic decision-making may be affected by the reward system, corporate culture, degree of decentralization, or the firm's communication (Bruke, 1984). Of these variables, the influence of reward system should be explored in line with the contrasting view of two managers. Bruke suggests that the nature of most organizational reward systems is based on short-term sales or market share increases. It can lead the managers to believe in, and over-value, the relative importance of short-term business performance for their career success and salary. Under the perceived influence of such a reward system, the senior managers might frequently change the plan and adjust the budget allocation to increase short-term sales volumes in the process of implementation (see Figure 1). Therefore, this influences the budget allocation balance between advertising and sales promotion, depending on the relative emphasis on the short-term compared to the long-term objective and task.

III. The profile of advertising and sales promotion

In this section, the profile of advertising and sales promotion will be examined in order to make the difference in the relative emphasis on the short-term and long-term objective clear.

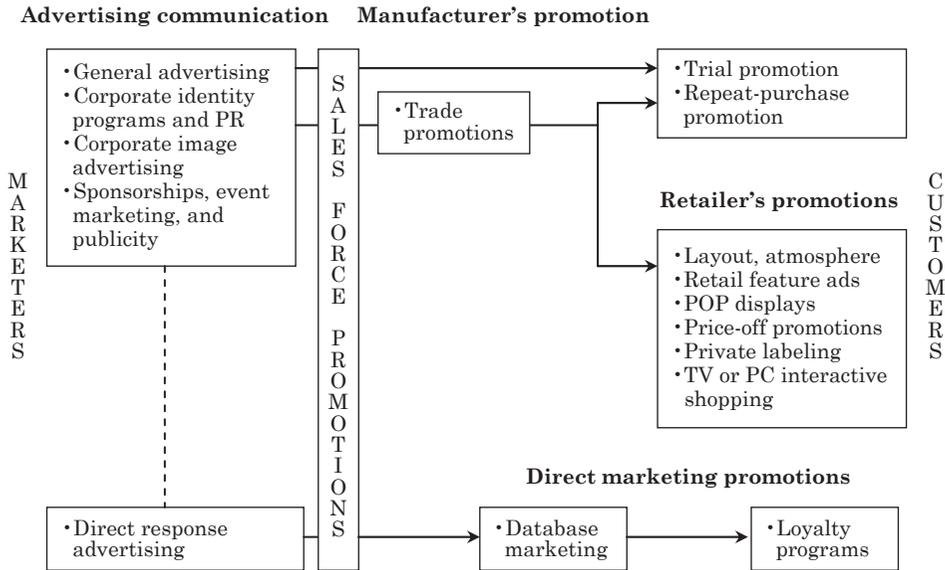
Kotler and Keller (2007, pp.278-330) describe six major modes of communication mix. They include advertising, sales promotion, direct marketing, personal selling, public relations and publicity, events and experiences. However, there are some criticisms of this classification system. For example, personal selling and direct marketing could be considered as marketing activity forms, but not marketing function like advertising and sales promotion (Otsuki, 2005). Apparently, direct marketing is often used as a part of advertising or sales promotion, and personal selling seems to be closely related to sales promotion. As for the latter two modes in six major modes, these would be roughly classified into advertising in this way. However, the discussion of classification is beyond my aims. Hence, this study is just introduced with a view towards advertising communications and promotions as in Figure 3 given by Rossiter and Percy (1997)¹⁾.

The basic conceptual difference between advertising and sales promotion can be defined by the Latin origins of two terms in Table 1. Advertising is often considered as a relatively indirect form of persuasion with regard to information or emotional appeals about product benefits, which is intended to create favorable mental impressions (brand loyalty) that turn the mind toward purchase. On the other hand, sales promotion is often considered as a more direct form of persuasion with its frequent external incentives (rather than the focus on inherent product values or benefits) which is intended to stimulate more immediate purchases than would otherwise occur. To put it differently, whereas advertising offers a reason to buy, sales promotion offers an incentive to buy (Kotler and Keller, 2007, p.302). The similarity between them is that they both are a form of marketing communication. Yet, they can be used in different ways to achieve the same communication objectives for the brand.

Advertising includes general advertising, corporate identity programs and PR, corporate image advertising, sponsorships, event marketing, and publicity. Here, newspapers, television, direct mail, radio, magazine, yellow pages, newsletter, brochures,

1) Direct marketing promotion can be used as a part of advertising and sales promotion. Therefore, this study doesn't consider this as the separate part of advertising and sales promotion.

Figure 3. Advertising communications and promotions: an overview



Source: Rossiter and Percy (1997, p.4)

Table 1. Latin origins of the terms "advertising communication" and "promotions"

| Term | Latin origin | Functional translation |
|----------------------------|--|---|
| Advertising communications | Advertere = to turn toward | Advertising communications aim to turn the buyer's or consumer's mind toward purchase |
| Promotions | Promovere = to move forward or advance | Promotions aim to immediately stimulate purchase |

Source: Rossiter and Percy (1997, p.4)

telephone and internet are the major media of general advertising²⁾.

Sales promotion could break down as follows: trade promotion, consumer promotion, sales force promotions. Trade promotion is what is designed to increase product sales by providing trade monies to wholesalers and retailers as the compensations for carrying and promoting the products through price-off, display allowance, free goods etc. Trade promotion is typically viewed as an easily executed means of boosting short-term sales (Quelch, 1983, p.131).

On the other hand, consumer promotion is generally intended for final consumers in the store environment. The primary tools comprise samples, coupons, cash refund offers,

2) Explanations of the main tools for each are mainly based on Kotler and Keller (2007, pp.295-311). For further reading, Rossiter and Percy's work would be helpful (1997, pp.323-415).

discounts, premiums, prizes, patronage rewards, warranties, point-of-purchase displays, demonstrations and so on. Thus, consumer promotion may emphasize either brand-building or price depending on the objectives of program (Quelch, 1983; Rossiter and Percy, 1997). We can also distinguish between manufacturer promotions and retailer promotions in consumer promotion (see Figure 3). The former comprise the use of rebates and gifts to motivate purchase whereas the latter are illustrated by price discounts, retailer coupons or premiums³⁾. Lastly, sales force promotions would be by trade shows, contest for sales reps, specialty advertising, and the like.

IV. Hypothesis: conceptual foundation of budget allocation

1. Trend of relative proportion in the budget allocation

The issue of increasing sales promotion at the expense of advertising has been viewed with growing concern by both practitioners and academics over the last two decades. In this context, considerable attention has been paid to the fundamental changes in the advertising-to-sales-promotion ratio (Quelch, 1983; Johnson, 1988; Buzzell, Quelch, Salmon, 1990; Messinger and Narasimhan, 1995; Ailawadi, 2001). Partly as a result of the growing buying power of retailers with resulting short-term viewpoints on the part of manufacturers managers, manufacturers have been reducing their commitment to advertising activities and spending much more on trade promotion and consumer promotion. The high growth rate and the rapid change in the relative proportion of trade promotion compared to total sales promotion are remarkable.

In Japan, some research has been focused on the changes in the relative proportion of advertising versus sales promotion, compared to other countries, especially America.

Firstly, Otsuki (1998) verified the diffusion process of in-store marketing by examining the allocation of manufacturers' promotion budget⁴⁾. He emphasized the shift of focal points in manufacturer promotion strategy from a mass media advertising-oriented one to an in-store marketing-oriented one in consumer packaged goods.

3) In spite of clear classification of the communicating mix like we see in Figure 3, Rossiter and Percy's perspective is a bit difficult to apply to this study. This study is focused on budget allocation of advertising versus sales promotion whereas they are addressing the player who really conducts sales promotion.

4) According to the American Marketing Association's definition, in-store marketing is defined as the marketing dollars spent inside the store in the form of store design, merchandising, visual displays, or in-store promotions (www.marketingpower.com/_layouts/Dictionary.aspx?dLetter=I dated in 6 January 2011).

To test a hypothesis, he analyzed 52 companies which made their communication expenditures from 1980 to 1995 open to the Nikkei Need-FinancialQUEST. In the building of indicators, he considered advertisement expense as the index of mass media advertising allocation whereas sales commission and promotional expenses and others were regarded as the index of budget allocation of in-store marketing. With these indicators, Otsuki analyzed the changes in individual company's communicating budget allocations; his thinking was supported by his research findings. The thing we should pay attention to this study is that the indicator of in-store marketing is undoubtedly regarded as the total expense of sales promotion, although he prefers to use the term of in-store marketing rather than sales promotion.

These findings give convincing evidence for building a hypothesis as to whether the relative emphasis on communicating budget allocations has been shifted from advertising to sales promotion. However, with the research finding analyzed on an individual company basis, it is hard to judge whether the changes in the relative emphasis on communicating budget allocation have been made at the industry level. Furthermore, the analysis period of this study was limited only to a relatively short time span – 15 years.

The purpose of this study is to identify the changes in the relative emphasis on communication strategy at the industry level over time. In relation to this objective, it is worth referring to Kim's study (2010), which was aimed at clarifying the changes in the relative emphasis on the communication budget allocation in the Japanese food industry.

This study dealt with all the companies which were willing to open their communication expenditures from 1967 to 2007 to the Nikkei Need-FinancialQUEST. Based on his study, sales promotion has been sharply increased on account of the rapid growth of promotional expenses and others. And, we can also infer the environmental characteristics surrounding manufacturers which provoked the changes in communication strategy in the distribution system in line with relative emphasis on budget allocation. Kim pointed out that the year 1989 is the likely turning point. That was just before the collapse of so-called bubble economy in Japan. In spite of connecting the dots without empirical data, these research findings give us good indicators for the changes in the relative emphasis on manufacturers' communication strategy.

In line with the research findings, careful attention should be paid when we interpret the results. The key issue we need to discuss is that only a few companies opened up both sales commission and promotional expenses and others information, and separated out

the expenditures of sales promotion in detail. In this connection, he considered that the company, which does not open up both of them, generally opens up both of them into either sales commission or promotional expenses and others depending on company's accounting policy. In an early study, Otsuki (1998) also adopted this controversial hypothesis as well. Even though this sort of hypothesis is strongly suggestive, there is no empirical and convincing evidence. Consequently, there is the need to conduct more meticulous research in order to draw an empirically supported conclusion.

This leads us to predict the following:

H1: On account of the relative emphasis on sales promotion, the relative proportion of manufacturers' communication budget allocation has been shifted from advertising to sales promotion.

H2: The relative emphasis on sales promotion has been increased sharply when we compare today with the whole period of analysis, particularly focusing on the time since the collapse of bubble economy.

2. Effects of sales promotion on economic performances

In addition to hypotheses regarding the relative emphasis on sales promotion as described above, the economic consequences of sales promotion, when viewed from a short-term perspective, will be discussed.

In this sense, there is a research finding in regard to consumer package goods manufacturers that the growth rate of sales volume is lower than that of sales promotion on the individual analysis basis (Teramoto, 2001). Considering the saturated market situation and the reduction of the market size in Japan, this result doesn't seem so surprising with the stiff competition that exists. However, the problem in this study is that we can't infer the real effect of sales promotion on sales volume itself from the perspective of the growth rate. As far as profitability is concerned, it was noted that the effect of sales promotion is negatively related to firm's profitability.

Short-term perspective is defined as the degree to which management emphasizes short-term objectives and tasks, generally one year or less, and thus encourages short-term results (Burke, 1984; Rossiter and Percy, 1997). The short-term results of sales promotion strategy are illustrated as the sales volume increase by using discount promotion activities most commonly. It is also notable that the effect of sales promotions on sales volume does not last particularly long. This is because the carry-over effects of sales promotions are

comparatively low, compared with the level of purchase during the promotion period (Cotton and Babb, 1978). As a rule, a company using sales promotion aggressively has a difficult time selling the products with full-margin profits. It would seem consumers come to expect or demand the lower prices all the time, and so this perspective results in decreasing profitability (Rossiter and Percy, 1997; Jedidi, Mela, Gupta, 1999; Low and Mohr, 2000, Teramoto, 2001).

Accordingly, this study anticipates that:

H3: The effect of increasing sales promotion is positively related to sales volume increase.

H4: The effect of increasing sales promotion is negatively related to firm's profitability.

V. Research methodology

1. Research context and sample

In order to test the hypotheses stated above, this study chose the analysis method of financial data in a time series. Although we recognize the potential bias of fluctuation and reliability involved in financial data, this method has been adopted in antecedents (Otsuki, 1998; Teramoto, 2001; Kim, 2010).

As for the research sample, a number of antecedents in this field are in common as an object of study. There seems to be implicit consensus of opinion about consumer packaged goods manufacturers. This is illustrated by one of the categories where the market environment has changed dramatically. Changes in the power relations between manufacturers and retailers, a saturated market, declining market size, and the heightened price sensitivity of consumers have combined to greatly alter the landscape for the manufacturers of consumer packaged goods. My intent is to clearly show the historical trend of budget allocations and the effects of sales promotion on economic performance. Hence, adopting consumer packaged goods manufacturers as a research subject is relevant to this study. Yet, defining and collecting reliable data in this category is not that easy a process to deal with in relation to the industry classification in Japan.

For this reason, this study focuses on the Japanese food industry. First, the food industry has been broadly accepted in past research along with the consumer packaged goods sector. Second, the food industry is one of the most challenging industries to have experienced changes in market situations of this magnitude.

2. Data collection and analysis

The data was collected from Nikkei Need-FinancialQUEST over a period that exceeded three decades (fiscal years 1976 to 2008 inclusive). The data was gathered from all companies which opened up their financial performance information. Hence, the samples include companies whose stock isn't currently listed on the stock exchange as well as some that are listed, and also bankruptcies. Based on the Nikkei Need-FinancialQUEST information, we can analyze the communicating budgets by dividing them into three parts. These are: advertisement expense, sales commission, and promotional expenses and others. The details of each are explained in Table 2 below.

Considering accounting items, it should be noted that there is no compatibility based on the data in Table 2 with items American antecedents captured, especially for sales promotion. The differences in the accounting methods between Japan and America were confirmed in a telephone interview with a representative of Nikkei Need-FinancialQUEST. According to the spokesperson, some items of retail promotion which might be characterized as trade promotion would usually be calculated as items of promotional expenses and others. In addition, it is hard to figure out what the differences are in data definition between sales commission and trade promotion, and also between promotional expenses and others and consumer promotion.

Consistent with previous research, this work also considered the total amount of sales commission and promotional expenses and others as sales promotion. As far as variables in economic performance concerns, this study analyzed the relationship of sales promotion with total sales (sales volumes) and return on sales (ROS: profitability). To assess hypotheses stated earlier, this study used simple regression analysis generating a

Table 2. The profile of communication expenditure

| Item name | Data definition |
|---------------------------------|---|
| Advertisement expense | • Advertising expenses |
| Sales commission | • Sales commissions and sales incentive paid to wholesalers, sales agencies, and special agencies • Reversal of reserve for sales commissions and sales incentive paid to wholesalers, sales agencies, and special agencies • Sales rebates |
| Promotional expenses and others | • Payment for collection agency services, after-sales service costs, display costs, repair costs, parts costs, decoration costs, sample costs, expenses for market research on sales, marketing costs, etc |

Source: Nikkei Need-FinancialQUEST

Note: In general, promotional expenses and others denote sales expenses other than sales commission, packing and wrapping expenses/ haulage cost/ storage charges, and advertisement expense.

mathematical relationship in order to explain these issues empirically. As for hypotheses 1 and 2, the dependent variables are advertising and sales promotion; the independent variable is the year. With hypotheses 3 and 4, the dependent variables are total sales and ROS, and the independent variable is the relative proportion of sales promotion in the total marketing communication budget.

VI. Research results

1. Evidence for changes in budget allocation

This study begins by examining the budget allocation trends in Figures 4 and 5. These two show the trends in budget allocation for advertising and sales promotion from 1976 to 2008. The data comprises three different sampling areas: samples uncontrolled, samples controlled, and 10 firms controlled.

As mentioned in earlier, one obstacle is that it is hard to track down all financial data in relation to sales commissions and promotional expenses and others. Hence, Kim (2010) used samples which made available either sales commission or promotional expenses and others, as well as samples which disclosed both of them, in analyzing sales promotion. In this study, I named this sort of analyzing method samples uncontrolled. Yet, even though this sort of analyzing method is valid and has been used in antecedent research, it is also somewhat controversial. That is to say, whether the companies, which don't open both of them up at the same time, open their expenditures of sales promotion into either sales commission or promotional expenses and other is still an unanswered question.

The trend of samples controlled is the data of companies which disclosed both sales commission and promotional expenses and others in a certain year during the analysis period. For this reason, the data comprises the companies revealing both items in a certain year as well as those giving information on both during the whole analysis period. On the other hand, the information for 10 firms controlled is only the data from companies which opened up both sales commission and promotional expenses and others at the same time during the entire analysis period.

Firstly, the trend of the budget allocation for advertising is shown in Figure 4. It is notable that the long-stable trend of the three groups ceased around the fiscal year 1989 or 1990, and has sharply declined since then. In contrast, the long-stable trend for the sales promotion budgets was interrupted at that same time, but it has shown a remarkable increase since that time, as seen in Figure 5.

Figure 4. The trend of budget allocation for advertising

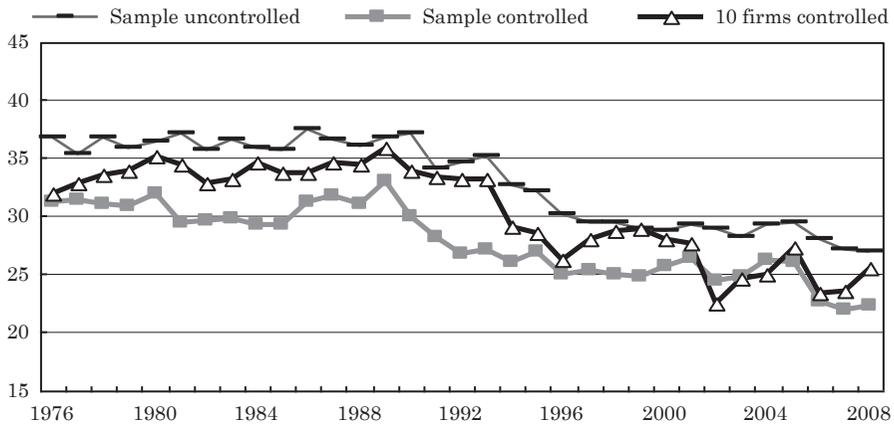
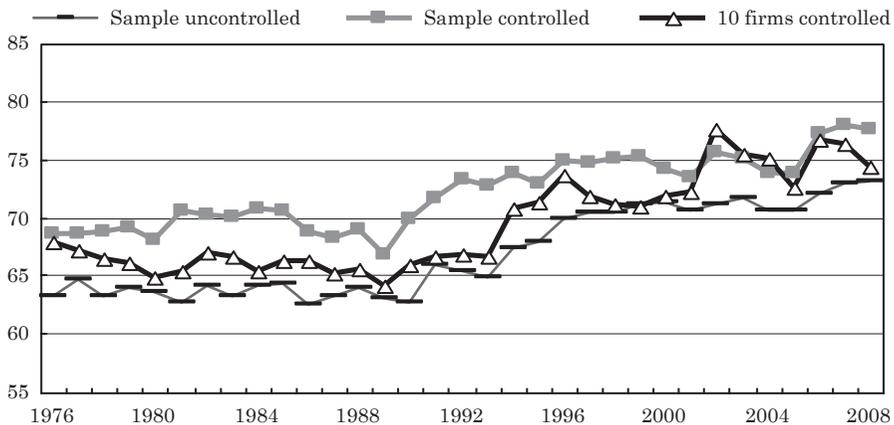


Figure 5. The trend of budget allocation for sales promotion



Hence, we can interpret these trend changes as the shift of budgeting allocation in manufacturers' communication strategy from being advertising-oriented to being sales promotion-oriented. This tendency has been quite pronounced since around the time of the collapse of the bubble economy in 1991. It does make sense because the price competition between retailers has become fierce since the collapse of bubble economy. Combined with heightened price sensitivity on the part of the consuming public, the result has been a sea change in consumer buying behavior. Also altering the picture is the rise of increasingly powerful retailers who dominate the distribution channel, and consequently demand a larger share of the trade monies (Kim, 2011).

This is clearly supported by the empirical evidence with simple regression analysis. This study examined the data of 10 firms controlled for its regression analysis study. Of

course, there might be some criticism regarding using the small sample size in generalizing the results to the whole industry. However, although there are some variations among the three samples, the data trend is virtually identical in each.

In line with the primary purpose of this study, I analyzed the data of 10 firms controlled in regression analysis to examine the trend of budget allocation. The evidence is convincing. The relative proportion history is shown in Figure 6. Advertising accounted for 25.5% in 2008, compared with 32% in 1976. In contrast, sales promotion accounted for 74.5% in 2008 with 6.5 percentage point increase⁵⁾. Also, the change in relative proportion has been considerable since 1989 – from an approximate ratio of 2:1 in 1976, to nearly 3:1 ratio in 2008, with the vast majority of the change being since 1989.

Table 3 shows the estimated results of regression analysis. The regression equation is trustworthy and all regression coefficients are statistically significant for a significance

Figure 6. The changes of budget allocation in 10 firms controlled

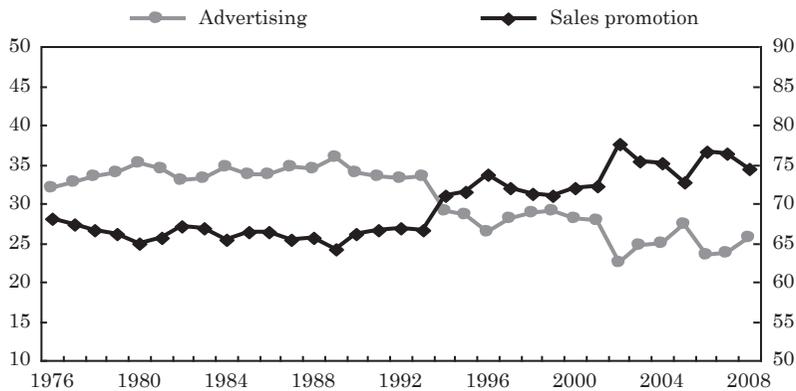


Table 3. The estimated results for the relative proportion

| Analysis period | Advertising | Sales promotion |
|---------------------|-------------|-----------------|
| β (1976-1989) | .157 | -.157 |
| Std. error | .055 | .055 |
| Sig. | .015 | .015 |
| β (1990-2008) | -.541 | .541 |
| Std. error | .077 | .077 |
| Sig. | .000 | .000 |
| β (1976-2008) | -.357 | .357 |
| Std. error | .040 | .040 |
| Sig. | .000 | .000 |

5) The increase of 6.5 percentage points is lowest among three. The data of samples uncontrolled recorded an approximately 10 percentage point growth (73.1% in 2008); samples controlled showed an almost 8.9 percentage point increase (77.6% in 2008).

level of .05. The regression coefficient of sales promotion is .357 during the entire period whereas advertising is $-.357$. In addition, the regression coefficient of sales promotion (.541) during 1990-2008 period is quite a bit higher than that of the entire period. Clearly, the budget for advertising has retreated sharply by comparison.

Hence, we can see that the relative proportion of sales promotion has increased, and the tendency for this has been quite remarkable since around the fiscal year 1989 or 1990. Also, both H1 and H2 are statistically significant. In other words, on account of the relative emphasis on sales promotion, the relative proportion of manufacturers' communication budget allocation has been shifted from advertising to sales promotion. At the same time, the relative emphasis on sales promotion has been increased sharply in these days comparing with the whole period of analysis: particularly since around collapsing of bubble economy.

2. Effects of sales promotion on total sales and ROS

The estimated results of sales promotion for the financial performances are summarized in Tables 4 and 5. The relative proportion of sales promotion is the causal variable for total sales and ROS in any given year.

First, Table 4 presents the regression coefficients with the data of 10 firms controlled during the whole period. As we anticipated, increasing sales promotion is positively related to total sales (8.943), and but negatively related to ROS ($-.140$). The regression coefficient is statistically significant for a significance level of .05.

Secondly, Table 5 gives more details from the years 1990-2008, which is the time period after the dramatical change in budget allocations. As far as the samples are concerned, this study used different data samples in comparison to the samples in Table 4 in order

Table 4. Estimated financial performance results (1976-2008)

| Analysis period | Total sales | ROS |
|---------------------|-------------|---------|
| β (1976-2008) | 8.943 | $-.140$ |
| Std. error | 3.103 | .029 |
| Sig. | .007 | .000 |

Table 5. Estimated financial performance results (1990-2008)

| Analysis period | Total sales | ROS |
|---------------------|-------------|------|
| β (1990-2008) | 29.524 | .008 |
| Std. error | 2.390 | .047 |
| Sig. | .000 | .870 |

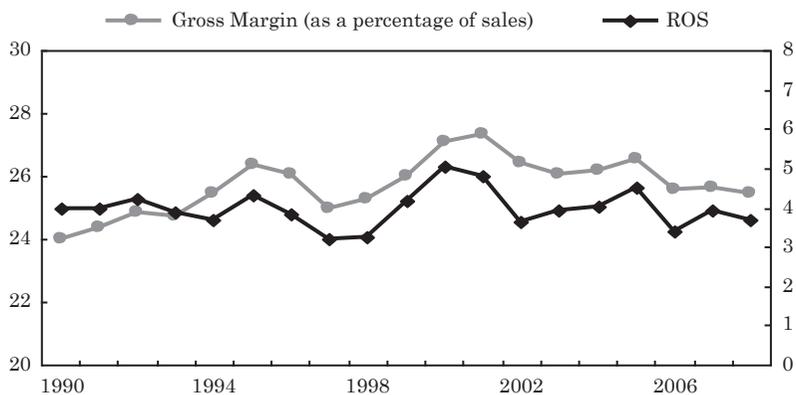
to perform verification tests. It is because we can acquire more samples which opened up both sales commission and promotional expenses and others information in the given period, compared to those from the whole period. The data in 1990-2008 period comes from 17 companies.

As for total sales, the estimated results are virtually the same as that of Table 4. However, the significance level of the slope was not statistically significant in the case of ROS. Only when the direction of regression coefficients is considered, is the regression coefficient of sales promotion seen to be positively related to ROS.

Yet, we need to interpret the result cautiously in the case of ROS. The rationale behind this argument is that ROS is strongly influenced by the gross margin. The evidence of the strong association between gross margin and ROS is shown in Figure 7. Plus, it is notable that the percentage of gross margin has increased when considering the whole period. The growth trend of the gross margin is one of factors improving the ROS. Gross margin as a percentage of sales accounted for approximately 25.5% in 2008, compared with 24.0% in 1990. This means a 1.5 percentage point increase of ROS. Thus, growth of the gross margin should be taken into consideration in relation to the interpretation of ROS analysis. Then, the result of table 5 would be changed to what we expected, if we consider the trend of gross margin as constant.

Accordingly, these findings lead us to conclude the followings. Hypothesis 3 and 4 is supported and statistically significant in the analysis of 1976-2008 period. But we might need further testing to verify the hypothesis 4 for the negative association between sales promotion and profitability in the analysis of 1990-2008 period, although hypothesis 4

Figure 7. The strong association between gross margin and ROS



would be partly accepted considering the effect of gross margin.

VII. Implications and future research

The primary objectives of this study were to understand the strategic changes in manufacturers' communication budget allocations and evaluate the outcomes of strategic changes by adopting a short-term versus a long-term perspective.

Research findings show that the relative emphasis on sales promotion relative to advertising has increased in the Japanese food industry. Also, the tendency for this has been remarkable since around the bursting of the bubble economy. In addition, sales promotion is positively related to sales volume increase, but negatively related to profitability considering the effects of the gross margin.

Further testing is needed to verify Hypothesis 4 for the negative association between sales promotion and profitability in the light of the effect of the gross margin. Also, generalization of these findings with such relatively small samples into the Japanese food industry as a whole should be considered in the context of its limitations. These limitations should lead us to develop a more feasible methodology in collecting and analyzing samples.

The relative proportion of budget allocation between advertising and sales promotion has become particularly important in today's environment of challenging market conditions. In this sense, strategic decisions regarding budget allocations need to pursue short-term sales increases and simultaneously maintain high profitability by building long-term brand franchise in terms of integrated marketing communication.

Future research efforts could explore the effects of factors affecting budget allocation decisions in the context of the Japanese market in line with the past research (Ailawadi et al, 1994, 1997; Low and Mohr, 2000, for example). The mix of variables should include current characteristics of the product, market situation, organization system, profile of decision-maker, budget allocation plans for the future, maturity of product life cycle stage, single brand vs. family brands, relative price, relative market share, perspective on objectives, influence of channel power relations, and manager's experience, at least.

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